PeaQ News
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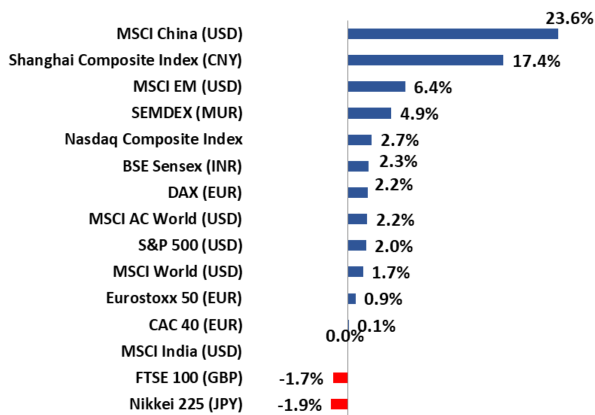
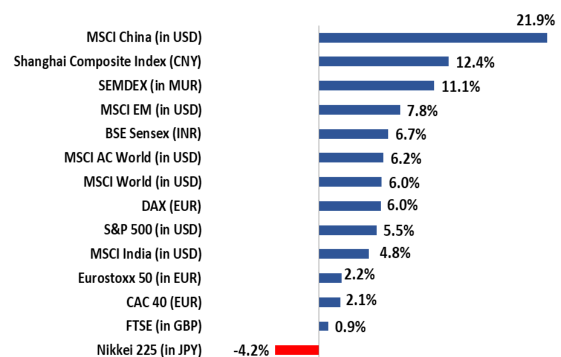
MARKET SUMMARY MONTH OF SEPTEMBER



- The performance of global equity markets was mixed over the month of September.
- US inflation rate slowed for the 5th consecutive month in August to 2.5%. The Fed cut its key lending rate by 50 bps - its first reduction since the COVID-19 pandemic. Stock markets reacted positively.
- In China, the stock markets surged as the authorities in China unveiled a big stimulus package to boost the economy. The PBoC lowered borrowing costs on mortgages and eased downpayment requirements for second home purchases to prop up its property sector. It also announced at least 500Bn yuan ($71Bn) of liquidity support for stocks through a swap facility allowing securities, funds and insurance companies to buy stocks. In addition, the PBoC lowered the reserve requirement ratio for banks by 50bps.
- The European Central Bank announced its second rate cut of 25bps in three months, on the back of slowing inflation and economic growth. Consumer prices rose 1.8% from a year ago in September, down from 2.2% in the previous month whilst GDP growth in Q2 was 0.2% q-on-q. However, European stock markets were subdued. The French government is considering corporate tax hikes and levies on share buybacks and energy companies. On the macro front, the manufacturing sector continued to contract whilst the services sector showed only modest growth.
- After its first rate cut in four years in August, the Bank of England maintained its interest rate at 5% in September. The inflation rate stood at 2.2% in August, the same as in July, just above the BoE's target of 2%. GDP growth stood at 0.7% y-on-y in Q4, the highest growth rate since 2022. Both the manufacturing and services sectors remained in an expansionary zone. However, investors await the government's first budget in October.
- In Japan, the BoJ kept its policy rate steady at 0.25%, in line with expectations, after raising it in July. Former defence minister Ishiba, who will be the next PM, is seen as supportive of the BoJ's plan for gradual tightening. On the macro front, annual inflation rate rose to 3.0% in August from 2.8% in the prior three months, reaching the highest level since October 2023.
- Oil Prices fell (WTI -7.3% and Brent -8.9%) as global demand fell and supply rose, despite geopolitical turmoil and the announcement of OPEC+ that it would postpone the start of the planned unwinding of extra voluntary production cuts.
- Headline inflation in Mauritius for the 12-months ended September 2024 was 3.8% (LY: 9.0%). Tourist arrivals rose by 4.7% y-on-y in September and gross tourism earnings for the period January - August 24 stood at Rs 58.5Bn (LY: Rs 54.1Bn, +8.1%).
- The MPC of the BoM unanimously decided to cut the Key Rate by 50bps from 4.5% to 4%. The BoM maintained its projection of 6.5% GDP growth and inflation rate of 3.5% for 2024.

