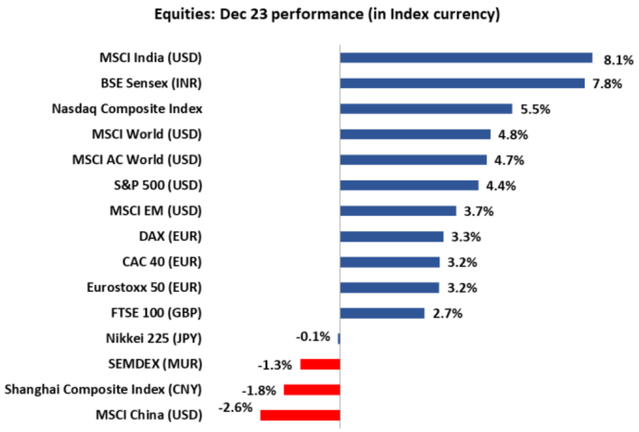
PeaQ News
Vol. 3 No. 12

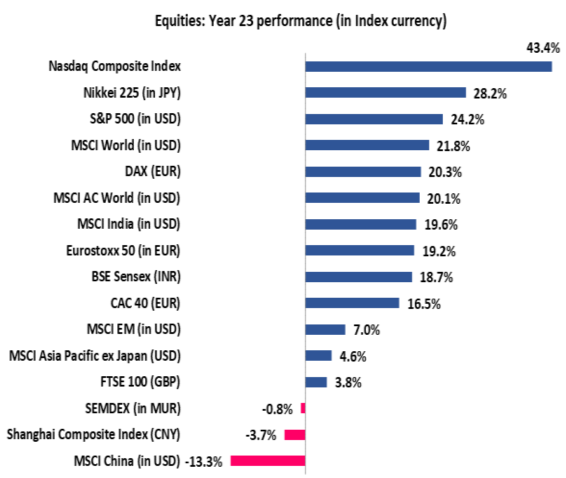
MARKET SUMMARY MONTH OF DECEMBER



- The Santa Claus rally saw the MSCI ACWI rising by 4.7% in December.
- The US Fed, the ECB and the BoE kept interest rates unchanged in their respective December meetings, with the US Fed being perceived as the most dovish (and boosting investors' sentiment) and the BoE being the most hawkish.
- In the US, core inflation fell from 3.4% in October to 3.2% in November (the lowest since April 2021) and the annual inflation rate slowed to 3.1% in November (the lowest in the last 5 months). In the Euro area, it fell to 2.4% in November (the lowest since July 2021) whilst in the UK, it fell to 3.9% in November (the lowest since September 2021).
- In China, issues such as debt and real estate restructuring, youth unemployment and trade sanctions continue to impact on investors' sentiment.
- Gold prices rose for the third consecutive month in December (+1.2%) as geopolitical instability continued to support safe haven assets.
- WTI and Brent prices fell by -5.7% and -7.0% respectively amid signs of increasing global supply and weakening demand. However, the shipping challenges in the Red Sea could impact on oil prices.
- The SEMDEX was slightly in the negative over the month.
- As per Statistics Mauritius, headline inflation for the 12-months ended December 23 settled at 7.0%, compared to 10.8% for the previous period.

THE YEAR 2023 UNDER REVIEW

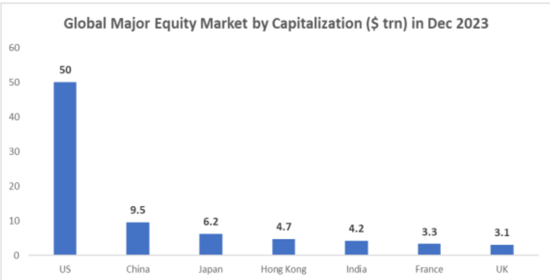
- The year 2023 was mostly driven by Central Bank decisions and the interplay between equities and Treasury yields.
- Fears of a looming global recession at the start of the year were transformed by the end of the year into growing confidence that US policymakers would achieve an economic soft landing.
- Despite turmoil in the banking sector in March with regards to Silicon Valley Bank, the debt ceiling saga in the US, the downgrade of the US government credit rating from AAA to AA+ and the outbreak of war in the Middle East, resilient macroeconomic data boosted investors' optimism and sustained equity markets.
- Continued falling inflation rates (from 9.10% in the US in Jun 22 to 3.40% in Dec 23, from 10.6% in the Euro-Area in Oct 22 to 2.9% in Dec 23 and from 11.1% in the UK in Oct 22 to 4.0% in Dec 23) led major Central Banks to halt interest rate hikes at the end of Q3 2023. Falling inflation also made investors hopeful for an interest rate cut in 2024, with markets rallying strongly in November and December.
- Surging prices of the Magnificent Seven and optimism over artificial intelligence led to remarkable performance of the equity markets, especially the Nasdaq Composite.
- In China, investors were optimistic at the start of the year with the re-opening of borders but tensions with the US (with sanctions on both sides, especially in the technology sector) and persistent domestic issues weighed negatively on investors' sentiment.
- India became the fifth-largest economy globally and the fastest-growing, despite concerns about recessionary pressures in other developed economies.
- In the commodities markets, oil prices were impacted by a slowdown in demand even though OPEC+ announced production cuts. Gold prices went up by more than 13.0% over the year on the back of geopolitical risks and expected easing inflation rates.
- The fixed income markets rallied with the Barclays Aggregate Bond Index posting an increase of 5.7% over the year. US 10Y Treasuries rose to over 5.0% in October, the first time in 16 years, before falling on growing optimism that inflation was being brought under control and interest rates would soon be lowered.
- In Mauritius, the tourism sector was one of the best performing sectors, with tourist arrivals reaching 1,146,265 between Jan-Nov 23 vs 862,560 for the same period last year (and vs 1,231,390 for the period Jan-Nov 19, i.e. 93% of 2019 level). Earnings stood at Rs 68.5M for the period Jan – Oct 23 vs Rs 48.3M for the same period last year (and vs Rs 50.5M for the period Jan – Oct 19, i.e. 136% of 2019 level).
- The year under review saw bigger dividend payouts by many local companies.
- Over the year, the MUR depreciated against the USD, EUR and GBP by 0.9%, 5.5% and 7.5% respectively.



