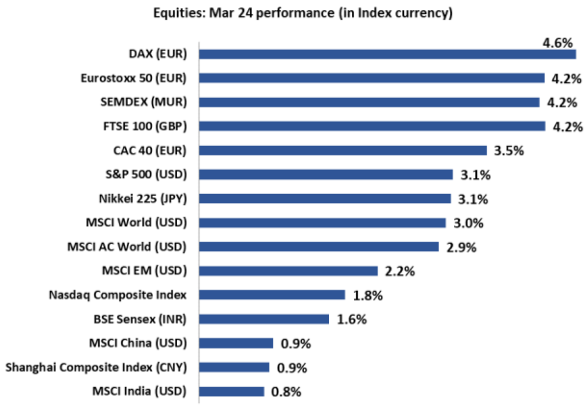
PeaQ News
Vol. 4 No. 03

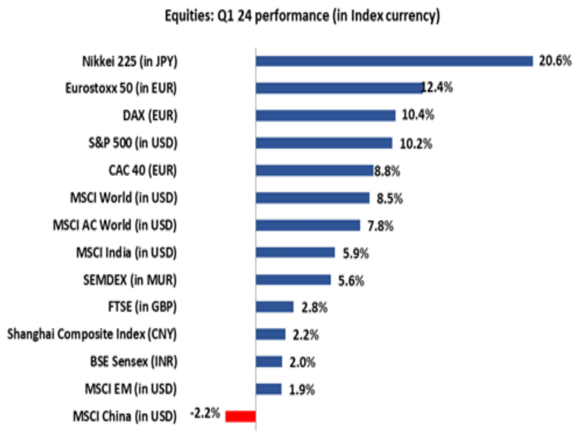
MARKET SUMMARY MONTH OF MARCH



- Central bank meetings dominated headlines in March.
- The US Fed held interest rates steady in the range of 5.25%-5.50% at its policy meeting. The Central Bank increased its inflation outlook to 2.6% for this year and maintained an inflation rate of 2.2% for next year. It also expects US GDP growth of 2.1% in 2024 and an unemployment rate of 4.0%.
- The ECB maintained its interest rates steady during its meeting. The main refinancing operations rate remained at a 22-year high of 4.5%, with the deposit facility rate was unchanged at 4.0%. The Central Bank has projected inflation to average 2.3% in 2024, 2.0% in 2025 and 1.9% in 2026 respectively. The ECB has also revised its GDP growth for 2024 downwards to 0.6% but expects the economy to expand by 1.5% and 1.6% in 2025 and 2026 respectively.
- The BoE maintained the Bank Rate at 5.25% during its March meeting. CPI rate dropped to 3.4%, its lowest level in almost two-and-a-half years. The UK economy saw a 0.2% m-on-m increase in GDP for January after experiencing a shallow recession in H2 2023.
- The BoJ raised interest rates from -0.1% to 0%, after 8 years of negative rate policy, the first-rate hike since 2007. BoJ also abandoned its yield curve control for 10Y government bonds and halted purchases of ETFs and Japan real estate investment trusts. The growth figure for Q4 has been revised upwards from -0.4% to 0.4%.
- As expected, the PBoC left its one-year medium-term lending facility rate unchanged at 2.5%. Exports from China surged 7.1% y-on-y in January-February 2024 combined, following a 2.3% gain in December 2023. Consumer prices rose by 0.7% y-o-y in February 2024, a turnaround from the sharpest drop in over 14 years of 0.8% in January. The latest result was the first consumer inflation since last August, hitting its highest level in 11 months due to robust spending during the Lunar New Year holiday.
- On the fixed income front, bonds posted the first positive monthly return of 2024 (the Barcap rose by 0.6%).
- In Mauritius, gross tourism earnings increased by 8.5% y-on-y in January, unemployment rate fell to 6.1% in Q4 2023 and headline inflation for the 12-months ending March 24 was 5.8%, compared to 11.1% for the previous period. The universal pension for people aged 60 and above was amended to a minimum of Rs 13,500, to be paid as from April 2024.

