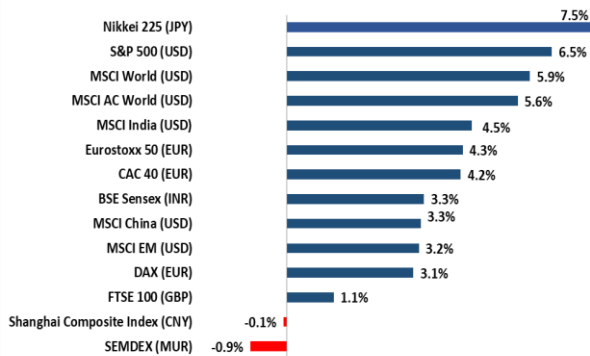


## MARKET SUMMARY MONTH OF JUNE

Equities: Jun 23 performance (in Index currency)



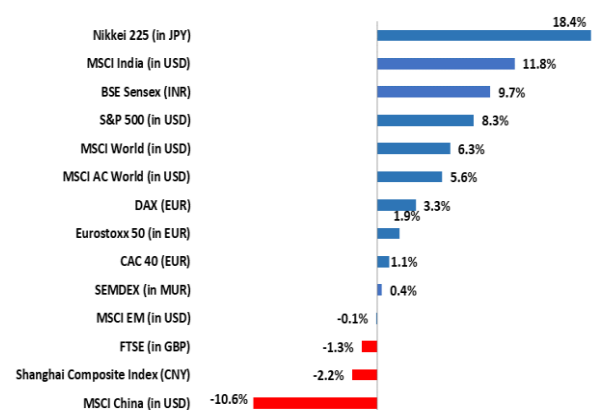
- Central bank meetings and inflation figures dominated headlines in June.
- The US Fed held rates steady in the 5.0%-5.25% range and the median rate projection suggested two additional rate hikes of 25bps by the end of the year. Inflation slowed to 4.0% in May vs 4.9% in April (and down to 3% in June).
- The ECB raised its key deposit rate by 25bps to 3.5%. Estimated headline inflation stood at 5.5% in June, down from 6.1% in May.
- Markets were caught by surprise by the BoE with a 50bps rise, instead of 25bps, to 5.00%.
- The BoJ kept its short-term interest rate at -0.1% and the PBOC cut its medium-term lending facility rate by 10bps to 2.65%. The RBI left its benchmark policy repo at 6.5% for the second consecutive meeting in June.
- The BoM maintained the key rate steady at 4.5%.
- As per Statistics Mauritius, headline inflation for the 12-months ended June 2023 settled at 10.5% (compared to 8.0% for the previous period).
- The number of tourist arrivals stood at 596,466 for the period Jan-Jun 2023 (vs 650,082 for Jan-Jun 2019, -7.25%).
- The Unemployment rate for Q1 23 is estimated at 6.7% compared to 6.8% in Q4 22.
- Over the month, corporate financial statements continued to be published and dividends payout announced.

## QUARTER 2 2023 UNDER REVIEW

- The second quarter of 2023 was the third consecutive quarter of high positive returns for most developed markets.
- In the US, markets moved ahead after the suspension of the debt ceiling was approved and signed.
- With interest rates kept constant, combined with inflation figures moderating, this led to investors being optimistic that the end of rate hike was near and that interest rates were peaking. Markets were also boosted by euphoria about AI, which further lifted technology stocks.
- In Europe, initial data showed that the eurozone experienced a mild recession over the winter, with GDP declines of -0.1% in both Q4 2022 and Q1 2023. However, revised data post-June revealed that in fact, GDP growth was flat over the Q1 2023, such that Europe avoided a technical recession.

- UK equities fell over the quarter as the weakness in commodity prices weighted on the index.
- Japan was the best performing index over the quarter with the Nikkei reaching its highest level in 33 years, on the back of BoJ's dovish stance and yen weakness.
- India was the second best-performing index over the quarter. The Indian economy expanded 6.1% y-o-y in Q1 2023, higher than an upwardly revised 4.5% in Q4 2022 and well above market forecasts of 5%. The expansion was mainly boosted by private consumption, service exports and manufacturing amid easing input cost pressures.
- The Chinese equity market was one of the worst performing markets with the economy slowing down despite expectations that the monetary policy would continue to be accommodative. Continued geopolitical tensions with the US also impacted on sentiment.
- In the commodities market, oil continued its lacklustre performance, despite Saudi and OPEC+ cuts in production, whilst gold prices cooled after the previous quarter's positive performance, as high interest rates act as a headwind.
- The Barclays Aggregate Bond Index posted negative returns of 1.5% over the quarter as the bond market was subject to volatility in rates.
- In Mauritius, GDP at market prices grew by 8.8% in 2022 compared to 3.4% in 2021, and it is estimated that GDP at market prices in 2023 would grow by 5.3% instead of 5.0% as forecasted in March 2023.
- Over the quarter, the MUR depreciated by 0.1% and 1.9% against the US\$ and £ respectively and appreciated by 0.2% against the €.
- MCBG announced its scrip dividend scheme, whereby investors may opt to receive their dividends in shares of the Company at discounted price of Rs 311.04. The Company also announced the option to convert the preference shares of the Company into ordinary shares at discounted price of Rs 311.85.
- 27% of the redeemable bonds of Ascencia, will be automatically redeemed on 30 June 2023.
- Sun and Lux both announced dividends of Rs 2 per share, the first dividend payment since Covid-19.