INVESTMENT THEME:

Indian Equity Markets

- The Indian equity markets overtook Hong Kong in January 2024 to become the fourth largest stock market globally with a combined value of $4.33Trn vs $4.29Trn for Hong Kong. The global top 3 equity markets include the US, China and Japan.
- India's listed equity markets capitalisation crossed $4.0Trn for the first time in December 2023 and its market capitalisation increased from $3.0Trn to $4.0Trn in less than 3 years.



- Moreover, the NIFTY posted a return of 20.0% in 2023, its 8th consecutive year of positive equity return.
- A resilient economy, strong corporate earnings and increasing demand from domestic flows should continue to support Indian equities.

1. Resilient economy

- GDP growth is expected to remain resilient at around 7.0% in FY 2023-24 (FY 2023-24 is from April 2023 to March 2024) and the projected growth for the first three quarters of 2024-25 are 6.7%, 6.5% and 6.4%.
- Growth in the first half of 2024 is likely to be driven by election-related spending which should boost consumption demand. Post-elections, investment growth is likely to re-accelerate, especially from the private sector.
- In December, annual inflation rose to 5.69% (highest level in four months) from 5.55% in November as food inflation spiked. However, headline inflation is within the RBI's 2%-6% target range.
- High inflation is expected to persist in H1 2024 due to food supply shocks but will progressively soften thereafter. Average CPI inflation forecast for FY24 is expected to be around 5.4% yoy. As the economy slows, this should help headline inflation to converge toward the target rate of 4.0%.

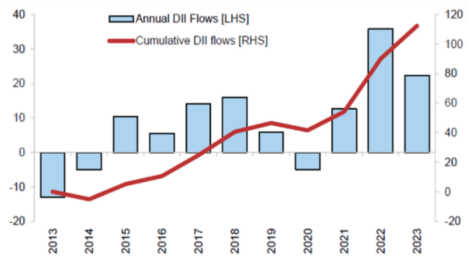
2. Corporate earnings to drive equity returns

- India's resilient economic growth is expected to boost corporate profit growth.
- After posting an earnings growth of 20.0% in 2023, MSCI India's profit is expected to grow by 15.0% in 2024, with growth broad-based across sectors.
- Valuations have also moderated from their recent highs. India's P/E premium vs the MXAPJ (MSCI AC Asia Pacific ex Japan Index) fell from a record premium of 100.0% in Q4 2022 to 76.0% currently but the premium remains higher than the past 5-years average of 49.0%.

3. Increasing demand from domestic investors

- Domestic retail and institutional clients have overtaken foreign investors as the biggest buyers of Indian equities.
- Domestic institutional investors (including mutual funds and insurers) have invested $22Bn in 2023 and more than $70Bn cumulatively over the past three years.

Domestic Institutional investors inflows in Indian equities ($ bn)



- Increasing participation of retail investors into mutual funds via Systematic Investment Plans (SIPs) remained strong in 2023, with almost $2.0Bn of monthly inflows.
- According to the Association of Mutual Funds in India (AMFI), the total number of SIP accounts showed more than a two-fold increase over the last three years and grew to 74M as of November 2023.
- These domestic inflows will continue to drive Indian equities.
- PeaQ remains positive about India's growth story and its equity markets.

30th January 2024

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

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Source: RBI, Economic Times, Bloomberg, SEMDEX, MSCI, Statistics Mauritius, BOM