# Quarterly Review Q2 2017

AFRASIA Capital Management

## Executive Summary

The second quarter of 2017 has been mostly dominated by politics with the key election of Emmanuel Macron in France, Theresa May's weakened UK government on the back of an early election prior engagement into Brexit negotiations and Trump's administration being further questioned after the President fired FBI director James Comey.

Investors' focus was also on Central Banks with a shift in tone from the Bank of England and the European Central Bank (ECB), increasing the probability of raising interest rates before the end of the year after the US Federal Reserve (Fed) raised the US interest rates by 0.25% in June for a second time this year.

In general, equities maintained an upward trend with the US, Japanese and emerging equity markets mostly extending their gains while continued accommodative monetary policy, positive economic data and still subdued inflation provided a positive backdrop for bonds over the quarter. However, most commodities prices posted losses during the second quarter.

On the local shore, the Prime Minister presented the 2017-18 Budget portraying improving macro-economic fundamentals while increasing tax collections and focusing on specific sectors.

## US

US equities posted gains supported by healthcare, industrials and financials while consumer staples, energy and telecommunication services underperformed.

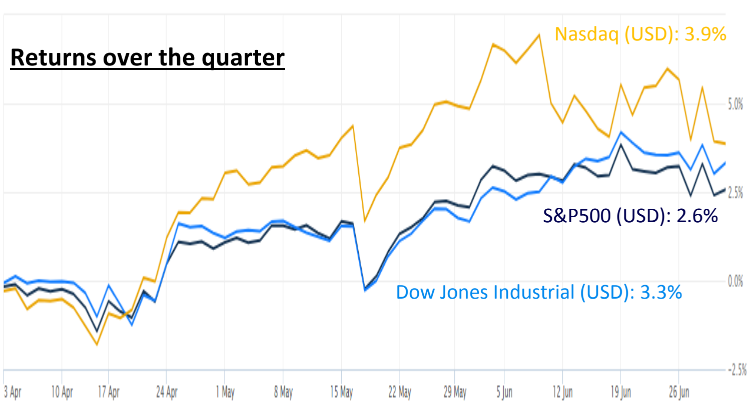
President Trump came under the spotlight for firing former FBI director James Comey, abruptly ending a leading criminal investigation into whether Trump's advisers colluded with the Russian government to steer the outcome of the 2016 presidential election. The apprehension was that polemics surrounding the President would affect his administration's efforts to implement plans regarding tax cuts, infrastructure spending and deregulation.

Trump also said he would withdraw from the Paris Agreement, stating that it favors other nations at the expense of American workers; angering European allies and corporate executives.

Even though there were signs that the outlook for the US economy was mixed, the Fed voted to further raise interest rates by 0.25% and Fed chair Janet Yellen signaled that the US economy would still be able to tolerate higher interest rates.

As a result, the dollar was negatively impacted amid rising expectations that central banks in other major developed economies are also preparing to tighten monetary policy.

**Returns over the quarter**

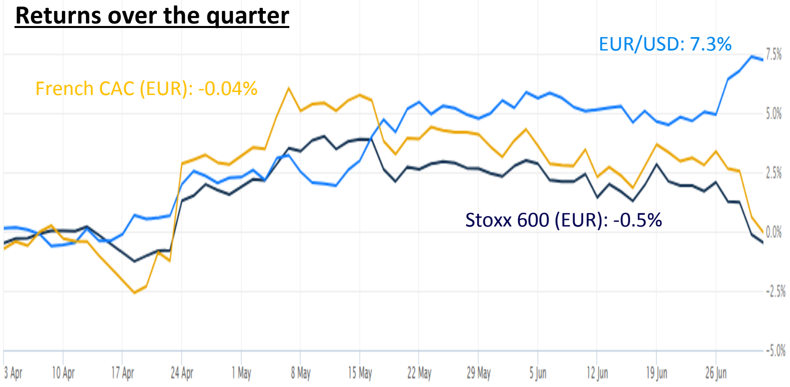



## Europe

European equity markets ended the quarter on a mixed note. The victory of pro-Europe centrist Emmanuel Macron in France's presidential elections reduced uncertainty about Europe outlook and boosted markets. However, the ECB President's speech, at end of quarter, hinting at tapering of quantitative measures and rising interest rates, upset investors and led to a sell-off.

On the macroeconomic front, economic growth indicators in the euro-area continued to signal a robust and improving level of economic activity with GDP growth revised upwards from 0.5% to 0.6%. The expansion in output continued to be largely attributed to domestic demand resulting in strong corporate earnings reported over the first quarter.

