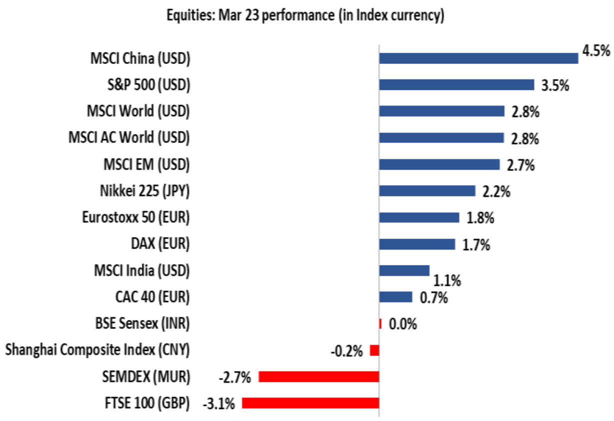
PeaQ News

Vol. 3 No. 03

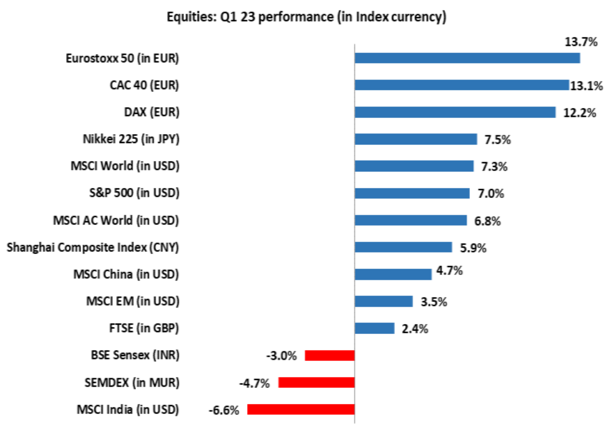
MARKET SUMMARY MONTH OF MARCH



- The month of March was eventful as markets handled the unexpected turmoil in the US and European banking sectors at the start of the month.
- Market sentiment improved as the authorities intervened to guarantee non-FIDC insured deposits of Silicon Valley Bank in the US, and UBS took over Credit Suisse.
- All three developed Central Banks, i.e. the US Fed, the ECB and the BoE, increased rates as expected to 4.75%-5%, 3.5% and 4.25% respectively. Investors speculated that the end of rate hikes was near and markets ended the month on a positive note.
- In the midst of the banking turmoil, government bonds rallied and gold prices went up by more than 7.5% as investors flocked to safety.
- France faced nationwide demonstrations against the proposal of increasing the retirement age from 62 to 64.
- In China, the PBOC cut its reserve requirement ratio by 25bps as from 27th March. Further to the re-opening of China's borders, optimism improved and consumption recovery picked up.
- The SEMDEX was down by 2.7% over the month as foreign selling pressures mounted.
- As per Statistics Mauritius, headline inflation for the 12-months ending March 2023 settled at 11.1%, compared to 6.0% for the previous period.
- Compared to the corresponding period in 2019, the number of tourist arrivals stood at 105,663 in March 2023 (vs 114,119) and for the period January – March 2023 at 305,197 (vs 352,305).

QUARTER 1 2023 UNDER REVIEW

- Q1 of 2023 was the second consecutive quarter of high positive returns for most markets despite the unexpected banking crisis, which was short-lived as the authorities stepped in to prevent contagion effect.
- The strong performance over the quarter was mainly driven by figures showing that inflation rates were slowing down, leading to investors' expectations that interest rate hikes would slow down as well.
- In February and March, the US Fed and the ECB raised rates by 25bps and 50bps respectively, and the BoE raised rates by 50bps and 25bps in February and March.
- Inflation rates moderated – from 6.5% in Dec to 5.0% in March in the US, from 9.2% in December to 6.9% in March in the Eurozone and from 10.5% in December to 10.4% in February in the UK, boosting investor sentiment. In Mauritius, headline inflation was higher in March at 11.1% than in December (10.8%) and reached a high of 11.3% in February.
- The latest GDP figures for Q4 in the UK showed that the economy did not contract, contrary to expectations, hence avoiding a technical recession.
- India was one of the worst performing markets over the quarter due to the Adani saga with allegations of fraud and market manipulation by the business conglomerate.
- Chinese equity markets posted positive returns on the back of the re-opening of its borders but geopolitical tensions, including the Chinese balloon in the US airspace incident weighted on returns.
- In the commodities market, oil continued its lacklustre performance, whilst gold prices went up by more than 8.0% on its safe haven appeal.
- The Barclays Aggregate Bond Index posted strong returns (3.0%) boosted by the banking turmoil.
- In Mauritius, according to Statistics Mauritius, GDP at market prices in 2022 grew by 8.7%, higher than the 7.8% growth estimated in December 2022, whilst the forecast growth for 2023 is 5.0%. The BoM's latest figures show that the CRR fell from 9.52% to 9.36% (in MUR) in March, and that the GOIR increased slightly by 0.57% in February bringing the imports cover to 14.4 months.
- Over the quarter, the MUR depreciated by 6.8%, 7.5% and 4.2% against the EUR, GBP and USD respectively.

