Quarterly Review Q4 2016

Executive Summary

The last quarter of 2016 was mainly dominated by politics with the US elections, the Brexit negotiations and the Italian Referendum leading to the re-shaping of major economies and ties around the world.

The global repercussions of these political events are trade protection, restrictive immigration policies, fiscal stimulus and additional geopolitical risk. Specifically, President-elect Trump's tariff threats against China could propel tensions between two dominating countries.

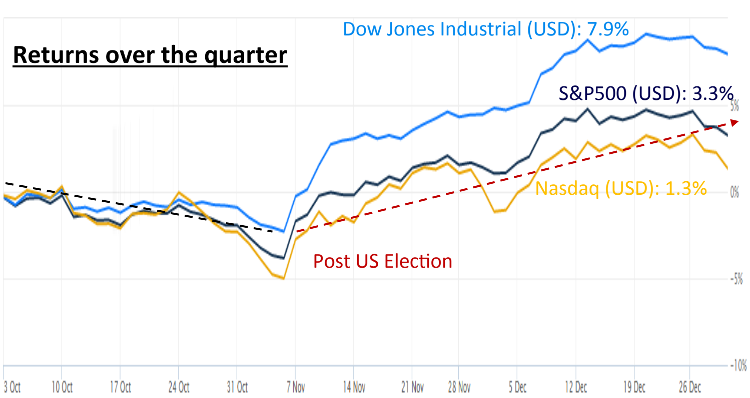
However, on the back of a global increase in inflation and less accommodative monetary policies, government bond yields in most markets rose and major equity markets reacted optimistically.

Meanwhile, metals and oil prices increased over the quarter with the latter benefiting from OPEC's decision to cut oil production.

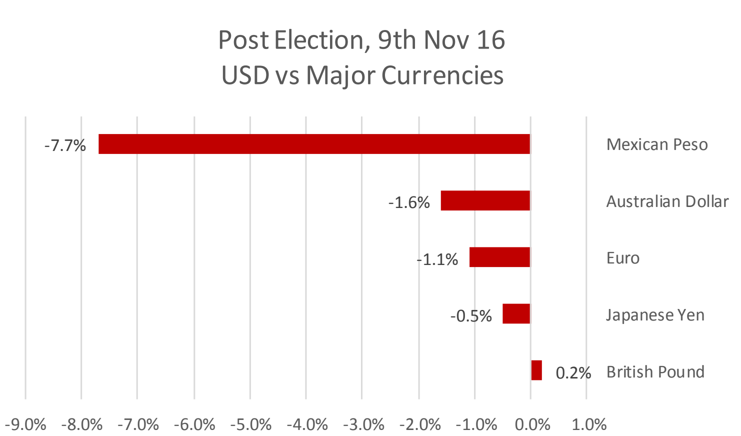
US

The anticipation of the US elections and consequent surprising victory of Donald Trump were the main headlines during the period. Trump's plans to cut taxes, boost infrastructure spending, restrict immigration and reduce regulations were seen as encouraging for the US economic growth. However, his views on trade protectionism meant higher inflation and an eventual overheating of the US economy. In December, the Fed reacted by raising interest rates for the first time in 2016 against the backdrop of continued strength in the US economy.

Several US indices hit new highs subsequent to an expected loose fiscal policy under Trump's presidency with the Dow (DJIA) inching closer to the 20,000 milestone at the end of 2016.



Furthermore, currency markets reacted fiercely with the US dollar surging against most currencies.

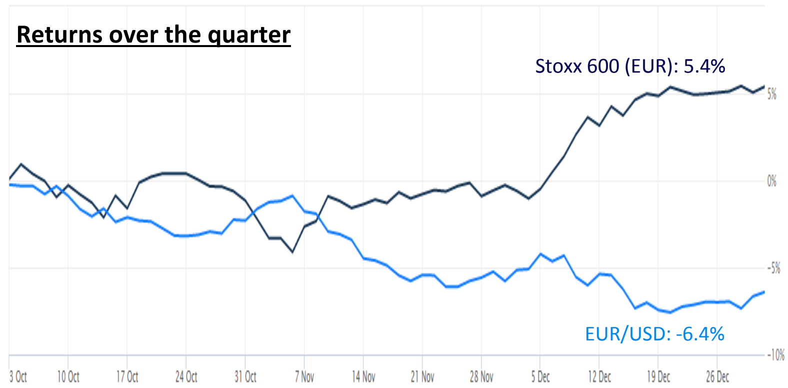


Europe

Recovering from the Brexit Referendum and still embracing Trump's presidency, Europe faced a rejection of the political proposals by Ex-Prime Minister Matteo Renzi in Italy. Consequently, the odds of a new parliamentary elections in Italy in 2017 rose. The anti-globalist and Eurosceptic 5 Star Movement has threatened a referendum on the Euro if elected.

