

GLOBAL & DOMESTIC ECONOMIC OUTLOOK

ENWEALTH CONFERENCE,
CAIRO
May 2024



INSIDE THIS REPORT:

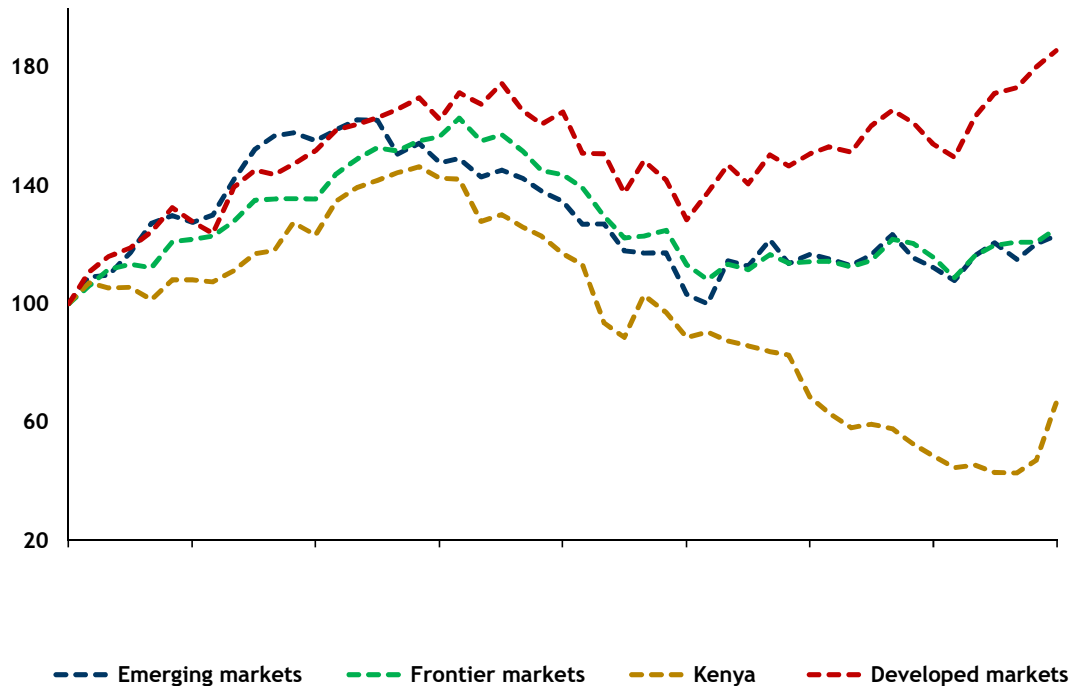
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Global markets:

Global equities extend gains

MSCI indices performance



Source: Morgan Stanley Capital Index (MSCI), Bloomberg, (P/E): Price/Earnings

- The Federal Reserve maintained the Fed Funds rate at 5.50% in its March meeting, but signaled plans to cut rates thrice in 2024. Additionally, the Fed revised its GDP growth forecast upwards, while projecting higher core inflation and a lower unemployment rate in 2024.
- The US 2-year and 10-year yields resumed an upward trend, **increasing** by 0.37% and 0.32% quarter-on-quarter to 4.62% and 4.20% respectively.
- The European Central Bank and Bank of England maintained policy rates at multi-year highs, in an effort to combat persistent inflationary pressures. The Bank of Japan raised its key short-term interest rate, the first rate hike since 2007, as inflation exceeded its 2% target.
- Positive momentum on equities could be sustained by market expectations for rate cuts as well as positive sentiment surrounding artificial intelligence technology. However, restrictive monetary policy and an escalation in geopolitical tensions continue to pose risks to the outlook on global equities.

