Quarterly Review Q1 2017

AFRASIA Capital Management

Executive Summary

2017 started with an upsurge in major economies. After a strong start to 2017, the post-US election stock rally settled down during the quarter as investors paused to re-evaluate the impact of Trump's broad policy proposals.

The Eurozone economy reported better-than-expected macroeconomic data points. Unemployment in the region fell to the lowest level in almost eight years. In the UK, Article 50 was triggered at the end of the period, formally starting the process of leaving the EU.

Asian equities recovered strongly from the last quarter to post resilient positive returns in the first quarter of 2017 on the back of the "Trump bump" rally seen in global stock markets.

Emerging markets registered robust returns with an upturn in global growth and a lack of follow-through on protectionist trade policy from the Trump administration.

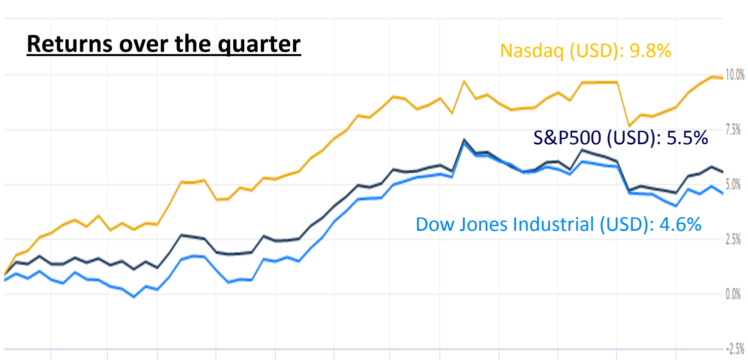
In global bond markets, high yield corporate bonds performed particularly well, while government bonds were mixed.

Mauritius saw the appointment of a new Prime Minister with new visions on developing the local economy.

US

Initial investors' optimism about the recently elected US administration agenda resulted in high performance in US equities for the quarter. On the back of improving macroeconomic data in the US, the Fed raised the base interest rate in March by 0.25%.

During the first quarter, the new administration has been met by a buoyant market that is hopeful about the prospects of tax reform, immigration reform and infrastructure spending. However, at end of quarter, the American Health Care Act did not pass and equities pulled back as scepticism began on the ability of Trump to push through his reforms. The next policy to be embarked upon is the tax reform considered as contentious as the health care bill. As a result, market volatility increased and investors were more cautious at the close of the quarter.

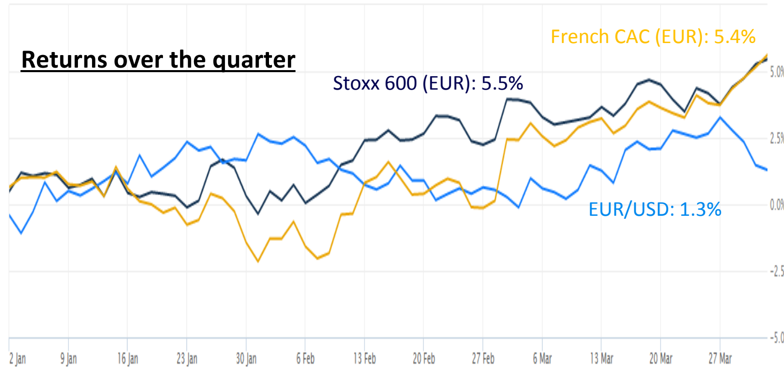


Europe

The European equity markets rose during the quarter, as strong macroeconomic statistics confirmed the resilient and broadening base of the European economic recovery. This was further reinforced by the ECB upgrading its 2017 and 2018 growth (*2017: 1.8% from 1.7%, 2018: 1.7% from 1.6%*) and inflation (*2017: 1.7% from 1.3%, 2018: 1.6% from 1.5%*) forecasts but pledging to maintain existing stimulus in place until the end of the year.

Political risk in Netherlands eased as the far-right Party for Freedom (PVV) was defeated in the Dutch parliamentary elections in March. The People's Party for Freedom and Democracy (VVD) won most seats in the Parliament with leader Mark Rutte set to become Prime Minister for a third term.

Even though the Eurozone economic data is improving swiftly, the uncertainty around Eurozone politics still weighs on the Euro. By far the most important incoming political event is the French presidential election to be held in April/May. The elections became more complicated, with the 'scandal' of François Fillon and the rising popularity of Melenchon (who was up to now distant in the polls). The battle now involves 4 candidates being Le Pen, Fillon, Macron and Melanchon.

