Sanlam Investments

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# February 2023 Update

# Sanlam Investments East Africa Limited

## Regional Inflation & Key Interest Rates, January 2023

| | Kenya | Uganda | Tanzania | Rwanda |
|---|---|---|---|---|
| Inflation Rate (latest) | 9.0% | 10.4% | 4.8% | 21.6% |
| Central Bank Rate | 8.8% | 10.0% | 5.0% | 6.5% |
| 91 Day Treasury Bill | 9.5% | 10.0% | 3.7% | 7.5% |
| 2 Year Treasury Bond Yield | 12.3% | 13.5% | 9.4% | 9.7% |

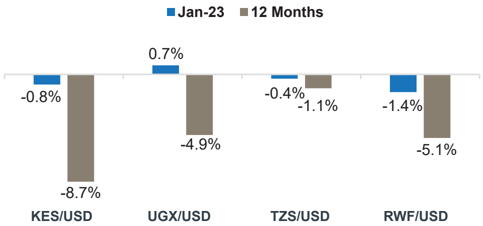
**Rwanda and Tanzania inflation as of December 2022*
*Source: Kenya, Uganda, Rwanda, and Tanzania National Bureau of Statistics & Bloomberg*

## Global Markets Dashboard

| | Jan-23 | 12 Months |
|---|---|---|
| MSCI World | 7.0% | -9.0% |
| MSCI Emerging Markets | 7.9% | -14.6% |
| Brent Crude | -1.7% | -7.4% |
| Gold | 5.7% | 7.3% |

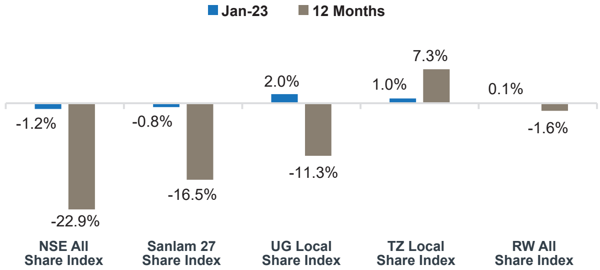
*Source: Bloomberg*

## Regional Currency Performance




*Source: Central Bank of Kenya, Bank of Uganda, National Bank of Rwanda & Bank of Tanzania*

## Regional Stock Market Performance




*Source: Nairobi Securities Exchange & Bloomberg*

## Market Commentary

**Inflation:** Kenya's headline inflation printed 9.0% year-on-year (y/y) in January 2023 from 9.1% y/y in December 2022. The ease in inflation was driven by moderate increase in food and non-alcoholic beverages which posted 0.2% month-on-month.
Uganda's consumer inflation rose to 10.4% y/y in January from 10.2% in December. The uptick was attributable to an increase in transport inflation which posted 4.9% vs 1.5% in December 2022. Tanzania's inflation eased slightly to 4.8% y/y in December 2022 from 4.9% in November on account of slowdown in some non-food items' prices.
Rwanda's urban inflation increased to 21.6% y/y in December 2022 due to rising food, transport, and energy related costs. Looking ahead, high food, energy prices and FX weakness will sustain elevated inflation over the medium term.

**Interest Rates:** : The Central Bank of Kenya both re-opened and issued a tap sale of the 5-year and 15-year bonds in January at weighted average yields of 12.9% and 14.2% respectively. During the month of January, bond yields edged up by an average of 5 basis points (bps) across the yield curve.
In Uganda, bond yields declined by an average of 26 bps across the maturity spectrum in January. The Bank of Uganda re-opened 2-year and 10-year bonds at weighted average rates of 13.5% and 15.4% respectively. The Bank of Tanzania issued 2-year, 5-year and 15-year bonds at weighted average rates of 9.4%, 9.7% and 11.4% respectively.
The National Bank of Rwanda issued a 20-year bond at a weighted average rate of 13.2%.
The Central Bank of Kenya (CBK) MPC left the central bank rate (CBR) unchanged at 8.75% at the January 2023 meeting. The committee noted that the previous monetary policy adjustment was still transmitting through the economy, which, coupled with the government's measures to allow duty-free imports of specific food items, is expected to further slowdown inflationary pressures.

