Local Economy

Real GDP growth eased to 3.1% in Q3 2025, from 3.3% in the previous quarter and 5.2% in the corresponding quarter of last year. According to the latest National Accounts Estimates, real GDP growth in 2025 is now estimated at 3.2%, moderating from 4.9% in 2024, but slightly higher than earlier estimates of around 3.1%, reflecting more supportive recent data.

Growth was primarily driven by the financial and insurance services sector, which continued to remain resilient and made the largest contribution to growth. Tourism also performed strongly, with tourist arrivals estimated to have reached a record 1.436m by year-end, while non-sugar agriculture delivered a robust outturn. By contrast, the construction sector contracted for the third consecutive quarter, albeit at a less moderate pace in Q3 2025. The slowdown in the sector comes on the heels of two-high growth years alongside reflecting the impact of fiscal consolidation measures.

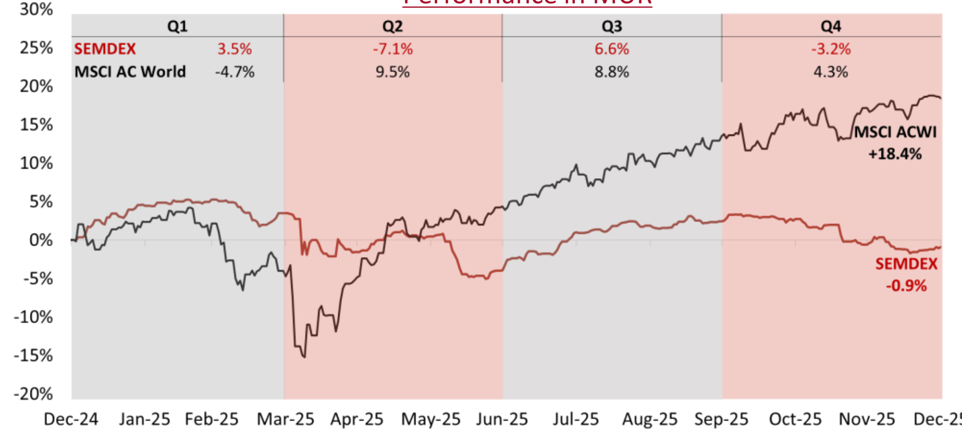
Preliminary indications suggest that growth should remain stable at around 3.2%. Upside potential hinges on the authorities' ability to accelerate the development of new growth engines, notably renewable energy and the blue economy. On the external front, uncertainty remains a headwind. Textiles exports, in particular, has taken a hit following the expiry of AGOA, pending its renewal.

Headline inflation rose from 2.5% in March to 3.7% by year-end. While core inflation is relatively elevated reflecting wage increases, the extension of the Price Stabilisation Fund to additional products is expected to partially offset some upward pressures. Overall, headline inflation is projected to remain within the central bank's target range.

On the fiscal front, the deficit stood at 9.8% of GDP as at June 2025 and public debt at 87.9% of GDP. Fiscal consolidation measures are expected to narrow the deficit to 1.3% and bring debt below 80% of GDP by FY2027/28. Externally, the trade deficit has continued to widen, reflecting declining domestic exports. The country's structural visible trade deficit continues to translate into persistent net FX sales. The Balance of Payments, for its part, still recorded a MUR 18.7bn surplus for the first three quarters of the year, supported by tourism receipts, portfolio inflows and other financial flows.

Market Overview

Performance in MUR

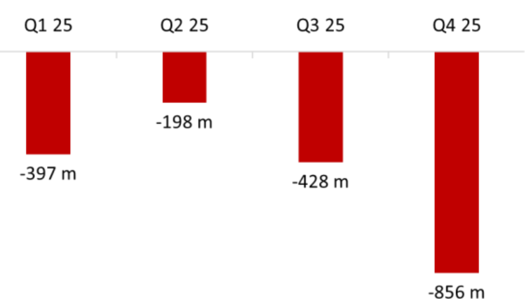


Source: MCB PWM, Bloomberg

2025 was a turbulent year for local equity investors, with the SEMDEX ending the year down 0.9%. After a strong start in Q1 (+3.5%), the market struggled in Q2 (-7.1%) under the combined weight of US tariff impositions and tight fiscal measures in the national budget. Sentiment improved in Q3 (+6.6%) as some of the tariff uncertainties eased, but the SEMDEX pulled back in Q4 (-3.2%) as the effects of the budgetary measures on companies' profitability were evident in their earning results. This performance stood in stark contrast to global equities, where the MSCI All Country World Index rose 18.4% in MUR terms, driven by AI-related optimism and an easing global policy rate environment.

