CONSTANT CAPITAL

MONTHLY NEWSLETTER

March 2017

Seychelles Market

In February, we saw SCR5,624,098.00 worth of shares traded on Trop-X, most trades being in Seychelles Breweries Ltd. Share prices on all counters were unchanged on the month.

BODCO Ltd

There was no trade in BODCO last month. Shares are available for purchase at SCR24 each. The share price is unchanged on the month and we don't foresee any major price change in the near term.

SACOS Ltd

SACOS unveiled their new branding and logo last month, as well as the launch of a Wealth Enhancer® product.

Shares worth approx. SCR20,000 traded in SACOS at an average price of SCR140 per share. There are currently shares on offer at SC140, but there are very few buyers. The share price remains unchanged on the month, and we expect it could trade lower going forward.

Seychelles Breweries Ltd

Retailers continue to report supply issues, with many SeyBrew products being unavailable. It would seem the company is still suffering from some of the production issues from last year albeit to a lesser extent.

Approximately SCR5,600,000 worth of shares traded last month at an average of SCR80 each. There are currently shares on offer at SCR80, with buyers willing to pay SCR70. We expect the share price to come down slightly this month.

Sea Harvest Investment PLC

SHI's $2,000,000 rights offer to fund its expansion and cost saving program was approved by the Exchange this month. The company is waiting for final approval from the regulator to go ahead with the share issue. This is expected shortly. The company will continue with dividend payments when the rights offer is completed.

A small number of shares in SHI traded last month at an average price of US$1.00. There are currently still shares available at this price. We do not expect any price movement until the rights offer has been concluded.

International Markets

February might be a few days shorter than other months, but it was just as packed—if not more so—with economic releases and market movers, equity indices across the globe hit record highs, the US Federal Reserve's (the Fed's) interest rate-hike expectations were notably higher, and the political obstacle courses on both sides of the Atlantic provided a steady stream of headlines for investors to digest.

Over the course of the month, survey data around the world surged to new levels. The Purchasing Managers Indices (PMI) for Manufacturing in both the US and Europe hit new highs. It's important to remember these PMIs are month-on-month surveys, where respondents compare attitudes and forecasted output compared to the month before, so readings that stay above 50 indicate strong momentum.

Developed markets

The month kicked off with three central bank meetings, continuing the theme of slightly hawkish monetary policy affecting sensitive markets. In a backdrop of weaker consumer spending, but booming factory output, strong external demand and a notable pick-up in business equipment, the Bank of Japan (BoJ) increased growth expectations for the next two years. On that basis, the BoJ left policy unchanged, sending the 10-year Japanese government bond (JGB) yield to its highest level in the past 12 months since the announcement. Shortly after these JGB yields tested their highs, the BoJ brought them back down using open market purchases, affirming its stance on a targeted yield levels.

As expected, the Bank of England (BoE) kept interest rates on hold at 0.25% and left its asset purchase programme unchanged. But notably, the Bank now expects the UK to grow by 2.0% in 2017, up from last November's forecast of 1.4%, which was itself an upgrade from the 0.8% forecast made in August 2016. The BoE anticipates inflation reaching 2.7% by the end of the year—well above its target rate of 2%. However, it will tolerate overshooting of the target to some degree given the massive fall in sterling. BoE Governor Mark Carney emphasised he would watch real wage growth as a barometer for the health of UK consumers when thinking about possible changes to monetary policy through the end of 2017.

The Fed started the month with broadly neutral messaging after its meeting, which increased the market probability of a March rate hike to just above 30%, but as the month went on and positive US continued to roll in, Fed officials and messaging have started to turn even more hawkish. Fed chair Janet Yellen's testimony in front of US congress provided a further strong signal that the Fed is ready to hike. She highlighted strong labour market data, rising inflationary pressures, her support for President Donald Trump's recent executive order on financial regulation and the potential for higher growth given his fiscal stimulus plans. By the end of the month, the market probability of a March rate hike had risen to 80%.

Equity markets hit record highs and all indices in provided positive returns. The S&P 500 gaining 4.0% in February, the FTSE 100 rallied 3.1%, and Europe was not far behind with 2.6%.The earnings season in the US wrapped up, with strong earnings-per-share (EPS) growth. Most companies that reported beat earnings estimates, although fewer beat revenue estimates.

A weaker euro and higher commodity prices provide a positive outlook for earnings growth in the next twelve months. Despite a strong fourth-quarter rally, the current inflation and growth outlook for 2017 favours cyclical sectors over defensive ones. In February, European PMIs picked up strongly, with the composite PMI rising to 56 and Eurozone consumer prices rose sharply to 1.8% year on year.

In the political realm, French and Dutch candidates continued campaigning towards their respective elections. Polling data at the close of the month suggests Geert Wilders PVV will be unlikely to gain full control of the Dutch parliament. Projected outcomes for the second round of French elections have either Emmanuel Macron or Francois Fillon victorious over Marine Le Pen.

Emerging markets

Continuing the strong inflationary pressures building around the world, China's producer price index rose even further to 6.9% y/y in February. India's GDP growth came in higher than expected at 7%, particularly during Prime Minister Narendra Modi's demonetisation drive. The cancellation of most cash in circulation was expected to shave off some growth, but at least in this reading, India's growth exceeded expectations, making it the world's fastest-growing large economy. Across the emerging world, most currencies are at the cheapest end of their historic range, particularly when compared to pre-2013 Taper Tantrum levels. Over the course of February, emerging market equities gained 1.7% and emerging market (EM) debt rallied 1.9%.

What's beneath the surface?

Despite the politics dominating investor discussions, markets have made a calm start to the year. Volatility has been notably low. In the first two months of 2017, the S&P 500 has not had a single day where it has closed up or down 1%—the most tranquil start to a year since 1966.

So, are markets relaxed about the political risks and higher valuations? Or has the impressive earnings season in pockets of the European, US and emerging market equity universe kept investors in risk-on mode? Neither, it would appear, as the MSCI All Country World Index hit record highs in February.

Source: JP Morgan