PeaQ News

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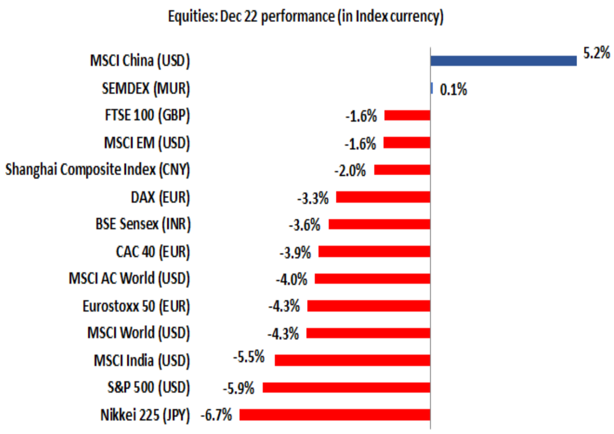
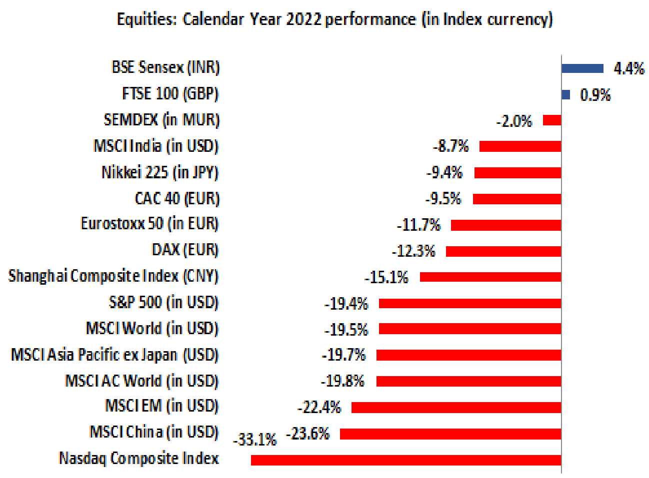
MARKET SUMMARY MONTH OF DECEMBER



- The last month of the year ended in the red with the major indices down as recession fears remained a major concern for investors.
- Over the month, the three major central banks, namely the US Fed, the ECB and the BoE, raised their policy rates by 50bps each to 4.5%, 2.5% and 3.5% respectively, but slower than the 75bps increase in the previous meeting.
- Inflation in these markets eased slightly after reaching highs.
- The BoJ unexpectedly increased the upper limit of its tolerance band on the country's 10-year sovereign debt yield from 0.25% to 0.50% as the country dealt with the highest inflation rate since 1991.
- The Chinese equity markets were the biggest outperformers as the government began to relax its zero-Covid policies in an effort to boost domestic spending and international travel.
- Gold prices rebounded strongly over the month (+4.2%) as China removed Covid-19 controls and on hopes that the US Fed will slow the pace of tightening.
- The Mauritian SEMDEX was slightly positive as it battled with foreign selling pressures and high inflation rates.

THE YEAR 2022 UNDER REVIEW

- After a positive year in 2021, the year 2022 proved to be quite eventful and challenging.
- Whilst still dealing with the aftermath of Covid-19, investors were faced with the unexpected war in Europe between Ukraine and Russia, starting in February and is still ongoing. This led to an energy crisis, since much of Europe's consumption is sourced from Russia, and caused widespread disruption in the agriculture sector.
- Pent-up demand, supply constraints still in place due to the zero Covid-19 policy in China, combined with rising petrol prices led to a surge in inflation rates. These were initially treated as transitory by major central banks but as these high rates remained stubbornly high, central banks had to change their loose monetary policy and became more hawkish.
- In the US, the highest inflation rate was registered in June at 9.1% whilst in the Euro-area and UK, the highest rates were registered in October at 10.6% and 11.1% respectively. In Mauritius, inflation continued to rise with the highest rate registered in December at 10.8%.
- Central Banks raised interest rates aggressively in an attempt to tackle inflation. From 0.25% in Dec 21, the US Fed rate rose to 4.5% in Dec 22. In the Euro-area and the UK, rates rose to 2.5% and 3.5% respectively.
- The Chinese stock markets were the worst hit over the year on the back of strict Covid-19 measures but expectations of the re-opening of the borders boosted markets over the last quarter.
- In the commodities market, oil was a star performer driven by the energy crisis caused by the war in Ukraine, whilst gold prices ended the year marginally down though there was an almost 10.0% surge over the last quarter on recession fears and some weakness in USD.
- The year under review witnessed the appreciation of the USD against major currencies, as investors viewed the greenback as a safe haven.
- In parallel, the fixed income markets were unusually not spared with the Barclays Aggregate Bond Index shedding more than 16.0% over the year, as high inflation raged and tighter monetary conditions prevailed. The yield curve also inverted, pointing to a possible recession in the future.
- In Mauritius, the year started on a high positive note. The tourism industry flourished after the re-opening of borders and companies re-started dividend payments. However, high inflation levels reached our shores as well, and global market conditions led to foreign selling pressures, which weighted on the local bourse.
- Over the year, the MUR depreciated by 1.3% against the USD and appreciated against the GBP and EUR by 9.9% and 4.8% respectively.