QUARTER 3 2024 UNDER REVIEW

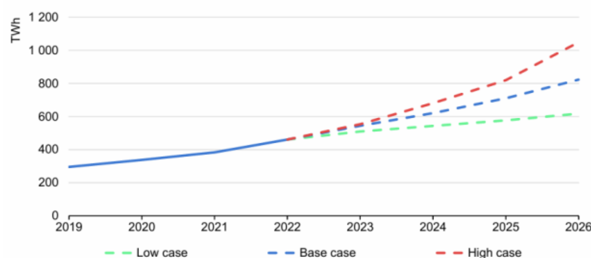
- The third quarter of 2024 registered several events: in the US, there were assassination attempts on a US presidential candidate and a change of candidate for the US Democratic Party. In Europe, the left coalition obtained the largest number of seats in France whilst in the UK, there was the return of the Labour party to power after 14 years. Japan caught the markets by surprise with an increase in policy rates whilst most developed countries head towards a more dovish stance, leading to three days of accrued volatility in markets. In China, the government announced a slew of stimulus measures to boost its economy.
- Against this backdrop, volatility rose and the MSCI ACWI rose by 6.2% during the third quarter. After being the best performing sector over the previous quarter, the IT sector lagged over this quarter, with the Utilities and Real Estate sectors being the best performers over this quarter as interest rate cut expectations impacted on sentiment.
- Oil prices continued to fall (Brent -17.0% and WTI – 16.3%) as soft demand and increased inventory weighed on prices. Gold prices on the other hand rose over the quarter (+12.8%) as investors continued to flee to safe-haven investments.
- The Barclays Aggregate Bond Index increased by 7.0% on interest rate cut expectations.
- Over the quarter, the MUR depreciated by 3.3%, 4.1% and 5.5% against the US$, € and £ respectively.
- The local tourism industry continued to post positive figures in terms of arrivals and earnings whilst inflation remained on its downward trajectory.



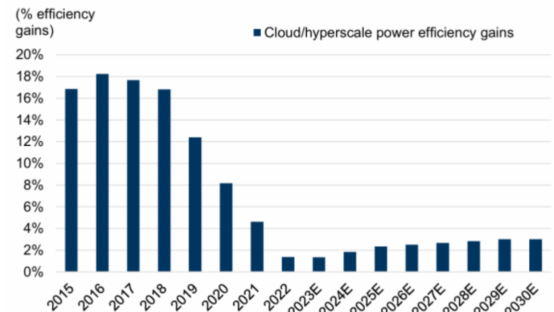
INVESTMENT THEME:
Utilities: Benefitting from the Data Centre Buildout

- The Utilities sector has so far been the best performing sector in the US with the Utilities Select Sector SPDR Fund (XLU) returning 30% YTD. The sector was known for its slow growth with US annual power generation averaging less than 0.5% growth over the last 20 years. It recently benefitted from the substantial investment in power-hungry data centres to meet the surging demand of AI technologies.
- The incorporation of AI into software programming increases the overall electricity demand of data centres. For instance, a typical Google Search consumes 0.3Wh of electricity while Open AI's Chat GPT consumes almost 10 times more at 2.9Wh per request.
- Global Data Centre electricity consumption has grown at an estimated 15% CAGR over 2016-23. According to the International Energy Agency, electricity consumption from data centres, cryptocurrencies and AI is expected to rise from 460 Terawatt-hour (TWh) to a range of 620-1050 TWh in 2026, a CAGR of 7.8% - 22.9% over the 4 years. As a comparison, Canada, the 5th largest electricity consumer in the world, used up 594 TWh in 2022.

Global electricity demand from data centres, AI, and cryptocurrencies, 2019-2026



- Nuclear companies have recently been dominating headlines within the industry due to deals with tech giants. The low-cost, emissions-free nature of nuclear power makes it particularly attractive for AI Datacentres. Vistra, a Utility company, is up 227% YTD due to its exposure to nuclear plants.
- Electricity is proving to be a key bottleneck for the AI data centre buildout as it takes time for new generators to come online. This capacity constraint is putting upward pressure on prices. Consequently, companies are actively seeking ways to reduce energy consumption. One notable trend, for example, is the transition from air cooling to liquid cooling which reduces energy needs. However, after significant efficiency gains during the last decade, data centres have struggled to improve further in recent years.



- Whilst newer, more powerful and efficient chips being released by the likes of NVIDIA reduces the energy required per compute, they also tend to consume more energy per server and cost significantly more.
- Given the growing compute requirements and the pent-up demand for high performance chips, it is likely that energy needs for data centres will continue to accelerate. This will provide upside to both the volume and price components of revenue for utility companies.
- Additionally, a falling interest rate environment provides a tailwind for highly geared companies such as Utilities, reducing their finance costs for both current and future investments.
- Amidst the datacentre buildout, the transition to electric vehicles and the deglobalisation efforts to localise production, the Utilities sector is well positioned for continued growth.

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