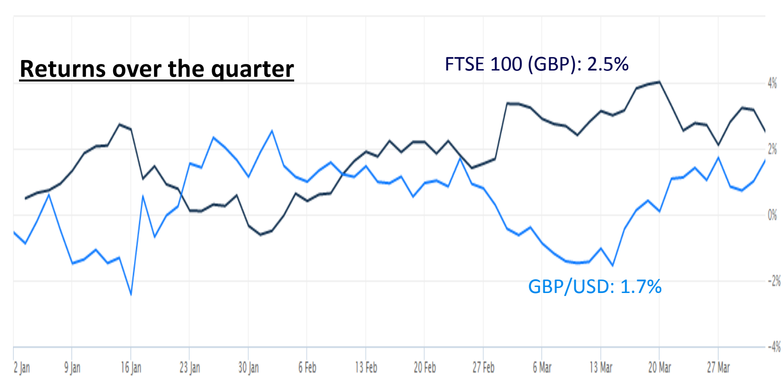


UK

UK Equities enjoyed gains during the quarter supported by signs of recovery in the economy. The Bank of England (BoE) kept UK interest rates unchanged at 0.25%, while UK inflation rose 2.3% in February, breaking the BoE's 2% target for the first time in over three years.

At close of quarter, all eyes were focused on UK Prime Minister, Theresa May, triggering Article 50 and initiating the Britain's formal exit from the European Union over a two year exit process. Unlike the massive impacts seen in markets post-Brexit in June 2016, the event was met with a muted response by investors. However, the Scottish Government responded negatively with a call for a second Referendum on Scotland's future as part of the UK.

While Brexit has been the driver behind the pound's dive last year, the latter has steadied this year in a range of 1.20 – 1.28 GBP/USD.



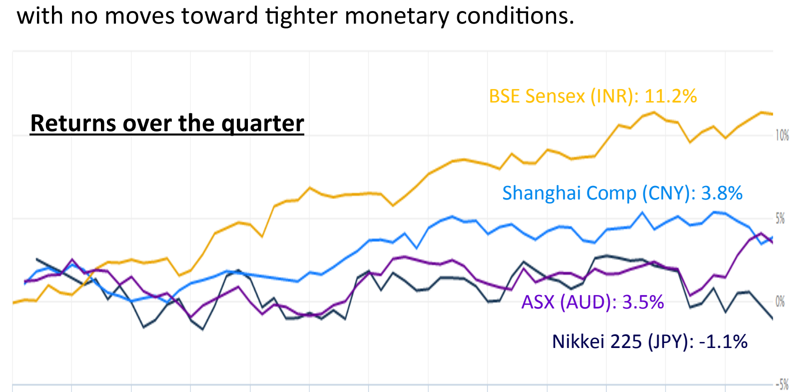
Asia Pacific

Japanese data has been quite positive, with indication of expansion and falling unemployment. As the Bank of Japan (BoJ) is keeping the 10-year Japanese government bond yields anchored around 0%, the interest rate differential between the USD and the Yen has been widening sharply, putting pressure on the Japanese currency. This pressure has weighed on the performance of Japanese equities.

In China, stocks posted their best gains in over 10 years, driven by continued positive news for the Chinese economy. Positive data and a stabilising Chinese Yuan led to improved sentiment among investors. Continued restrictions on the property market and a tightening on capital outflows resulted in liquidity being diverted into equities.

Meanwhile, Indian stocks led gains as its market finished strongly up on the back of investors' optimism on Prime Minister Modi's reform agenda subsequent to a resounding victory for his party (the BJP) in state elections in March.

In Australia, interest rate and inflation cycles have been bottoming out with no moves toward tighter monetary conditions.



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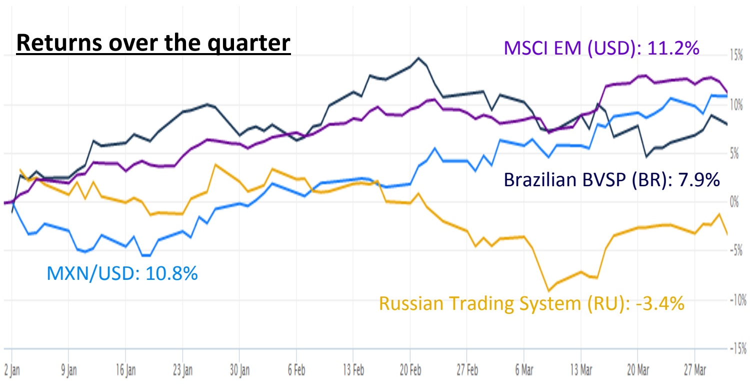
Emerging Markets

Emerging equity markets advanced further during the quarter and outperformed developed equity markets with Mexico as the strongest performing country. The Mexico Central Bank raised its interest rates by 25bps to 6.5% to cater for higher inflation expectations and higher US interest rates. However, gains in the Latin American region were hampered by lower returns in Brazil with the Brazilian Government lowering its economic growth forecast in 2017 from 1% to 0.5%.

Performance in the EMEA (Europe, Middle East and Africa) region varied with Russia posting a negative return. A decline in energy prices and reduced positivity towards a significant improvement in relations with the West were the key headwinds.

