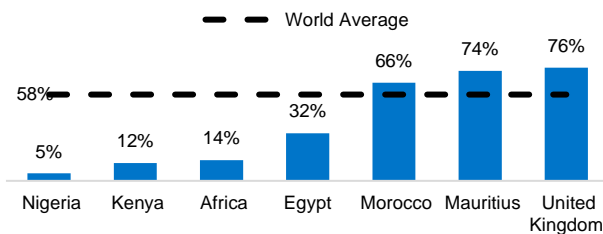


## ECONOMIC OVERVIEW: MODERATE GROWTH AHEAD

It is now two years since the first case of Covid-19 virus was reported and became a global pandemic. It has mutated into variants including Alpha, Beta, Gamma, Delta, and the most recent, Omicron and raised concerns due to their potential for increased transmissibility, virulence, or reduced effectiveness of recognized vaccines to contain it.

The COVID-19 vaccines led to reduction in containment measures and improved global economic activity in the year 2021. Africa's vaccination rate remains poor with only 14% partially vaccinated relative to a global average of 58% as of December 2021.

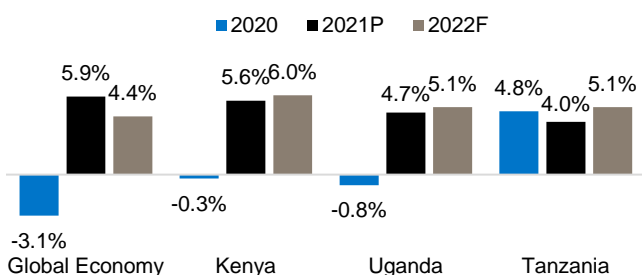
### Population With At Least One Dose of the Vaccine



Source: Bloomberg

The global economy is projected to have grown by 5.9% in 2021 following a contraction of 3.1% in 2020 according to the IMF. The IMF projects an economic growth rate of 4.4% in 2022.

According to the IMF, economic growth in 2022 is expected to accelerate in the three largest economies in the East African Community be supported by higher private consumption due to accommodative monetary policies, stronger global economy recovers growth in the services sector and investment in public infrastructure.



Source: International Monetary Fund (IMF), World Economic Outlook, October 2021

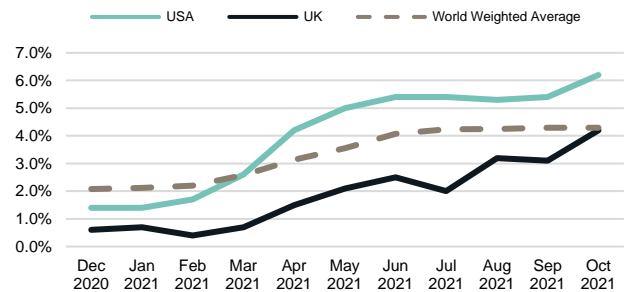
Note: Central Bank of Kenya Projections: 6.4% for 2021 and 6.0% for 2022, Bank of Uganda Projections: 3.8% for 2021 and 6.0% in 2022 & Bank of Tanzania Projections: 5.6% for 2021 and 6.2% for 2022

## INVESTMENT THEMES 2022

### Theme one: Navigating Inflation

Globally, inflation is a key investment risk with central banks leaning towards higher interest rates. The Federal Reserve Bank in the US is expected to accelerate its monetary quantitative tightening in early in 2022 and hike rates later in the year as inflation has peaked at 6.8% due to a sharp economic rebound and supply side constraints. This is the highest level since June 1982. The European Central Bank is likely to be less aggressive and not hike interest rates in 2022.

### Higher Global Inflation



Source: Bloomberg

East African currencies may come under pressure in 2022 as developed markets tighten monetary policy. Although inflationary pressure in East Africa is increasing due to supply side shocks attributable to rising commodity prices it remains well anchored within the regional central bank targets.

Country	Central Bank Target Ranges	Headline Inflation	
		Dec-21	Dec-20
Kenya	2.5% - 7.5%	5.7%	5.3%
Uganda	5%	6.5%	3.6%
Tanzania	5%	4.1%*	3.2%

Source: Central Bank of Kenya, Bank of Uganda and Bank of Tanzania  
\*Tanzania inflation as at November 2021.

