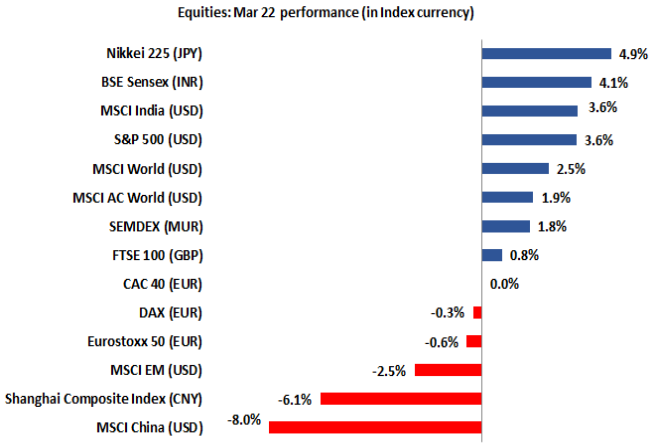
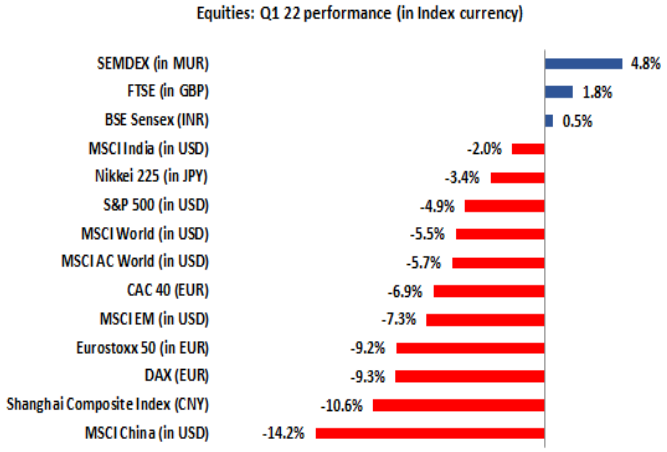
MARKET SUMMARY



- There was intense market volatility in March as the Russia-Ukraine war played out. The outlook was pessimistic in the first part of the month before optimism took over the second part of the month with the start of negotiations between the two parties in Turkey.
- Irrespective of the the war in Ukraine, the US Fed maintained its hawkish stance and increased interest rates by 25bps, with expectations of a bigger hike at the meeting in May.
- European stock markets were the most affected by the Russia-Ukraine conflict and posted feeble returns over the month.
- The Chancellor's Spring statement in the UK contained the following measures: 5p cut in fuel duty, rise of the threshold at which workers start paying National Insurance, increase of employment allowance which would enable small businesses to reduce their National Insurance payments, exemptions for investments in green technology from business rates as from April 22 and a pledge to cut income tax in 2024.
- China was subject to renewed lockdowns in large parts of the country due to a resurgence of Covid-19 cases, leading to disruption in industrial production. There is the continued risk of dual-listed Chinese firms being de-listed from US exchanges.
- The Mauritian SEMDEX rose mainly on the back of positive results posted by companies.

QUARTER 1 2022 UNDER REVIEW

- Despite a surge over the last two weeks of the quarter, most equity indices finished the quarter in the red, with the S&P 500 hitting correction territory in February.
- The developments in the Russia-Ukraine war greatly influenced markets. Already high inflation rates were further exacerbated by geopolitical risks, as Russia is a major provider of oil & gas for Europe and both Russia and Ukraine are major exporters of agricultural products.
- Inflation stood at 7.9% in February in the US. In Europe, this figure stood at 5.9% in February (and estimated to be 7.5% in March) and in the UK at 6.2% in February (the highest rate since March 92). In Mauritius, y-o-y inflation stood at 9.0% in February.
- In the commodities market, oil posted strong returns (WTI +33.3% and Brent +36.3%) but underwent a significant pullback (-10%) over the last week of the period due to the start of negotiations, as well as the US announcing that it will release 1m barrels of oil per day over the next 6 months from its Strategic Petroleum Reserve. Gold maintained its safe haven status amidst global turmoil (+6.7% over the quarter).
- The fixed income markets were subject to soaring yields, leading to price falls. In the US, the 2Y-10Y and 5Y-30Y spreads inverted at quarter's end, leading to investors speculating that this might be a sign of upcoming recession.
- In Mauritius, the economy started reaping the benefits of the re-opening of borders as hotels registered higher occupancy rates. The Central Bank followed the global trend and increased rates by 15bps to 2% to combat rising inflation.
- Over the quarter, the MUR depreciated against the USD and EUR by 2.0% and 1.1% respectively and appreciated by 0.9% against the GBP.