South African stocks closed marginally lower, as political uncertainties rose following President Zuma's cabinet reshuffle, including that of Finance Minister Gordhan.

Although the Fed raised the US interest rates, the US dollar underperformed against emerging market currencies with a leading Mexican peso rising over the quarter.

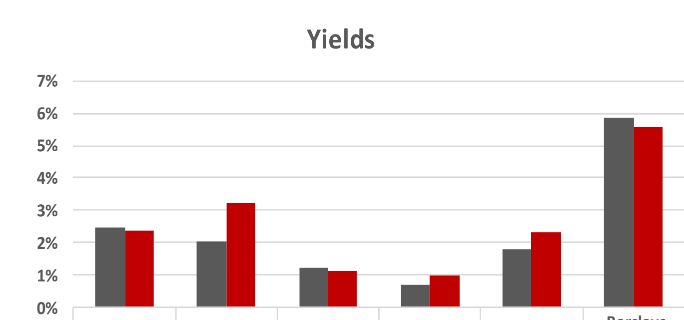


Fixed Income

During the quarter, the fixed income market was initially focused on the Fed and its monthly meeting to decide US interest rate policy. A 25 bps increase hinted at a more gradual interest rate hike for the year and this shift in tone eased pressure on US Treasuries, subsequently leading to lower government bond yields.

In Europe, political risk dampened with the election of pro-Euro parties in Netherlands and Austria. With the rise in yields, European Sovereign bonds returns went into negative territory.

High yields corporate bonds performed well, with the Barclays Global High Yield Index posting gains of 3.2% for the quarter as compared to mixed returns for global government bonds.



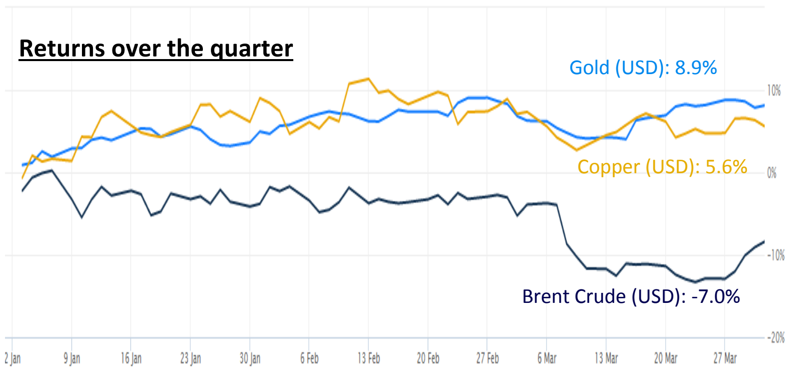
	US 10Y	Germany 10Y	UK 10Y	France 10Y	Italy 10Y	Barclays Global High Yield Index
Q4-16	2.4%	2.0%	1.2%	0.7%	1.8%	5.9%
Q1-17	2.4%	3.3%	1.1%	1.0%	2.3%	5.6%

Commodities

Precious metals were the top performers among the commodities sector in the first quarter of 2017. Concerns about inflation have supported the prices of gold, silver, platinum, and palladium.

Oil markets had their worst performing quarter since 2015 as investors feared that growing US supplies are undermining OPEC-led production cuts. Prices have been locked within a range as investors have searched for signals that OPEC's production cuts are rebalancing the market while there were oil supply developments in Nigeria and Libya, the two OPEC members exempt from cutting production. OPEC will be meeting on 25 May 2017 to assess whether to extend the cuts. Brent crude reported some of the biggest losses across global asset classes.

Industrial metal prices increased as the US dollar index moved lower during the quarter. Bullish copper trades ruled the market as prices mounted on resurgent Chinese demand and supply disruptions from several of the world's major mines.



Mauritius

The political front was also in the headlines at the beginning of the quarter with Mr Pravind Jugnauth replacing Sir Anerood Jugnauth (SAJ) as Prime Minister with a freshly reconstituted cabinet.

The Monetary Policy Committee (MPC) kept the Key Repo Rate unchanged at 4.0% p.a. The MPC concluded that this decision was in line with GDP and inflation outlooks as well as other likely economic conditions.

The Bank of Mauritius (BoM) continued its 3YR Treasury Notes and 5YR GoM Bonds buyback program with an aggregate amount of MUR 0.5bn bought as opposed to a planned MUR 1.8bn.

The Bank of Mauritius accredited the following 4 banks as Primary Dealers in an aim to develop the liquidity and sophistication of the trading of Government Securities in Mauritius:

1. AfrAsia Bank Limited
2. Barclays Bank Mauritius Limited
3. SBM Bank (Mauritius) Ltd
4. The Mauritius Commercial Bank Limited

AfrAsia Capital Management Ltd

19th April 2017