Quarterly Review Q1 2019

AFRASIA Capital Management

Executive Summary

Global equity markets ended the quarter in positive territory on the back of optimism for progress in US-China trade talks and that the Fed would remain less aggressive in raising interest rates. Other major central banks also grew more accommodative in a slower growing environment. With interest rates expected to remain low, market sentiment around higher-growth stocks has grown positive once again.

Corporate bonds were also in the green following positive macroeconomic factors. The three-month Treasury bill yield rose above that of 10-year bonds in March, indicating a sign of growing caution among investors over economic growth.

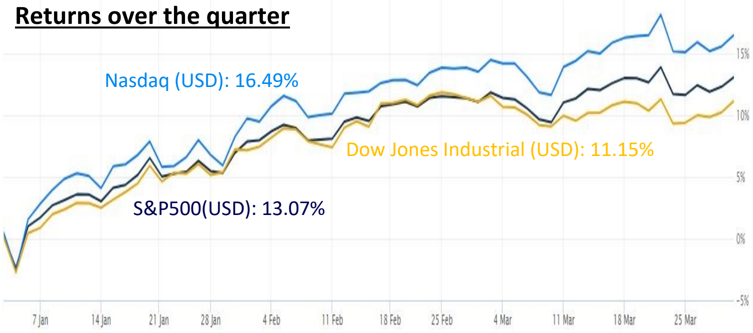
US

US equities rebounded from quarter ending 2018 in January following assurance from the Fed that it would regulate planned interest rate hikes to counterweigh deteriorating economic momentum and following the ending of the US government shutdown.

As the quarter advanced, a resolution to the ongoing US-China trade tensions also appeared more positive. The Fed also lowered its expectations for US growth and inflation. The dot plot as at date showed no rate hikes for 2019 and only one in 2020. The adjusted growth outlook caused the Treasury yield curve to invert, historically signifying a pre-recessionary environment.

With a weakening global economy and challenges to US economic expansion following reconsiderations to consumer and government spending, defensive sectors reported strong returns while financials were weak resulting from the Fed's decision for no rate hike for the year. Technology performed well while healthcare returns were suppressed due to uncertainty over potential regulatory changes.

<u>Returns over the quarter</u>

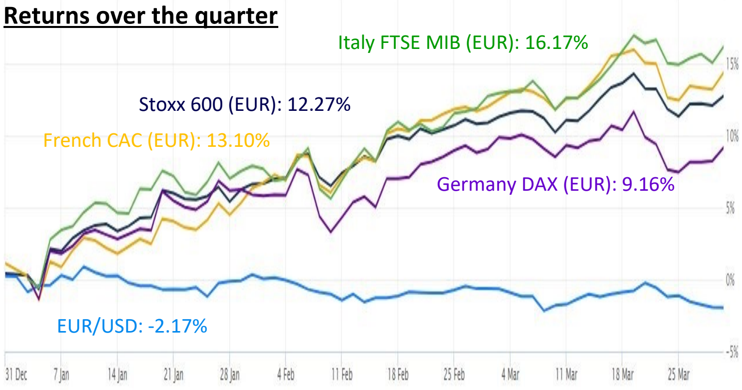


Europe

European equities posted positive returns despite generally weak economic data. The manufacturing sector continued its soft patch faced by external factors such as China slowdown, trade wars and Brexit, causing issues for the export-heavy economy. Investors' fear remained on whether external weakness could eventually influence domestic market sentiment and negatively impact consumer spending and business investment.

The ECB kept the deposit rate steady at -0.4% and stated that it would not raise rates until at least 2020, having previously mentioned that it wouldn't hike until at least mid-2019. The ECB also revealed a set of cheap financing for the banking sector and discussed measures to lessen the drag that negative rates have had on bank profits.

<u>Returns over the quarter</u>



Economically-sensitive sectors such as industrials and information technology performed well, while the safe haven consumer staples and real estate sectors were also among the top performers. Banks suffered on the back of continued low interest rates.

