

Unattractive and weaker rupee savings / investments

► Global US Dollar denominated assets to hedge it



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Over the past decade, the Mauritian Rupee has depreciated by approximately 19.5% versus the US Dollar (USD¹). Recent local Central Bank money printing action is likely to further exacerbate the weakening Rupee; especially in an instance where such a weakening shall help the Bank of Mauritius' (BOCM²) reserves and the local "exporters" but maintain adverse impact on importers. However, the caveat still remains as the USD itself faces the risks of longer-term cyclical weakness. In such an environment, selective and diversified global USD denominated multi-assets are more likely to protect our Rupee denominated investments and savings.

WEAKER GLOBAL ECONOMIC GROWTH

Globally, 2020 may plausibly result in more modest economic

growth and capital markets returns than in 2019 (which was primarily fueled by a ginormous fiscal stimulus in the United States and central banks loosening further in the developed economies). The International Monetary Fund (IMF³) has revised its growth projections for the global economy this year from 3.2% to 3.0%. Should the Coronavirus⁴ effect on international trade and travel amplify and the Chinese economy grow weaker than expected in the first half of the year, we may see global growth receding to less than 3%.

With the US economy avoiding a recession and expected to grow by roughly 1.6% from 2.2% in 2019 (and the Eurozone growing by approximately 0.9% as opposed to 1.1% in 2019, with the political situation remaining tricky in Spain, weak growth in Portugal and France facing sustained social and labour issues), we anticipate 2021/2022 to likely be more challenging globally in terms of economic growth. In addition, now that the US

has reached a 'Phase-1'⁵ Trade agreement with China, they are likely to focus on the negotiations for a revised Trade Agreement with Europe (in the meantime it is advisable to stay away from European Auto Manufacturers and European consumables' exporters to US). That being said, a mild recovery in global manufacturing is to be expected during the first half of the year as historically low financing rates boost Capital expenditure ("CAPEX") spending globally. Hence, the second half of 2020 may well plausibly be an inflection point.

The dovish stance of 2019 by the US Federal Reserve ("FED") and its frothy boost to US Asset prices are likely to lose steam and moderate this year. We see the US facing more fundamentally structural issues as its infrastructure ages; the disconnect between fiscal policy and monetary policy widens (not ideal especially that by 2022/23 once the US hits a recession and the monetary policy tool becomes ineffective in spurring growth from already low

levels, the room to loosen is predictably limited hereon) and a burgeoning fiscal deficit (expected to surpass USD 1.1 Trillion in 2020 – that's roughly 4.6% of GDP) may result in a slightly weaker US Dollar (albeit amidst sustained appetite for US Assets from negative yields facing Japanese and European institutional investors).

SELECTIVE FOREIGN INVESTMENTS TO FAVOUR

Considering the aforementioned fundamentals, we at Anneau favour gold (continuing its uptrend on a tepid US Dollar, global central banks sustained buying as they continue to ease and the Chinese continuing to pile the "Gods" currency⁶), selective emerging markets public equities, credit and currencies. Markets like Turkey, Mexico and Brazil, after a lackluster 2019, may well rebound. As the low interest rates/negative interest rates/sub-par economic growth environment persist

in the US and the Eurozone, the hunt for yield should continue to favour selective emerging markets. This may be plausibly true for countries whose central banks have enormous room to tighten (as global/domestic inflation remains subdued) and so our preference for Emerging markets' credit (high yield).

Investors are likely to continue to shy away from more expensive and richly valued markets/companies where underlying earnings growth are yet to catch up with 2019's price increases. The sustained growth of certain emerging markets' middle-class growth is compelling and is expected to continue adding steam to the ride.

In such a monetary accommodative environment, sticking to the economic sensitive sectors (financials, industrials, materials, energy, etc.) with an overweight position in certain disruptive technology and consumer discretionary companies as opposed to defensive sectors (in 2021/22 a rotation may therefore be sensible) as opposed to defen-

sive sectors (consumer staples, utilities, REITs, infrastructure, media & telecommunications) may be a wise decision.

One may also look at selective investments denominated in Canadian Dollars ("CAD") and the YEN ("JPY") as opposed to the Australian Dollar ("AUD") and/or the Swiss Franc ("CHF"). The British Pound Sterling ("GBP") is likely to maintain its turnaround as the BREXIT Divorce finally settles and a free trade agreement with the United States takes form in 2020.

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