Economic activity:

Increase in PMI signals improved economic conditions

Kenya GDP growth

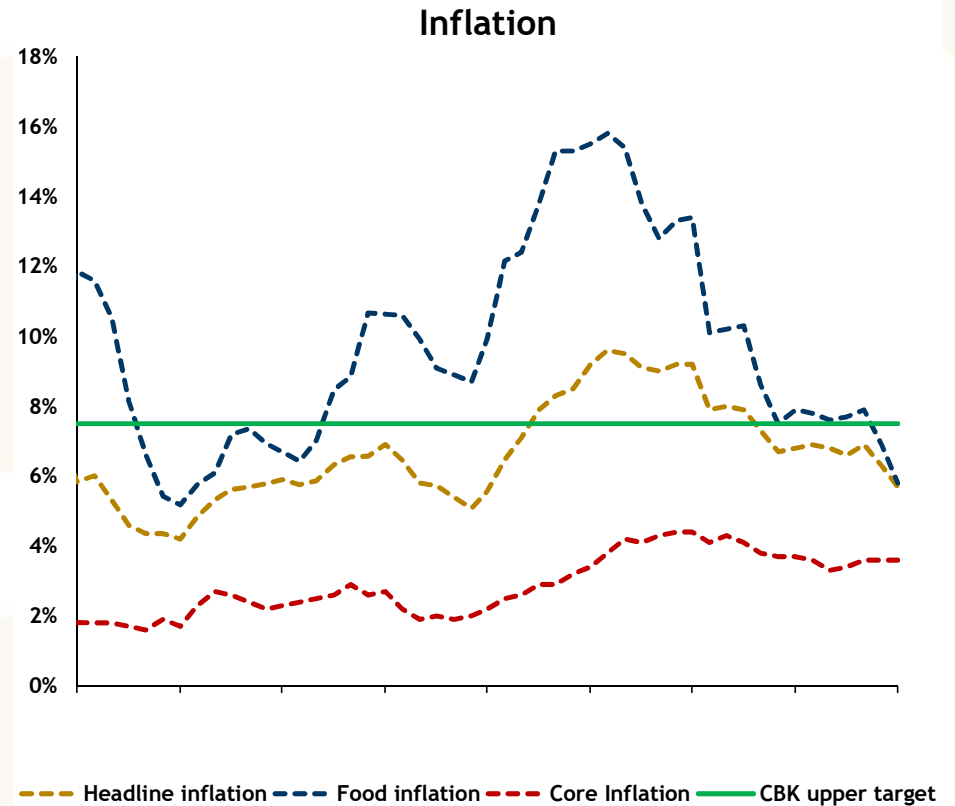


Source: Kenya National Bureau of Statistics, Central Bank of Kenya

- The Stanbic Purchasing Managers' Index **improved** to 49.7 in March 2024 compared to 48.8 in December 2023. This was driven by easing price pressures which supported consumer spending. In addition, lower fuel prices and a stronger exchange rate contributed to a moderation in input cost inflation, which rose at its slowest pace since February 2021.
- The Central Bank of Kenya (CBK) projects a slight **improvement** in real GDP growth to 5.7% in 2024 from an estimate of 5.6% in 2023 supported by improved growth in the industrial sector.
- GDP growth **improved** to 5.9% in Q3 2023 compared to 4.3% in Q3 2022 on account of an extended recovery in agricultural sector output. GDP growth averaged 5.6% in the first three quarters of 2023.

Headline inflation: Inflation averages 6.3% in Q1 2024

- Headline inflation averaged 6.3% in Q1 2024 **down** from 9.1% in Q1 2023 owing to **lower** food inflation. Food inflation averaged 6.9% **down** from 13.2% in Q1 2023 supported by favorable weather conditions.
- Local fuel prices **declined** 5.9% quarter-on-quarter (q/q) supported by a stronger exchange rate. However, global fuel prices rose, presenting risks to the outlook on inflation. Brent crude ended the quarter at US\$87.48/barrel, up 13.6% q/q. This is attributed to an extension of voluntary production cuts by OPEC+ countries and geopolitical tensions in the Middle East.
- Improved weather conditions, combined with a stabilizing exchange rate and lower fuel prices are expected to ensure inflation remains stable as the year progresses. While the current inflation outlook appears favorable, there are potential risks which include currency weakness resulting from restrictive policy by global central banks and disruptions from geopolitical tensions.