Equities: Q2 23 performance (in Index currency)

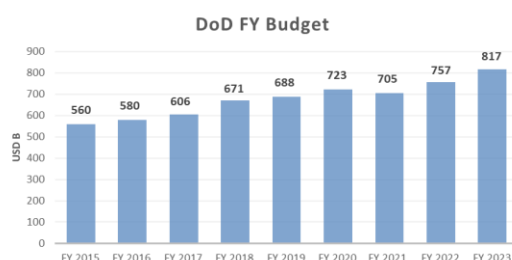


**INVESTMENT THEME:****Global Defence Sector**

- Global defence spending should experience significant growth over the next few years as many countries ramp up their defence budget due to current elevated geopolitical risks. Government spending accelerated worldwide after Russia's invasion of Ukraine in February 2022 and as the war intensified between the two countries.
- Total defence spending grew roughly from US\$ 1,908 Bn in 2022 to US\$ 2,073 Bn in 2023 and is expected to reach US\$ 2,379 Bn in 2027 (CAGR of 3.5%).
- The top three regions in terms of investment in 2022 were North America (42%), Asia (25%) and Europe (16%). The three largest spenders during that period were the US (41%), China (12%) and Russia (4%).
- Raytheon Technologies, Boeing, Airbus, Lockheed Martin, Northrop Grumman and General Dynamics are among the major worldwide players in the defence market.

**1. US**

- The US remains the biggest military spender and accounted for approximately 41% of the global spending in 2022.
- After the end of the Iraq conflict in 2015 where defence spending troughed to US\$ 560 Bn, the Department of Defense (DoD) fiscal year budget has grown at a CAGR of 4.8% to reach US\$ 817 Bn in 2023. The national defense budget is expected to be around US\$ 886 Bn in FY 2024 and US\$ 895 Bn in FY 2025.



- Bi-partisan support for DoD budgets has remained resilient, during the debt ceiling crisis, despite a discretionary spending cap in FY 2024.
- The primary driver of US defence spending is the current geopolitical climate.
- According to the US' DoD, China remains the most consequential strategic competitor while Russia poses

acute threats. Other persistent threats include North Korea, Iran and violent extremist organizations.

**2. Europe**

- In Europe, the security landscape has dramatically changed with tensions at the Eastern borders, in the Baltic Sea and in the Arctic.
- EU's support to Ukraine for the delivery of military equipment has amounted to € 5.6 Bn under the European Peace Facility (EPF). However, EU's military stockpiles have been depleted and it lacks critical defence capabilities.
- Data from the European Defence Agency (EDA) showed that total defence expenditure from the 26 EDA member states grew for seven consecutive years to reach € 214 Bn in 2021 (a 6% increase from 2020). Member states spent on average 1.5% of their GDP on defence but below the 2% NATO benchmark.
- EU announced that increase in expenditure would probably continue over the coming years following Russia's war against Ukraine. EU defence expenditure could grow by € 70 Bn by 2025.

**3. China**

- Over the last ten years, China's official defense budget had an average CAGR of 8.0%. China's annual defence budget is forecast to grow by 7.2% in 2023 to approximately US\$ 224.8 Bn (RMB 1.55 Tn) from the 2022 budget.
- The country is modernizing and strengthening its military capability amid rising tension with the US and its allies over Taiwan.
- President Xi previously laid out the plans to complete the modernization of the People's Liberation Army by 2035 and transform it into a world class military by 2049.
- The defence industry offers a good investment opportunity as governments are expected to accelerate their defence expenditure and investment over the coming years.

27<sup>th</sup> July 2023**For more information about our services, please contact:****André Chung Shui**

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Source: Mordor Intelligence, Forecast International, US Department of Defense, China Power, State Council PRC, WSJ, European Council, EDA, Bloomberg, SEMDEX, MSCI, Statistics Mauritius, BOM

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