UK

Gains in the first quarter of 2019 saw the UK equity market recover the majority of losses from the last quarter of 2018, though headline levels remained inferior to the October sell-off.

Brexit dominated the agenda during March as the deadline was approaching. As at mid of March, the UK Parliament voted to reject a no-deal Brexit scenario and seek an extension of Article 50 from the EU. However, Parliament's subsequent rejection of all alternatives to the Prime Minister's deal saw the sterling weaken against both the US dollar and euro. After securing an extension from EU leaders, UK Parliament voted for a third time on the Prime Minister's deal. The vote, which took place on the UK's original exit date of 29 March 2019, was lost as Parliament voted again to reject the withdrawal agreement. The political impasse therefore continued till the end of the quarter.

Due to both Brexit uncertainty and mixed economic data, the Bank of England kept interest rates on hold throughout the quarter, notwithstanding rising wage pressures.

<u>Returns over the quarter</u>

Asia Pacific

Markets in the Asia Pacific region closed the quarter higher, boosted in part by progress in US-China trade negotiations and the dovish shift by major central banks.

Japanese equity markets lagged developed markets during the quarter. The Bank of Japan's quarterly Tankan survey presented a deterioration in corporate confidence due to uncertainties in the global economy and financial markets, as well as uncertainties due to global trade disputes which have greatly affected Japan's export sector. The Japanese yen weakened against other major currencies.

Taiwanese stocks also advanced while South Korean stocks underperformed subsequent to the sudden end to the US-North Korea summit and concerns over corporate earnings.

<u>Returns over the quarter</u>

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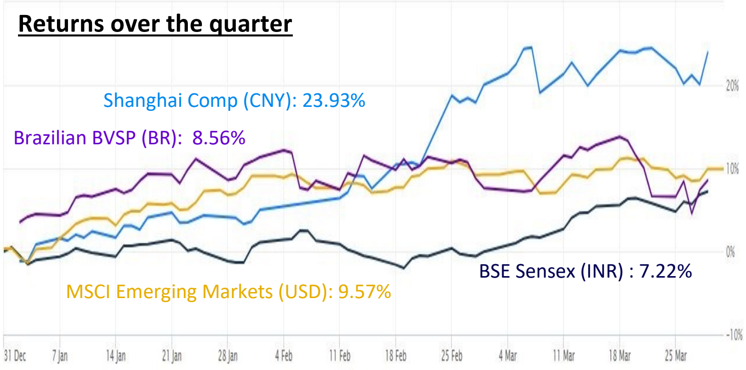
Emerging Markets

Emerging markets equities posted strong gains in the first quarter, led by China. Even though the MSCI Emerging Markets Index increased in value, it still underperformed the MSCI World.

Indian stocks experienced a pre-election rally, posting gains as early opinion polls pointed to a return of Prime Minister Modi's coalition Government in the upcoming general election. This relieved concerns over potential near-term political instability should no clear winner emerge.

China's market recorded its biggest quarterly gain since 2009 supported by optimism over a possible resolution to trade disputes with the US. Macroeconomic indicators were also positive with fixed asset investment, industrial production and retail sales all showing signs of improvement. The market was further supported by the positive sentiment stemming from the February announcement that global index provider MSCI will increase its weighting of China A-listed shares in the MSCI Emerging Markets Index to 3.3% from a current 0.7% by November of 2019.

Equity markets in Latin America were dragged down by weakness in Brazil and Chile. In emerging Europe, Turkey was the weakest performer as market sentiment towards the country was unfavourably impacted by currency woes leading up to the municipal elections. Russia benefited from higher oil prices and the increased possibility of an interest rate cut later this year following comments from central bank officials. Voters also went to the polls in Thailand but the results of the general election were still to be announced.