**Currencies:** The Kenyan Shilling, Tanzanian Shilling and Rwandan Franc all depreciated by 0.8%, 0.4% and 1.4% against the US Dollar respectively in January due to dollar demand outweighing supply. On the other hand, the Ugandan Shilling appreciated by 0.7% attributable to tight monetary policy, increase in remittances and foreign inflows directed to the oil sector. We expect further currency depreciation across the region on account of the pace of monetary tightening in advanced economies and volatile energy prices.

**Equities:** : The Kenyan bourse posted negative returns in January on the back of sustained exits by foreign investors with limited demand. However, local investors came into the market and supported the price of Safaricom from further decline. On the other hand, the Tanzanian, Ugandan and Rwandan bourses edged up by 1.0%, 2.0% and 0.1% respectively. On a positive note, corporates earnings for most blue-chip stocks have remained resilient despite the prevailing inflationary pressures and cost input constraints witnessed in 2022.

**Global Markets:** Global equity indices printed positive returns in January buoyed by relaxation of COVID-19 restrictions in China, rebound in Chinese economic growth, softer inflation numbers in the US and expected slowdown in the pace of Fed rate hikes. Crude oil prices dropped in January on account of global recession fears and a mismatch between demand and supply. Gold edged up on dollar weakness signaling risk on sentiments.

**Outlook:** The World Bank expects global growth to decline in 2023 to +1.7% from previous forecasts of +3.0%. Real GDP in Emerging and Developing Markets is estimated to remain unchanged at +3.4% in 2023. Sub-Saharan Africa (SSA) is projected to grow faster at +3.6% in 2023 compared to +3.4% in 2022. Investors should consider companies with relatively stronger pricing power that protect margins and support earnings performance in the current economic environment.

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## Important Information

- **MSCI,** the acronym stands for Morgan Stanley Capital International.
- **MSCI World Index,** is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets Index** is used to measure the financial performance of companies in fast-growing economies around the world. The index tracks mid-cap and large-cap stocks in 27 countries, dominated by Chinese, Taiwanese, and South Korean companies.
- **Quarter to date (QTD)** refers to the period beginning the first day of the current quarter up to the current date. QTD information is useful for analyzing business trends over time or comparing performance data to competitors or peers in the same industry.
- **Year to date (YTD)** refers to the period beginning the first day of the current calendar year or fiscal year up to the current date. YTD information is useful for analyzing business trends over time or comparing performance data to competitors or peers in the same industry.
- **Year-over-year (Y/Y)** is a method of evaluating two or more measured events to compare the results at one period with those of a comparable period on an annualized basis.
- **Basis points (bps) -** A basis point is a standard measure for interest rates and other percentages in finance, representing one-one hundredth of one percent.
- **Currencies: KES/USD** refers to the Kenya Shilling exchange rate with the US Dollar. **UGX/USD** refers to the Uganda Shilling exchange rate with the US Dollar. **TZS/USD** refers to the Tanzania Shilling exchange rate with the US Dollar. **RWF/USD** refers to the Rwandese Franc exchange rate with the US Dollar.
- **NSE All Share Index,** is a market cap weighted index consisting of all the securities on the Nairobi Securities Exchange. Prices are based on last trade information from NSE's Automated Trading System.
- **Sanlam 27 Share Index** is a market cap weighted index. The index universe is the Nairobi Securities Exchange. The index is managed by Sanlam Investments East Africa Limited.
- **Uganda Local Share Index** is a market cap weighted index. It includes only domestic listed companies.
- **Tanzania Local Share Index** is a market cap weighted index. It includes only domestic listed companies.
- **Rwanda Stock Exchange All Share Index** is a market cap weighted index that includes all non-domestic Rwanda listings.
- **Central Bank Rate** refers to the interest rate at which a nation's central bank lends money to domestic banks, often in the form of very short-term loans. The Central Bank may increase or decrease the discount rate to slow down or stimulate the economy.
- **The Purchasing Managers Index (PMI)** ) is a measure of the prevailing direction of economic trends in manufacturing. The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%).

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## Disclosure Statement

Sanlam Investments East Africa Limited (“the manager”) is regulated by Capital Markets Authority in Kenya and Uganda to provide investment advisory and management services. The firm has been operational in Kenya since 1998 and in Uganda since 2004 and is a leading fund manager in the region with a strong record of accomplishment in service delivery and performance.

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