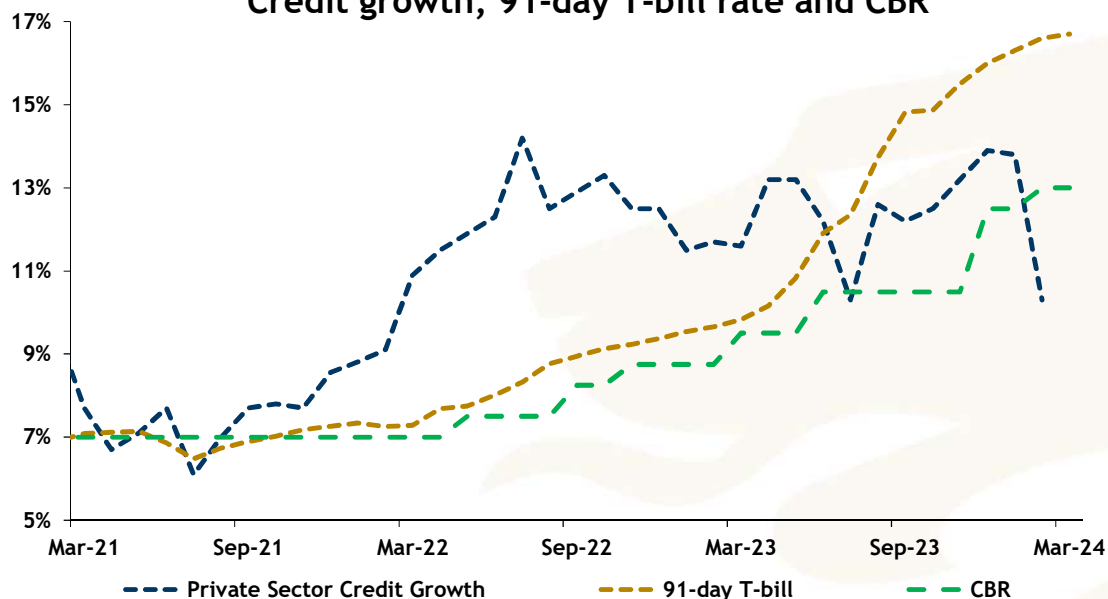


Source: Kenya National Bureau of Statistics, Central Bank of Kenya (CBK)

Interest rates:

T-bill yields approach 17%

Credit growth, 91-day T-bill rate and CBR



Source: Central Bank of Kenya, Kenya National Bureau of Statistics

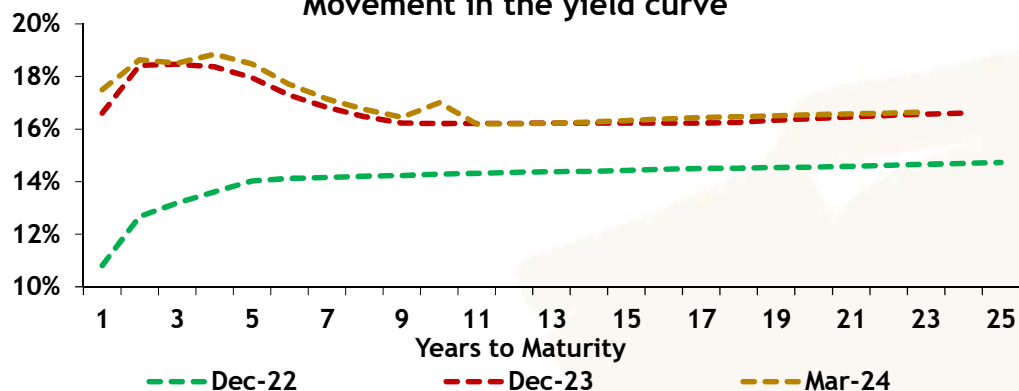
T-bill	Mar-21	Mar-22	Mar-23	Jun-23	Sep-23	Dec-23	Jan-24	Feb-24	Mar-24
91-day	7.1%	7.3%	9.8%	11.9%	14.8%	16.0%	16.3%	16.6%	16.7%
182-day	7.9%	8.1%	10.3%	11.9%	14.9%	16.0%	16.4%	16.7%	16.9%
364-day	9.3%	9.8%	10.8%	12.2%	15.1%	16.1%	16.5%	16.9%	17.0%
Headline inflation	5.9%	5.6%	9.2%	7.9%	6.8%	6.6%	6.9%	6.3%	5.7%