**Returns over the quarter**



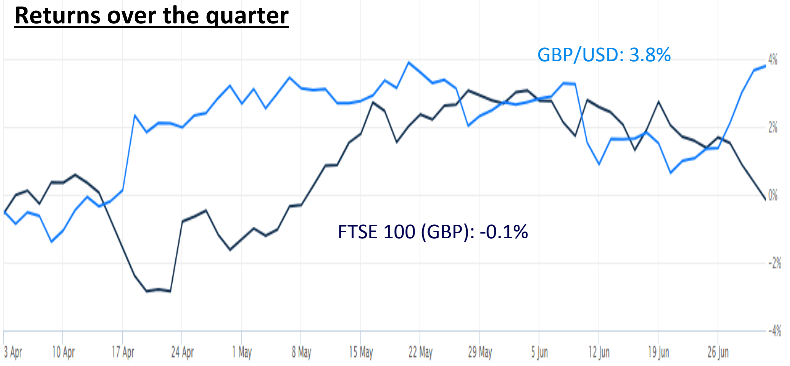

## UK

UK equities retreated over the quarter as political uncertainty amplified with Theresa May's decision to call an early election in June leading to a weakening of both the strength and stability of her government as further Brexit negotiations started.

The Monetary Policy Committee (MPC) kept UK interest rates at 0.25% following a backdrop of an economic slowdown as consumer data raised apprehensions over consumers' ability to reinforce the economic growth.

Sterling fell sharply on news of the election result, replicating the dramatic moves in currency markets following last year's vote for Brexit.

**Returns over the quarter**




## Asia Pacific

The Chinese equity market rose as the People's Bank of China indicated that steps taken to diminish financial risks would not adversely impact market liquidity. Additionally, MSCI decided to include some of China's domestic A-shares (shares that were previously unavailable to international investors) in its global indices, with a small weighting set of 0.73% of the weight of the MSCI Emerging Markets Index to be added in mid- 2018.

The Japanese market trended upwards for most of the quarter to end 6.0% higher driven by increase in corporate earnings. On the economic front, signs of strength in the economy were evident in the Bank of Japan latest "Tankan" survey, which showed stronger-than-expected business sentiment among major Japanese manufacturers. The Japanese currency was volatile throughout the period, reflecting global uncertainty, but ended on a softer note against most major currencies.

India's equity market rose as investors sentiment was aided by prospects of better monsoons on receding El Niño concerns. However uncertainty remained on the outlook for the country's growth ahead of the Goods & Services Tax implementation.

The Australian equity market was weak due to a lacklustre reporting season, speculation about a domestic housing bubble forming and announcement of a government levy on major banks.

*(illustration on next page)*

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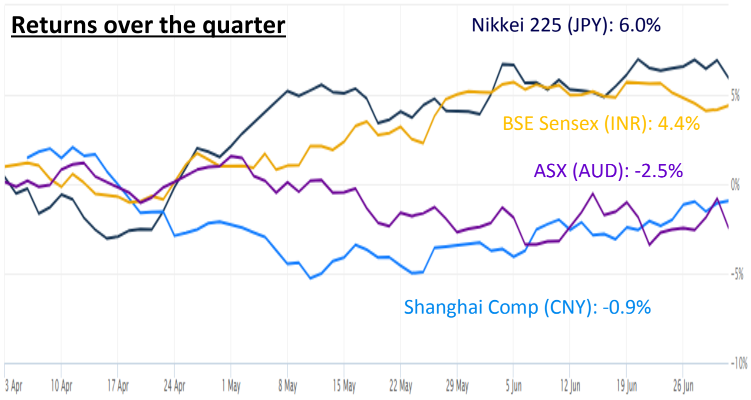
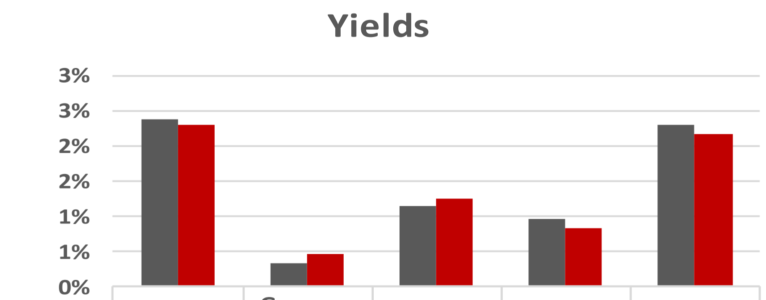


