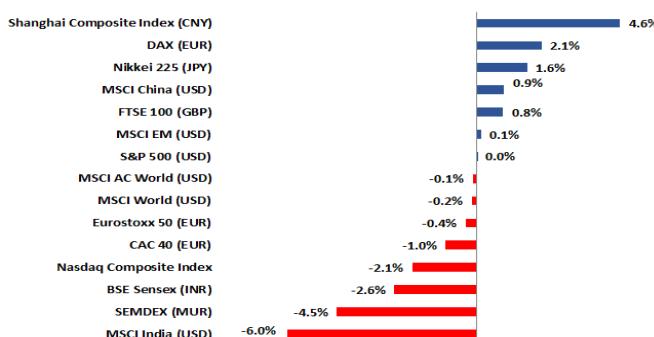


## MARKET SUMMARY

Equities: May 22 performance (in Index currency)



- The performance of global markets was mixed during the month of May.
- US equity markets were impacted, at the start of the month, by disappointing corporate results but rallied in the latter part.
- The gradual re-opening in China, following the prolonged lockdowns in many parts of the country, was positive for markets.
- Inflation figures and the path of interest rate hikes remained at the forefront of investors' minds.
- The war in Ukraine continued to impact on the commodities markets, namely oil, gas and agricultural products.
- After 4 months of growth, the SEMDEX registered its first month of negative return since the start of the year.

## INFLATION AND CENTRAL BANKS' POLICIES

### Inflation Trends

- The global economy has witnessed an inflationary surge over the past months caused by supply chain bottlenecks (pandemic disruptions and ongoing Russia-Ukraine crisis have sent commodity prices soaring). In advanced economies, such as the US and UK, inflation remained close to a 40-years high in April 2022 while in the Euro zone, inflation reached an all-time high in May 2022. In China, the annual inflation rate hit a 5-months high in April 2022. In Mauritius, at the same date, y-on-y inflation stood at 11.0%.
- Higher and persistent price pressures have led several central banks to tighten their monetary policies whilst China is loosening its monetary policy.

### Central Banks' Policies

- In the US, the Federal Reserve (Fed) raised its funds rate target range by 0.50% (largest rate hike since May 2000) to 0.75%-1.0%. Chair Jerome Powell stated that 50bp increases in the funds rate should be on the table at the

	Annual Inflation Rate %			
	US	Eurozone	UK	China
Dec 21	7.0	5.0	5.4	1.5
Jan 22	7.5	5.1	5.5	0.9
Feb 22	7.9	5.9	6.2	0.9
Mar 22	8.5	7.4	7.0	1.5
Apr 22	8.3	7.4	9.0	2.1
May 22	-	8.1	-	-

next couple of meetings in June and July 2022. With a view to tighten monetary conditions further, the balance sheet runoff (reducing the Fed's securities holdings) will start on June 1<sup>st</sup>, 2022. Principal payments from securities held in the System Open Market Account (SOMA) will be reinvested to the extent that they exceed the monthly cap. This will be set at \$95bn, split \$60bn-\$35bn between Treasury (UST) and mortgage-backed securities (MBS). However, the individual caps will initially be set at half of those levels for the first 3 months of runoff (\$30bn UST and \$17.5bn MBS).

- At its latest meeting, the Governing Council of the European Central Bank (ECB) indicated that policy normalisation remained on track despite the war in Ukraine. ECB is planning to conclude its asset purchases under its APP (asset purchase program) in Q3 (monthly net purchases under the APP will amount to €40bn in April, €30bn in May and €20bn in June). Interest rates on the main refinancing operations, marginal lending facility and the deposit facility remained unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council reiterated that the first-rate hike would follow the end of APP.
- In the UK, the Bank of England (BoE) raised the bank rate from its historic low of 0.10% to 0.25% in December 2021. In 2022, the rates have increased on 3 occasions (each by 25 bps) to 0.50% in February 2022, 0.75% in March and 1.0% in May 2022 respectively.
- During its quarterly meeting in March 2022, the People's Bank of China (PBOC) reiterated its easing bias as a support to the real economy. PBOC also added that it would work on improving the monetary policy transmission mechanism. In May, PBOC announced a 15bp cut to its 5-years LPR (loan prime rate) from 4.60% to 4.45% to boost loan demands but kept the 1-year LPR unchanged at 3.7%.
- The Bank of Mauritius raised the key repo rate by 25bps to 2.25% at the beginning of June.
- PeaQ has adjusted clients' portfolios to be better equipped to face this environment of rising inflation and higher interest rates.

10<sup>th</sup> June 2022

For more information about our services, please contact:

#### André Chung Shui

Managing Director  
+230 52 51 22 16  
ac@peaqadvisors.com

#### Michael Yap San Min

Investment Advisor  
+230 55 00 90 88  
my@peaqadvisors.com

#### Ishrat Cheeroo

Investment Advisor  
+230 55 01 29 00  
ic@peaqadvisors.com



Source: BOE, Fed, ECB, BLS, ONS, PBC, CNBC, Bloomberg, SEMDEX.

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