- In April, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 13.00% noting its previous measures have lowered inflation and addressed exchange rate pressures.
- Private sector credit growth **declined** to 10.3% year-on-year (y/y) in February 2024 from 13.9% in December 2023. Growth in lending was largely driven by the manufacturing and trade sectors. However, annual growth in money supply **improved** to 21.6% y/y in January 2024 compared to 19.5% in September 2023.
- In Q2 2024, upward pressure on yields is likely to moderate on reduced domestic borrowing pressure. Further, dollar inflows into the recently auctioned infrastructure bond and successful issuance of a new Eurobond remain supportive of the Shilling's strength.

Fixed Income:

Primary auction bid rates surpass 18% level

Movement in the yield curve



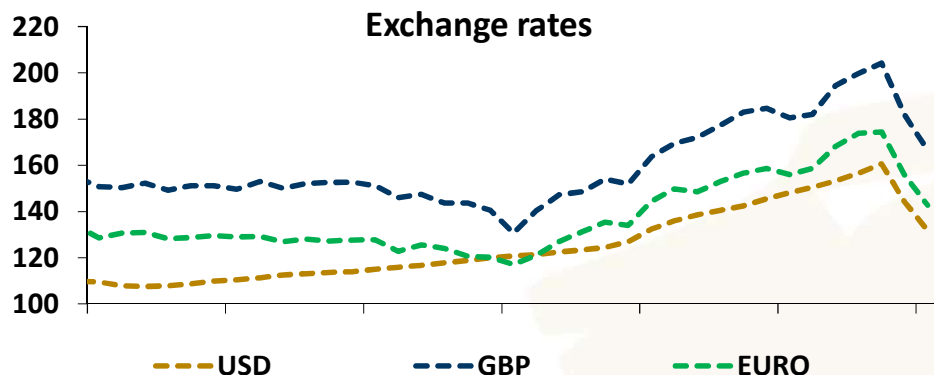
Source: Nairobi Securities Exchange, Central Bank of Kenya

Tenor	Yields			Change in yields	
	Mar-24	Dec-23	Dec-22	1Q24	2023
2-year	18.14%	17.92%	12.17%	0.2%	5.7%
5-year	17.98%	17.45%	13.53%	0.5%	3.9%
10-year	16.50%	15.70%	13.77%	0.8%	1.9%
15-year	15.83%	15.73%	13.93%	0.1%	1.8%
20-year	16.04%	15.90%	14.05%	0.1%	1.9%
23-year	16.14%	16.06%	14.16%	0.1%	1.9%

- The S&P Kenya Sovereign Bond Total Return Index **gained** 2.5% quarter-on-quarter.
- The government closed the quarter in a **surplus** borrowing position having achieved an actual net domestic borrowing of KES 454 billion against a target of KES 451 billion.
- During the quarter, CBK issued 3-year, 5-year and 10-year treasury bonds.
- Additionally, CBK issued an 8.5-year infrastructure bond which received bids amounting to KES 289 billion against KES 70 billion on offer.
- In addition, the government, through the Ministry of National Treasury & Economic Planning, announced the successful pricing of a new USD 1.5 billion Eurobond due in 2031 at a coupon rate of 9.75%.