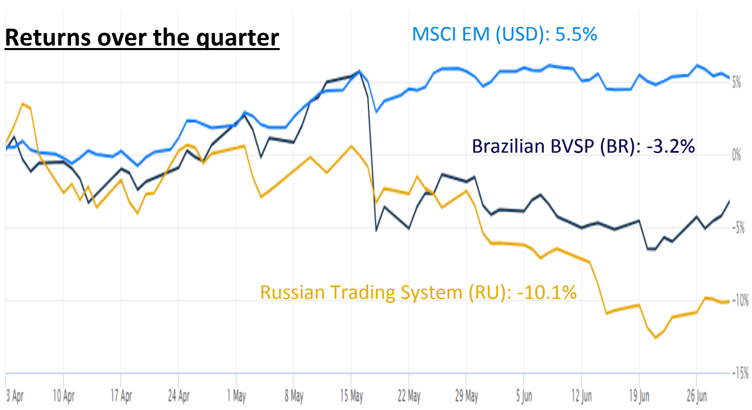

| | US 10Y | Germany 10Y | UK 10Y | France 10Y | Italy 10Y |
|---|---|---|---|---|---|
| Q1-17 | 2.4% | 0.3% | 1.1% | 1.0% | 2.3% |
| Q2-17 | 2.3% | 0.5% | 1.3% | 0.8% | 2.2% |

## Emerging Markets

Emerging market equities were beneficiaries of a supportive global backdrop in the second quarter, in particular US dollar weakness. The MSCI Emerging Markets index registered a strong gain and outperformed the MSCI World index.

Russian equities and the rouble lost value on the back of the knock-on effect of lower energy prices. Market confidence towards Brazil was dampened by news that President Temer had been indicted for corruption.

Moody's credit rating downgrade to South Africa along with continuing political wrangles diluted the appetite for the country's equity market.




## Fixed Income

Government bond yields have been supported for most of the quarter, but comments from central bank leaders in the US, Europe and the UK indicating increased hawkishness, resulted in some sell-off. The move was more noticeable in Europe and the UK than in the US.

The combination of on-going improvement in the Eurozone economy, a supportive European Central Bank (ECB) and reduction in political risk helped European corporate bonds to outperform government bonds over the quarter.

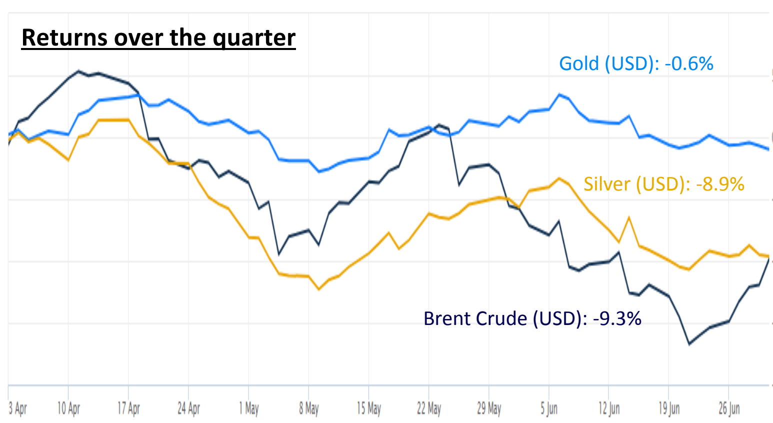
A higher move in government bond yields led to some weakness in corporate bond markets. Given that the corporate sector is usually a beneficiary of progressive economic data, corporate bonds outperformed government bonds over the month.

The Barclays Global High Yield Index posted gains of 3.2% for the quarter.

## Commodities

Brent crude fell 9.3% over the quarter on concerns that a global supply glut would persist as continued US production overwhelmed OPEC efforts in their production cuts.

Most industrial metals and agricultural commodities reported losses over the quarter. Silver was also in the red with negative returns of 8.9% while gold was more resistant to the downturn in commodities markets.




## Mauritius

The Hon. Prime Minister and Minister of Finance and Economic Empowerment, presented the 2017-18 Budget targeting investment, growth and employment. The Mauritian economy is estimated to have grown by 3.9% in FY17 compared to 3.2% in FY16 especially supported by financial services, tourism and retail trade while inflation picked up to 2.2% in FY17 compared to 1% in FY16. Total tourist arrivals for the second quarter of 2017 rose by 10.7% at 286,177 compared to 258,628 in the second quarter of 2016.

The local bourse has been on an uptrend since the beginning of the year with SEMDEX and SEM-10 reporting gains of 9.8% and 11.0% respectively over the quarter.

**AfrAsia Capital Management Ltd**

**13th July 2017**

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