QUARTER 1 2024 UNDER REVIEW

- The first quarter of the year was marked by resilient economic data, especially in the US, and exuberance surrounding Artificial Intelligence (AI).
- In the US, inflation rate stood at 3.2% in February, unemployment rate at 3.9% and GDP growth at 3.4%.
- The S&P 500 rose by 10.2%, driven by the stellar performance of the 'magnificent seven' stocks, which accounted for 37.0% of the YTD return.
- Against this backdrop, global equities posted strong returns, with the MSCI ACWI up by 7.8% during Q1.
- The path of interest rates in the US was also at the forefront of investors' mind. At the end of December 2023, there were expectations of 6 possible rate cuts in the US for 2024. As of March 24, given the resilience of macroeconomic data, these expectations were toned down to 2-3 cuts, starting at the beginning of the second half of the year, but post-March, US Fed Powell's indications that the rates could possibly be 'higher for longer' led to doubts about any interest rate cut for 2024. This had an impact on global equity markets.
- The best performing market for the quarter was the Nikkei which rose by 20.6% in the first three months of the year, despite the BoJ beginning to normalise its monetary policy in March.
- In fixed income markets, the Bloomberg Global Aggregate Index fell -2.1% over the quarter as yields increased on the back of hotter than expected US inflation data in both January and February.
- Geopolitical turmoil in the Middle East led to a surge in the prices of commodities. Oil prices went up over the quarter (WTI +16.1% and Brent +13.5%), supported by a possible extension of production cuts by OPEC+ whilst gold prices posted returns of 7.5% as investors turned to safe-haven asset.
- The Barclays Aggregate Bond Index posted negative returns of 2.1% over the quarter.
- Over the quarter, the MUR depreciated by 5.5%, 2.8% and 4.6% against the US$, € and £ respectively.
- In local corporate news, price of MCBG reached a high of Rs 375.00, rising by 10.9% over the month, and SBMH declared a dividend of 40 cents per share (double the amount of the previous year). This led to the share price increasing from Rs 4.46 to Rs 5.20 in one day (16.6% rise).



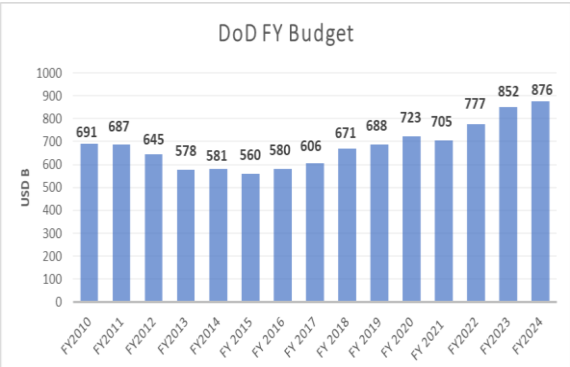
INVESTMENT THEME:

Global Defence

- The global defence sector is expected to grow over the next few years with the emergence of geopolitical tensions such as Russia-Ukraine war, security issues between China-US and growing conflicts in the Middle East.
- Total defence spending was estimated to be around US$ 2,004Bn in 2023 and is forecasted to reach US$ 2,547Bn in 2028 (CAGR of 4.9%).

1. *US*

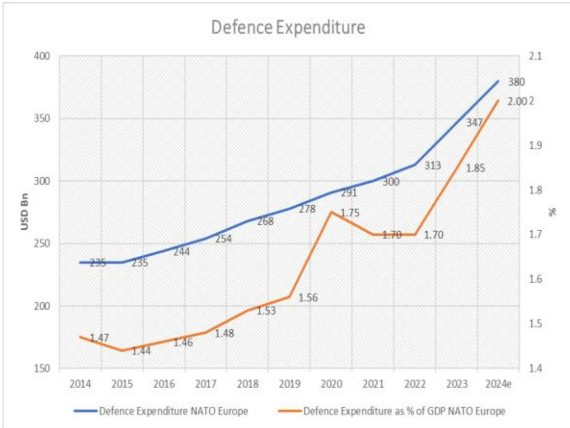
- The US remains the biggest military spender and accounted for over 40% of the total military spending worldwide in 2023. This represented 3.5% of the US GDP.
- The decade long Budget Control Act (BCA) which was enacted in 2011 and which lasted through 2021, capped discretionary spending and significantly reduced the defence budgets.
- Emerging from the BCA, the Department of Defence (DoD) fiscal year (FY) budget has grown at a CAGR of 7.5% from 2021 to 2024 to reach US$ 876Bn in 2024. The DoD FY budget is expected to be around US$ 932Bn in 2029.



- 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 2014, NATO agreed to commit 2.0% of their national GDP to defence spending after Russian illegal annexation of Crimea and amid instability in the Middle East.
- As of today, 11 of the 32 NATO member countries meet the target for spending 2.0% of GDP on defence and the figure should rise to 19 in 2024.
- NATO allies in Europe will invest a combined total of more than US$ 380Bn in defence this year. For the first time, this amount will reach the 2.0% minimum target of their combined GDP.



- The invasion of Ukraine by Russia in 2022 was also a turning point for defence budgets with governments across Europe announcing material increases in spending (16.0% from 2022 to 2023, reaching a total of € 552Bn). The largest military spenders were the UK (€ 74.9Bn), Germany (€ 66.8Bn) and France (€ 61.3Bn) in 2023.
- EU announced that the increase in expenditure would probably continue over the coming years following Russia's war against Ukraine. EU defence expenditure could grow by € 70.0Bn by 2025.

- The defence industry offers a good investment theme as governments boost defence spending in an era of increasing geopolitical tension.

30th April 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

PEAQ

Source: MarketsandMarkets, US Department of Defence, Euronews, European Council, EDA, Bloomberg, SEMDEX, MSCI, Statistics Mauritius, BOM