INVESTMENT THEME:

Renewable Energy

- Russia's, one of the world's largest oil and natural gas exporter, invasion of Ukraine has triggered an unprecedented global energy crisis.
- Faced with global energy shortfalls, soaring prices and heightened concerns over global warming, many

developed economies are accelerating the transition to cleaner energy.

- According to the International Energy Agency (IEA), the global renewable capacity is forecast to grow by approximately 75.0% (2400GW) between 2022 and 2027. China is expected to account for almost half of this growth, followed by the EU and the US.
- By 2025, renewables will become the major source of electricity (surpassing coal) and its share of the global energy mix will increase from 28.0% in 2022 to 38.0% in 2027.
- The main drivers of this energy transition include China's 14th five-year plan, the REPowerEU plan and the US Inflation Reduction Act.

1. *China's 14th five-year plan (FYP)*

- China is the world's largest emitter of greenhouse gases (GHG) and accounts for approximately 26.0 % of global GHG emissions.
- The government released its 14th FYP (2021-2025) on renewable energy in June 2022. The plan aims to speed up the large-scale development of renewable energy, to increase the share of renewables in the global power mix and to promote the stability and security of the electricity system.
- President Xi Jinping had announced that China will aim to peak its carbon emissions by 2030 and achieve carbon neutrality by 2060. The country is targeting to reduce its carbon intensity by over 65.0% from the 2005 level by 2030.
- From 2022 to 2027, China's renewable power capacity is forecast to double (by approximately 1070 GW) – solar and wind power will account for 90.0% of this growth and most of the remaining 10.0% will be hydropower. The Chinese government has set a new target requiring 50.0% of all large public buildings and new buildings in industrial zones to install rooftop solar PV.

2. *REPower EU plan*

- In March 2022, the EU agreed to phase out, as soon as possible, its dependency on energy import from Russia and to implement the REPower EU plan to accelerate its green energy transition.
- The REPower EU plan will build on the targets outlined under the Fit-for-55 package, presented in 2021. The package is designed to achieve climate neutrality by 2050 and to reduce net GHG emissions by 55.0% by 2030 (compared to 1990 levels).
- The EU commission now plans to increase its 2030 target for renewables in the energy mix from 40.0% (initially outlined in the Fit-for-55 package) to 45.0%.
- From 20022 to 2027, Europe's cumulative renewable electricity capacity is forecast to grow by nearly 60.0% (+425 GW). It will be generated mostly from solar photovoltaic, followed by onshore/offshore wind, bioenergy and hydropower. Expansion of the renewable electricity capacity in the European area (approximately 75%) will be from seven countries mainly, which include Germany, Spain, UK, Turkey, France, Holland and Poland.

3. *Inflation Reduction Act of 2022 (IRA)*

- The IRA, signed into law on August 16, 2022, will address the climate change crisis in the US and will incentivize growth in the renewable energy sector. It is the most significant action Congress has taken on clean energy and climate change in US history.
- The US government will invest $370 bn in Energy Security and Climate Change programs over the next ten years.
- IRA builds on the foundational climate and clean energy actions passed into law in November 2021 in the bipartisan infrastructure law to support projects such as modernizing the electricity grid and tackling climate change.
- The Biden administration has set the goal to reduce GHG emissions by 50.0%-52.0% below 2005 levels by 2030. According to the US Department of Energy, the IRA will allow the US to achieve a 40% reduction of carbon emissions below 2005 levels by 2030.
- Renewable energy capacity in the US is estimated to grow by 74.0% (over 280 GW) from 2022 to 2027, with solar and wind power accounting for nearly all the renewable expansion. Moreover, 37 out of 50 states have set renewable portfolio standards and goals for the expansion.
- Global clean energy transition has become an urgent matter due to global warming, leading to climate change, and heightened geopolitical tensions.

- PeaQ is of the view that renewable energy is a long-term investment theme for investors, with significant potential growth in the future.

17th January 2023

Source: IEA, European Parliament, European Commission, European Parliamentary Research Service, The White House, SEMDEX, Bloomberg, Statistics Mauritius.

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