Given the depleting economic growth, the European Central Bank's initial quantitative easing programme to purchase EUR 80bn of bonds till March 2017 was extended to December 2017. However, the monthly purchases were reduced to only EUR 60bn. Supported by the ECB policy and an improvement in bank balance sheets, European equities reported stronger returns.

With political uncertainties at an all time high and incoming elections in the Netherlands (March), France (May), in Germany (September), and the potential for early elections in Italy in 2017, the Euro depreciated against major currencies.



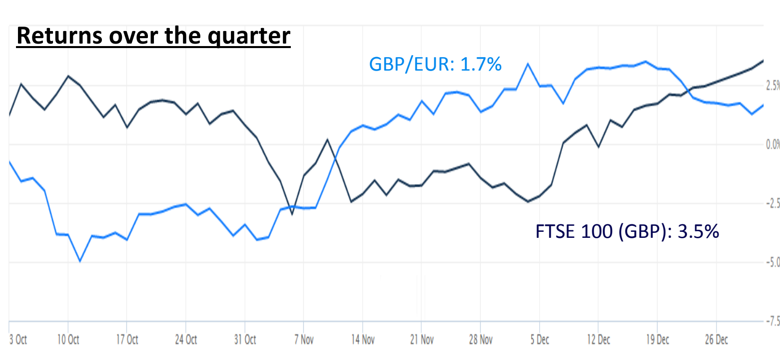
UK

Following a High Court ruling that the government must seek parliamentary approval before it can trigger Article 50 to take the UK out of the European Union, fears around a hard Brexit soothed and the FTSE rose, ending an initially volatile year on a positive note.

UK Chancellor of the Exchequer, Philip Hammond, delivered his first Autumn Statement, unveiling a new infrastructure plan that should boost the UK GDP by 0.4% a year over the next five years.

On the macroeconomic front, the Consumer Price Index (CPI) rose by 1.2% in the 12 months to November 2016 representing its highest level in two years.

Amid ongoing uncertainty around the economic and political consequences of the UK's decision to leave the European Union, the pound initially faltered against major currencies but recovered during the quarter as the Bank of England upgraded its UK growth projections.



Asia Pacific

Japanese markets initially dropped amid potential global restriction and the withdrawal of the US from the Trans-Pacific Partnership trade agreement (TPPA) expressed by Trump. However, the decline was short-term with Japanese equities outperforming on the back of a weakening Yen against the US dollar and the Bank of Japan's ongoing commitment to manage the yield curve through its bond purchase programme.

In China, stocks fell following the expectations of protectionist policy implementation by Trump resulting in increasing capital outflows. Consequent to these expectations and a tightening in the US dollar liquidity, the Chinese Yuan depreciated.

Indian stocks declined over the quarter on account of a surprise move by the government to pull all 500 and 1,000 rupee notes from circulation in November in an effort to impede the black market economy.

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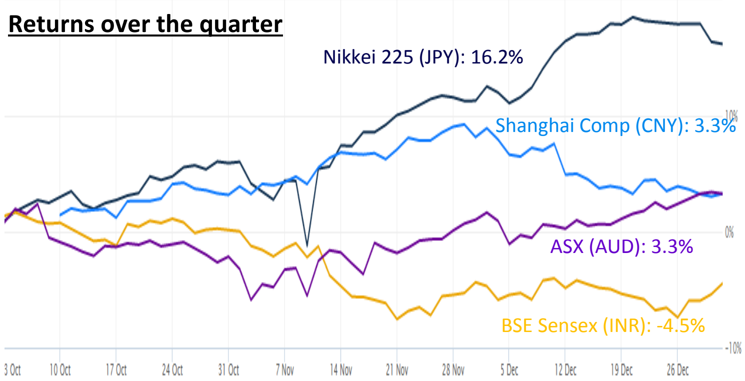
The rise in demand for coal and iron given Trump's stance on infrastructure has given hope for a robust growth path in Australia and consequently, the ASX rose.