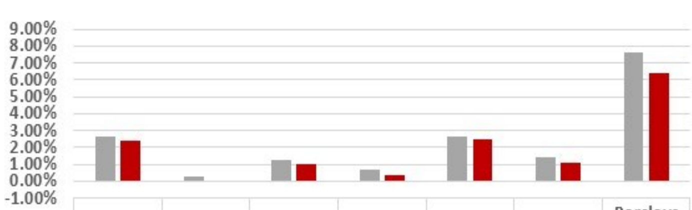


Fixed Income

US 10-year Treasury yields fell over the quarter reaching their lowest level since late 2017. Following the disappointing Flash Composite PMI release, Germany's 10-year Bund yield fell below 0% as investors fled to safe haven asset and sent prices for the sovereign bond soaring.

Corporate bonds had a strong quarter. High yield credit outperformed investment grade, with both outperforming government bond markets.

Yields



	US 10Y	Germany 10Y	UK 10Y	France 10Y	Italy 10Y	Spain 10Y	Barclays Global High Yield Index
Q4-18	2.68%	0.24%	1.28%	0.71%	2.65%	1.42%	7.66%
Q1-19	2.42%	-0.07%	1.00%	0.32%	2.48%	1.10%	6.36%

Q4-18 Q1-19

Commodities

Oil price has recovered since the end of 2018, enhancing returns for the energy sector. At the end of the quarter, the price of oil closed above US$60 a barrel for the first time since early November amid signs of diminishing supplies from Siberia to the US shale fields.

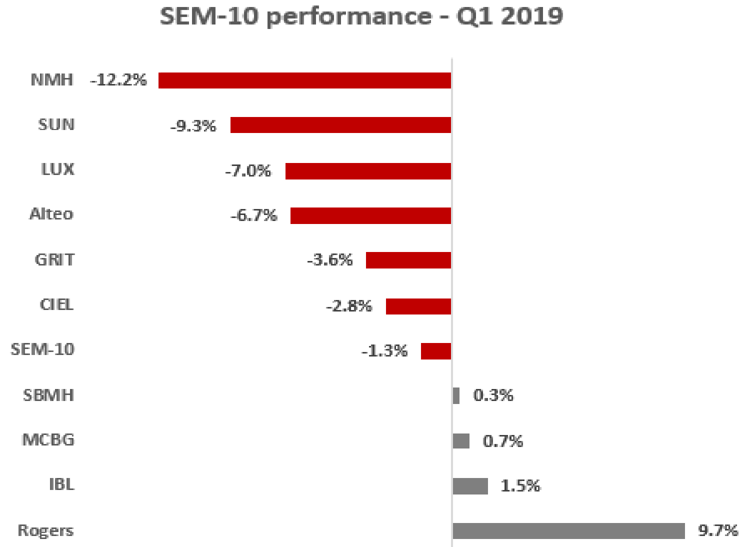
Industrial metals moved higher amid positive signs originating from US-China trade talks. Precious metals on the other side reported a modest gain, supported by a small rise in gold prices.

Mauritius

On the local scene, ENL Limited was scheduled for listing and trading on 23 January 2019. It took its place in the SEM-10 constituents, following the April 2019 Index Management Committee.

Investors eagerly awaited SBMH financial results for year ended 31 Dec 2018. News about another impairment of about MUR 1 billion relating to the loan to the Kenyan Group Pabari Investments impacted investors' sentiment negatively. Following the news, SBMH released its year end report late, reporting an increase in credit loss expense on financial assets by MUR 2.44 billion for the year on account of some segment B customers in SBM Bank (Mauritius) Ltd which was classified as impaired during the year.

Tourist arrivals for February 2019 stood unchanged as compared to the same month of 2018. Arrivals from France, Germany, Italy, Saudi Arabia and the United Arad Emirates trended upwards while the largest decreases could be witnessed from South Africa, Reunion, UK and Switzerland. Growth expectations for 2019 stood at 3.6%. More tourist arrivals were recorded by sea rather than air.



Even though the tourist arrivals were unchanged, the hotel industry faced challenges with diminished forward bookings. The sugar industry suffered from decline in sugar prices. These factors impacted on the performances of the respective stocks.

AfrAsia Capital Management Ltd

10th April 2019