INVESTMENT THEME:

Global Infrastructure

- The Global Infrastructure Hub (GI Hub), formed by the G20, estimates that global investment needed in infrastructure across 56 countries and 7 sectors (energy, telecommunications, airport, ports, rail, road, water) from governments will be around $94trn between 2016 and 2040. China accounts for approximately 30% of the global infrastructure needs, followed by Europe and US with 16% and 13% respectively.
- The global infrastructure gap, which is the difference between the investment trend and the investment needed, over the same period amounts to $15trn. To meet the above need, governments around the world will have to increase their investment funds dedicated to infrastructure from 3.0% to 3.6% of the world's GDP.
- In 2022, the global infrastructure needs are expected to be around $3.3trn while the annual infrastructure investments will stand at about $2.8trn.

1. China – 14th Five-Year Plan 2021-25

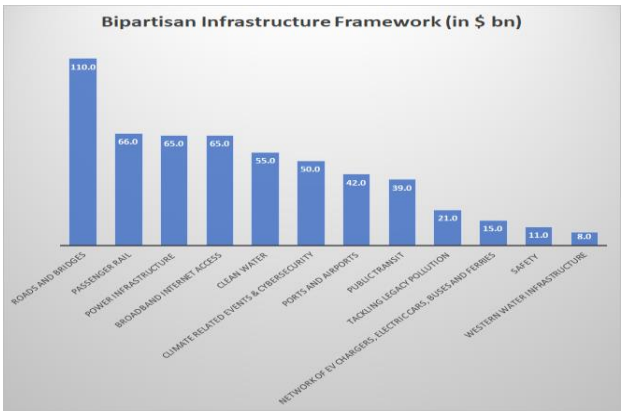
- The development of new infrastructure is a major component of the plan and include the building of high-speed and efficient information infrastructure, expansion of 5G networks and laying the foundation for 6G technology, construction of big data centres and development of Internet of Things (IoT).
- The plan also puts a lot of emphasis on clean energy.
- The transport infrastructure plan will consist of expanding the railway network by 19,000km (including 12,000km of high-speed rail), construction of 29 new passenger airports, public roads extension by 302,000km (including 29,000km of expressways) and developing 2,400km of inland waterways.
- According to the CCID think tank (a government-affiliated body), the investment amount associated with new infrastructure projects will cost between RMB 10-17.5trn.

2. Europe – European Green Deal

- The European commission (EC) has launched the European Green Deal (EGD) with the ambition to become the first carbon-neutral continent by 2050. To meet its target, the EC has pledged to decrease its carbon emissions by at least 55% by 2030, compared to 1990 levels.
- The EC is planning to invest at least €1trn of sustainable investment over the 2021 - 2030 period to accelerate the pace of this transition.
- The main benefits of EGD include more public transport, less air pollution, clean water, energy-efficient buildings, healthy and affordable food, cleaner energy, competitive and resilient industry.
- The transport system accounts for approximately 5% of EU's GDP. With a view to modernizing its transport facilities, the EU will be increasing connectivity and shifting more passengers and freight to rail and inland waterways, expanding its charging network and supporting alternative refuelling infrastructure.
- The EC has laid the foundations for the REPowerEU plan to reduce Europe's dependence from Russian fossil fuels well before 2030. The EU imports approximately 90% of its gas consumption and Russia accounts for around 45% of these imports.
- Measures implemented by the EU to phase out its dependence on Russia include ramping up its LNG imports from other sources, increasing its volumes of biomethane and renewable hydrogen production and imports, scaling up renewables and electrification and addressing infrastructure bottlenecks.

3. US - Infrastructure Investment and Jobs Act ('Bipartisan Infrastructure Law')

- US President Biden has signed a $1.2trn infrastructure bill into law (Bipartisan Infrastructure Law), the largest federal investment in infrastructure in more than a decade.
- The bill will help to repair the country's aging roads, bridges and rail network. It will upgrade the power infrastructure, invest in ports and airports, tackle climate change, ensure reliable access to clean drinking water and provide high-speed internet.
- The investments in infrastructure will create 1.5m jobs each year on average over the next 10 years.
- 45,000 bridges and 1 out of every 5 miles of highway pavement are in poor conditions while power outages cost up to $70bn annually to the US economy.
- The Chart below summarizes the $550bn breakdown of new federal investments in infrastructure over 5 years.



- We believe that global infrastructure is a compelling investment theme for our clients in the long term due to promising signs of increased infrastructure spending by governments around the globe in some key areas such as traditional and digital infrastructure and clean energy. PeaQ's portfolios include investments in financial products focussing on infrastructure.

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Source: The Global Infrastructure Hub, China Briefing, Xinhuanet, European Parliament, European Union, IEA, The whitehouse, CNN, WSJ, SEMDEX, Bloomberg, Statistics Mauritius, MCB.