The subdued market performance was also evident in the foreign investor participation level. Q4 saw yet another quarter of net foreign funds outflow of MUR 856m, with MCBG accounting for MUR 805m. For the full year, total foreign outflows amounted to MUR 1.9bn with MCBG accounting for MUR 1.8bn.

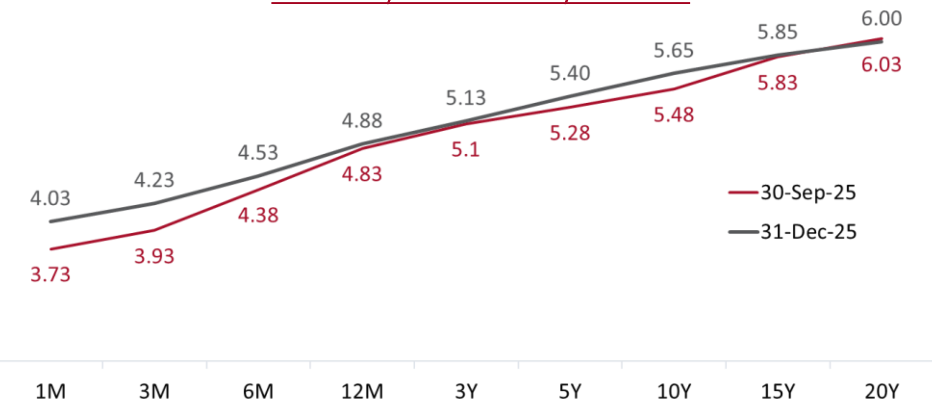
SEMDEX Net foreign investors flow



Source: MCB PWM, SEM

On the fixed income front, on 12th November, the MPC held the key rate steady at 4.50% as inflation remained within the BOM's target range. In Q4, the shorter end of the yield curve witnessed an increase ranging between 5 bps to 30 bps. Except for the 20-year bond yield, the medium and longer end of the yield curve exhibited similar dynamics, though to a lesser extent.

Secondary market MUR yield curve



Source: MCB PWM, MCB Treasury

Market Outlook and Portfolio Positioning

The challenging environment for local equity markets is likely to persist into the first half of 2026, as tight macroeconomic conditions are set to remain with the ongoing fiscal consolidation and the slowdown in economic momentum.

Corporate profitability should remain under pressure from the recent tax increases, while the recently announced energy supply constraints could pose an additional risk to economic activity in the near future. That said, a normalization of staff costs in 2026, together with the continued regional expansion of several corporate groups, may offer partial relief from prevailing domestic constraints.

From a valuation perspective, the SEMDEX remains attractive, trading at a P/E of 6.9x versus its 4-year average of 9.5x (post-covid period) with a dividend yield of 5.1%. Moreover, the current high level of liquidity in the system and relatively limited investment alternatives in MUR could provide some support to the local market. At portfolio level, we remain disciplined in our approached by being selective on entry and exit points.

In fixed income portfolios, we increased exposure to government bonds and continued deploying cash into maturities of up to 10 years, in line with our strategy to gradually extend portfolio duration. Excess liquidity remained elevated in the banking system hovering around MUR 45bn over the quarter. Considering the anticipated reduction in issuance in CY26, same is expected to remain high, sustaining downward pressure on yields, especially at the shorter end of the yield curve. There may be room for the yield curve to decline in 2026, with a more pronounced downward adjustment at the short end. Going forward, there is limited justification for altering the policy rate over the short term. With debt issuance expected to be limited, we are moving towards a more dynamic allocation between government and corporate bonds.