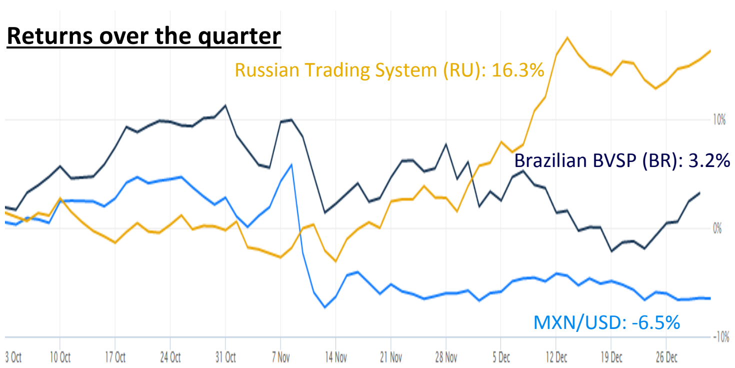


Emerging Markets

Emerging Markets were mixed. A potential restriction on US trade, rising yields and the appreciation of the US dollar were considered detrimental to certain emerging markets. For instance, the Mexican equities and the Peso were directly impacted given Mexico is particularly vulnerable to a possible repeal of the North American Free Trade Agreement (NAFTA).

However, Trump's plans for increased infrastructure spending were seen as beneficial to economies that mainly export raw materials, such as some Latin American countries like Brazil. The Brazilian Bovespa reported gains for the quarter.

Furthermore, following the agreement of production cuts reached by OPEC and ten non-OPEC members including Russia, the Russian Trading System reported appreciable gains in local currency terms.



Mauritius

The island also faced political issues with the PMSD leaving the government based on disagreements regarding the Prosecution Commission Bill.

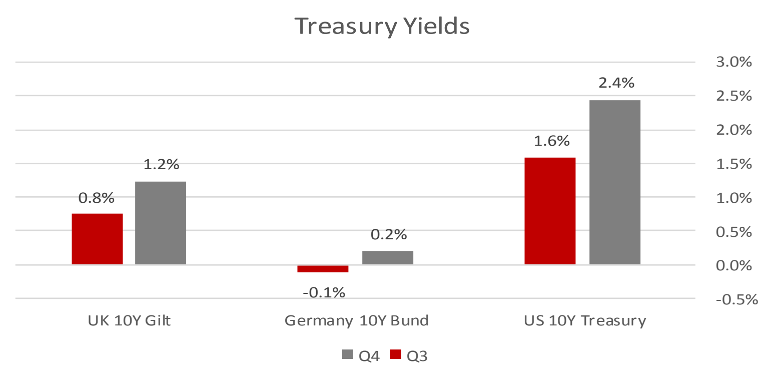
SEMDEX and SEM-10 ended the year of 2016 on a slightly negative note with performance at –1.2% and –1.6% respectively over the quarter on the back of net foreign sales.

MCBG announced the retirement of Mr. Anthony Withers as CEO of the Group in December. In the meantime, Mr. Alain Law Min is acting as CEO.

Fixed Income

As expectations for global economic growth grew more optimistic over the quarter, so did expectations of higher inflation and that of real rates. These consequently lead to a poor quarter for government bonds in general.

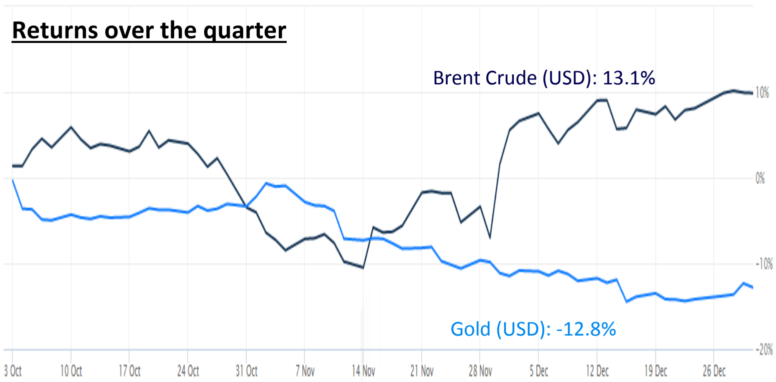
Government bond yields moved higher and yield curves steepened. The 10-year US Treasury yield rose from 1.6% to 2.4% in Q4. The 10-year Bund yield (Germany) emerged from negative territory, moving from -0.1% to 0.2%. In the UK, the 10-year Gilt yield rose from 0.8% to 1.2% in Q4.



Commodities

Energy was the strongest segment, increasing by 10.6% amid rising oil prices. Brent crude rose by 13.1% over the quarter following an agreement by OPEC and non-OPEC states to cut production.

By contrast, agriculture and gold were weaker. The expectations of higher inflation and subsequent rising bond yields over the quarter resulted in relentless end-of-year selling of gold.



AfrAsia Capital Management Ltd

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