Exchange rate:

KES rallies against major currencies



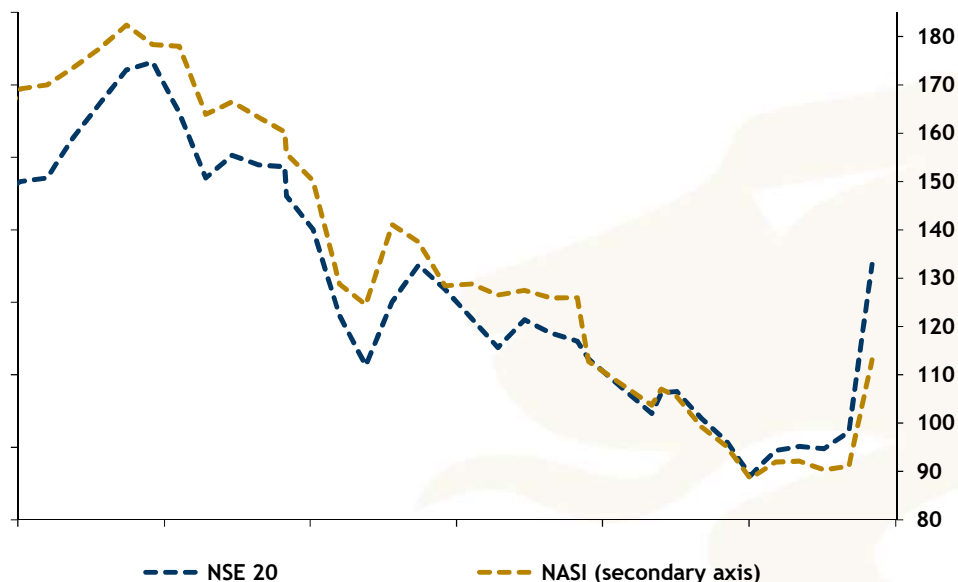
Source: Central Bank of Kenya, Bloomberg

FX metrics	1Q24	4Q23	Q-o-Q Chg	2023
USD-KES	131.8	156.5	18.7%	-21.1%
GBP-KES	166.5	199.8	20.0%	-25.7%
EUR-KES	142.7	173.8	21.8%	-24.5%
ZAR-KES	7.0	8.4	21.2%	-14.5%
KES-UGX	29.5	24.2	21.8%	-19.7%
KES-TZS	19.4	16.1	20.5%	-15.0%
KES-RWF	9.8	8.0	21.2%	-7.0%
FX reserves (USDbn)	7.1	6.6	7.2%	-11.1%
Import cover (months)	3.8	3.5	7.3%	-15.1%

- The shilling recorded significant **gains** against the major currencies during the quarter. This was primarily driven by improved market sentiment following successful issuance of the Eurobond.
- In addition, dollar inflows into the recently auctioned infrastructure bond provided additional support.
- Ongoing efforts to secure additional external financing through concessional and commercial sources may ensure the shilling's stability in the near term.
- Additionally, remittance inflows continue to support the foreign exchange market. Total monthly remittance receipts **rose** to USD 386 million in February 2024 compared to USD 309 million in February 2023.
- The Central Bank's foreign exchange reserves ended the quarter **below** the statutory requirement of 4 months of import cover. However, the IMF projects import cover will **improve** to close 2024 and 2025 at 4.0 and 4.1 months respectively.

Equity market:

NASI records best quarterly gain since 2013



Source: Nairobi Securities Exchange NSE

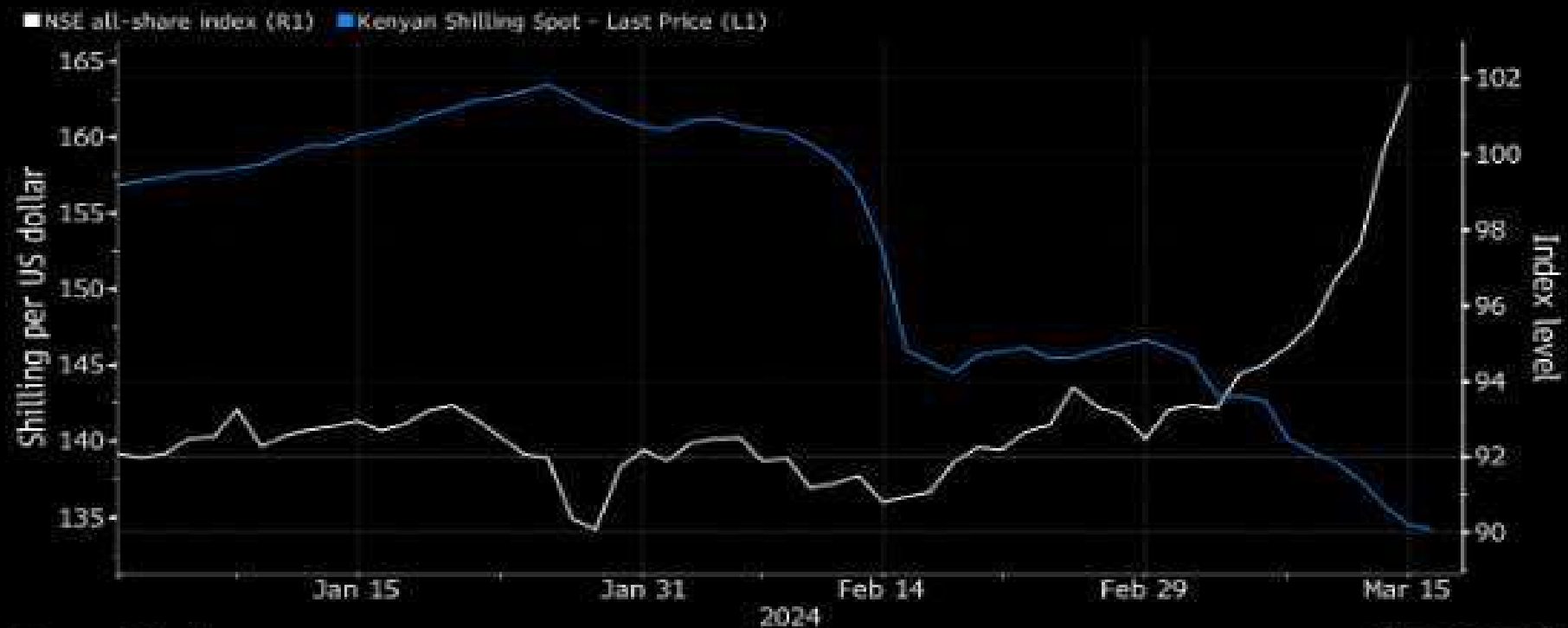
Index	1Q24	4Q23	Q-o-Q Chg	2023
NSE 20	1,752	1,501	16.7%	-10.4%
NASI	113	92	22.8%	-27.7%
NSE 25	2,975	2,380	25.0%	-24.0%
Equity turnover (USDm)	134	71		
Net foreign flows (USDm)	(16)	(15)		

- The NASI and NSE 20 **gained** 23% and 17% quarter-on-quarter respectively.
- This was attributed to improved investor confidence following the successful Eurobond issuance and increased dollar liquidity.
- The gain was largely driven by higher share prices of Safaricom (28%), KCB (37%), Equity (40%), EABL (14%), Co-op (32%), BAT (1.7%), Bamburi (31%), StanChart (22%), DTB (22%), Stanbic (16%), NCBA (12%), I&M (26%) and Absa (22%).
- Relatively attractive fixed income yields continues to dampen local investor interest in the domestic equity market.
- Market participants will remain focused on the Fed's policy actions and geopolitical developments.