In line with the Government's objective to manage debt levels, planned issuances for Q1 26 amounts to MUR 16.6bn, representing a 32% reduction compared to MUR 24.3bn issued in Q4 25. The issuance calendar also reaffirms the Government's commitment to maintaining a balanced debt maturity profile. Looking ahead, ongoing fiscal consolidation measures could further reduce the Government's funding requirements.

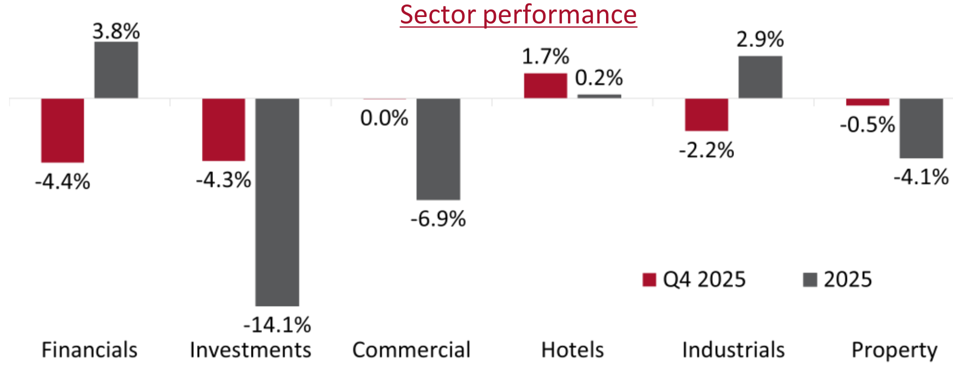
Govt bond issuances (MUR bn)

Tenor	Q4 2025	Q1 2026*
3-Yr	9.0	6.0
5-Yr	3.0	4.0
7-Yr	6.3	0.0
10-Yr	0.0	2.2
15-Yr	3.0	2.2
20-Yr	3.0	2.2
	24.3	16.6

Source: BOM

Equity Market Overview

Sector performance



Source: MCB PWM

In Q4, the SEMDEX (-3.2%) was weighed down mainly by Financials (-4.4%) and Investments (-4.3%) sectors while the hotel sector (+1.7%) stood out as the sole positive contributor.

The weakness in Financials was largely attributable to MCBG, whose share price declined 7.1% after the group indicated in its latest results that upcoming earnings could face pressure from further US rate cuts, alongside the continued impact of higher domestic tax measures on banks.

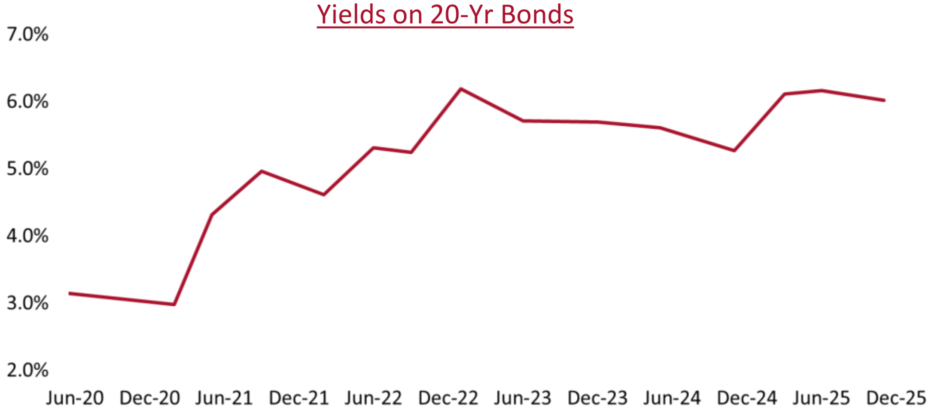
The commercial sector ended the quarter unchanged, as the decline in IBL (-3.0%) was mitigated by a good performance of Emtel (+5.3%). In December, Emtel announced a special dividend following the resolution of its 29-year litigation with Mauritius Telecom and the regulator which resulted into a MUR 800m compensation.