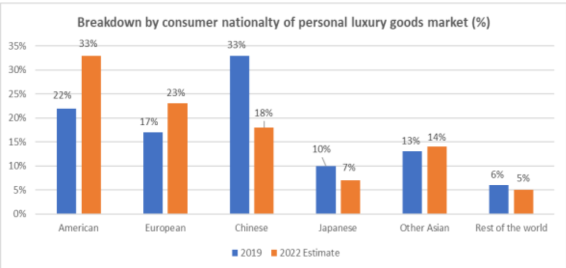


PeaQ News
Vol. 3 No. 03

INVESTMENT THEME:

Luxury Sector

- Despite challenging market conditions, the market for personal luxury goods is estimated to have grown by 22% from 2021 to EUR 353bn in 2022 and its market value is forecast to reach EUR 540bn – 580bn by 2030 (a CAGR of more than 5.5%).
- In 2022, the top luxury goods companies in the world included LVMH, Kering SA, Chanel and Hermès.
- The major spenders on personal luxury items were American (approximately 33.0%), followed by European (approximately 23.0%) and Chinese (18.0%).



- In 2023, the luxury segment is looking more resilient due to a larger and more concentrated wealthy customer base which is less sensitive to the economic cycle and inflation.
- The main drivers of the industry over the next decade include Chinese consumers, online shopping and emerging technologies.

1. Chinese Consumers

- China's reopening, after nearly three years of zero COVID policies, is expected to boost the sales of luxury goods due to a huge amount of pent-up demand and accumulated savings.
- In 2019 (pre-pandemic), the Chinese households were saving approximately 22.4% of their earnings and this amount increased to 34.3% in 2022. Over the last three years, the stock of excess savings amounted to USD 827bn.
- Chinese consumers accounted for nearly 33.0% of the global personal luxury good sales in 2019 and is estimated to have dropped to 18.0% of global purchases in 2022.
- Demand for luxury good sales in China is expected to recover in 2023 and Chinese consumers will account for roughly 38.0% - 40.0% of the global luxury sales by 2030.

2. Online Shopping and Emerging Technologies

- With the evolving consumer's expectations and behaviours, luxury brands are combining in-store and online shopping experiences.
- Although most of the customers make their purchase in store, 50.0% of shoppers begin product searches online. Luxury brands' share of online sales stood at 10.0% to 15.0% until 2019 but the online channel for luxury purchases is expected to reach an estimated market share of 30.0% by 2025. The COVID pandemic accelerated this partial shift to digital channel.
- Luxury brands are embracing emerging technologies to boost customer experience through Web3.0 (based on three main concepts i.e. blockchain, non-fungible tokens (NFTs) and metaverse) and to go beyond the limits of Web2.0.
- The metaverse experience, using digital reality, enables luxury companies to create their own virtual worlds (re-inventing the luxury experience) and to launch NFTs (through digital assets that can be collected, traded, and sold). Brands such as Gucci, Burberry and Louis Vuitton are already leveraging on the latest tech innovations.
- By 2030, emerging technologies could add an estimated EUR 60bn - 120bn of sales to the luxury industry. Members of the Generations Y (born between 1981–1995), Z (born between 1996–2015) and Alpha (born since 2016), who spend more and more time online, would represent the future biggest spenders for luxury brands. They would account for 80.0% of global purchases.

- PeaQ believes that the luxury industry offers investors compelling opportunities, with good potential growth in the future.

25th April 2023

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

Ishrat Cheeroo
Senior Investment Manager
+230 55 01 29 00
ic@peaqadvisors.com

PEAQ

Source: Bain & Company, Boston Consulting Group, Deloitte, Bloomberg, SEMDEX, MSCI, Statistics Mauritius, BOM