Currency effect on Equity prices

Kenya Stocks Rally as Shilling Surges

Nairobi equity index is world's best performer in dollar terms



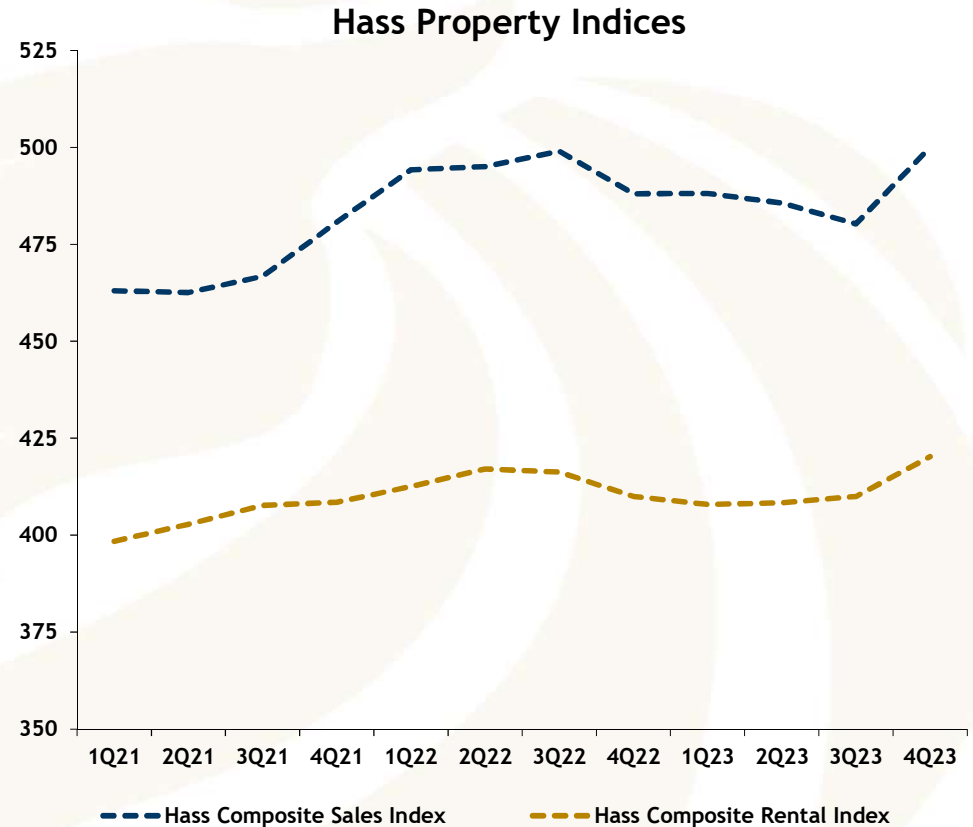
Source: Bloomberg

Bloomberg

Property:

Sales prices recover significantly

- During Q4 2023, the Hass composite Rental index **gained** 2.5% quarter-on-quarter (q/q), extending its gains to a third consecutive quarter.
- The Sales index **gained** 4.1% q/q, following losses over the past two successive quarters.
- The improved performance illustrates renewed resilience in the face of the challenging economic conditions and high interest rate levels.
- The ILAM Fahari I-REIT announced full year 2023 results. The REIT Manager recommended a first and final distribution of KES 127 million.
- Acorn Investment Management announced full year 2023 results, highlighting performance of the D-REIT and I-REIT. The total dividend payout amounted to KES 480 million in 2023.



Source: HassConsult Limited

Strategy for 2024

Asset class	Strategy
Govt Bonds	Continue accumulating
	Take advantage of current high yields
	Trade and realise gains
Equities	Slow accumulation
	Take gains where possible
Money market	Ideal for parking cash

Historical pension industry performance- Segregated schemes

Year	1-year performance
2007	8.7%
2008	-4.3%
2009	11.0%
2010	26.3%
2011	-9.5%
2012	28.0%
2013	20.2%
2014	15.0%
2015	2.0%
2016	8.0%
2017	16.7%
2018	5.7%
2019	16.8%
2020	7.3%
2021	12.2%
2022	2.4%
2023	1.2%

Period	Performance
10-year average	9.8%
5-year average	8.0%
3-year average	5.3%
2022	2.4%
2023	1.2%
Best year 2012	28.0%
Worst year- 2011	-9.5%

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