The hotel sector maintained its positive momentum, with all listed operators closing the quarter higher: LUX (+5.8%), NMH (+1.5%), RIVEO (+1.2%), and SUN (+0.9%). Their September earnings results showed resilience despite the seasonally slow period, higher taxes, and rising staff costs. For the quarterly results ending Dec-25, the hotel groups have shown optimism over the strong festive-season bookings. However, the recent travel advisories issued by the US and Russia could pose a potential overhang for the sector in 2026.

Notable corporate actions were Beachcomber Hospitality Investments (BHI), a wholly-owned subsidiary of NMH, issuing preference shares of up to EUR 35m to fund the acquisition of the Royal Palm Hotel from NMH while United Docks also announced its plan to raise MUR 2bn through cumulative redeemable preference shares to finance upcoming property developments.

Fixed Income Market Overview

Yields on 20-Yr Bonds

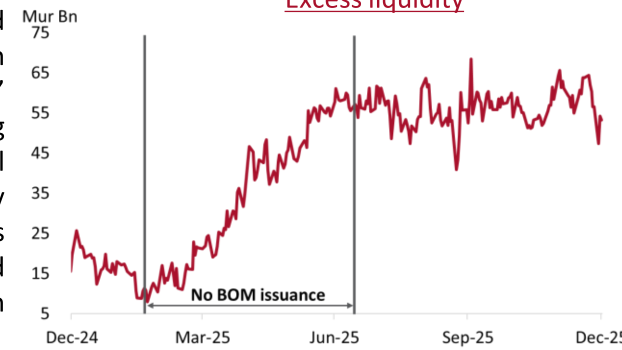


Source: MCB PWM, MCB Treasury, BOM

In November, the Government issued a 20-year bond, achieving a bid-to-cover ratio of 2.27, with a weighted average yield of 6.02%. This is slightly lower than the 6.16% recorded in June 2025, reflecting sustained investor appetite for long-term securities, but still higher than the last 5-yr average of 5.16%.

Excess liquidity remained a predominant factor in the Primary Dealers' bidding pattern, hovering above MUR 45bn, a level which is considered by market players as relatively high and conducive to fall in yields.

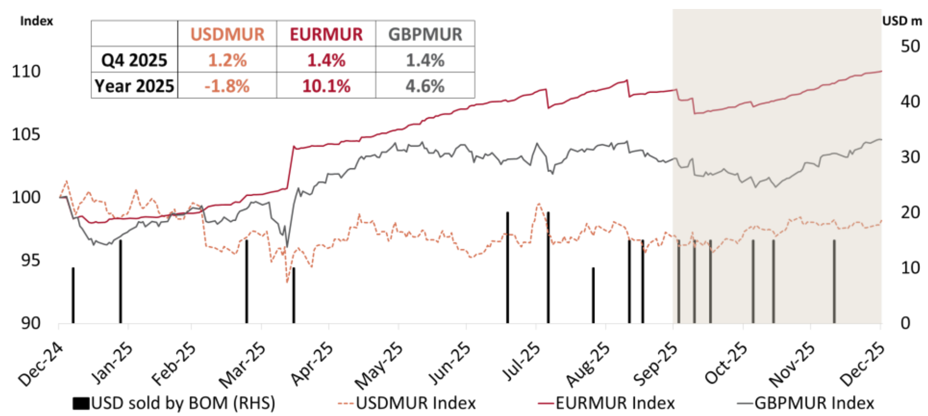
Excess liquidity



Source: MCB PWM, MCB Treasury, BOM

Currency Market Overview

USD, EUR & GBP vs MUR (31 Dec 2024 = 100)



Source: MCB PWM, MCB Treasury

During Q4, the rupee depreciated against the US Dollar, Euro and the British Pound despite the BOM intervening 6 times, selling a total of USD 90m to the market at an average rate of MUR 45.60. During 2025, while the rupee depreciated against the Euro by 10.1% and the British Pound by 4.6%, it appreciated by 1.8% against the US Dollar.