The expected weakness of the Kenyan shilling supports exposure to U.S. Dollar assets in 2022. Global equity markets demonstrated resilience in 2021 despite the emergence of the omicron variant. Looking ahead to 2022, the question is to what extent the strong rebound in corporate profitability will continue to support global equity markets in light of the monetary tightening.

### Theme two: Alternative paths to portfolio income

**Private Equity (PE):** Investors have limited options due to the few listings on the public equities market as well as high concentration risk of a few stocks on the EA bourses, hence the attraction of private equity (PE). According to the Retirement Benefits Authority (RBA), the Kenyan pension industry had only allocated 0.2% of its assets in PE against RBA's limit of 10% as at June 2021.

In 2022, we project PE activity to increase in East Africa, driven by the anticipated rebound in economic activity. Fundraising will likely improve, as a significant number of potential PE investors have significant cash holdings/dry powder, especially development finance institutions which have deployment targets. The pandemic has highlighted opportunities in sectors like healthcare, education, technology and telecommunications.

**Real Estate:** 2021 saw increased investment in affordable housing and student accommodation. Both segments are underserved. These segments have potential for attractive returns depending on location, professionalism of the developers and timely execution of the projects.

Some major developers who have tapped into the capital markets to raise funds in the highlighted segments include Centum Real Estate that issued a Ksh 3 billion bond in 2020 and Acorn Holdings Limited that raised Ksh 4.3 billion and Ksh 1.4 billion in 2019 and 2021 respectively. Thereafter successfully launched the Acord Student Accommodation REITs in 2021.

In 2022, we expect continued gradual recovery in the real estate sector and increased construction activity. This will be driven by a stability of sale prices and rental rates due to the increasing flexibility from landlords and sellers and projected positive economic growth and containment of the virus. We also project increased investments in the Affordable housing and Student housing spaces.

### Theme three: Politics

The current election cycle for East African countries is nearing its close with Kenya's elections slated for this year, following Uganda's elections in 2021 and Tanzania's in 2020.

Political activity in Kenya has picked up ahead of the general elections in August 2022. The two key contestants of the presidential race are the former prime minister, Raila Odinga and the current Deputy President William Ruto. Whilst political tensions shall increase in the run up to the election we think the focus of most investors will be economic recovery from the COVID-19 that has impacted the growth unlike any election in Kenya. In the last two elections however the NSE All Share Index returned 16.5% and 44.1% respectively in 2013 and 2017.

## EMERGING INVESTMENT TRENDS

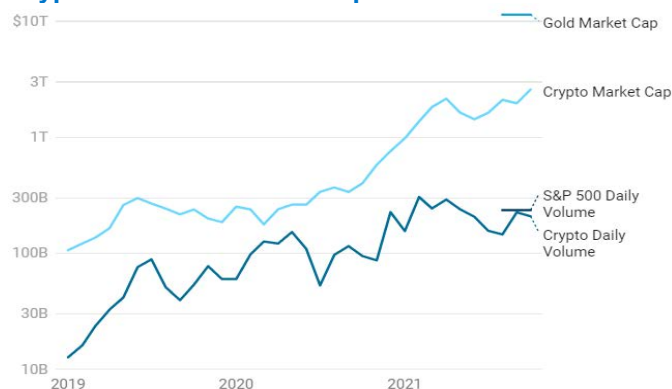
### Cryptocurrency: Regulation fighting, market accepting it

The adoption of Cryptocurrency continues to grow globally as high-profile companies such as Microsoft, Twitch, Whole Foods, BMW and AMC accept payments in crypto. One country El Salvador has even adopted Bitcoin as a legal tender. In 2021, Crypto's total market capitalisation surged 176% to USD 2.1 trillion as of December 20th, 2021 and has grown 10-fold since early 2020.

In East Africa, the Central banks do not accept crypto as a medium of exchange. However, this has not prevented East Africans from owning and trading in crypto currencies.

Notwithstanding the risks inherent to crypto investments such as regulatory pushback, significant price volatility and illiquidity, the market continues to accept crypto even as regulation fights it. The IMF has issued warnings stating that the lack of governance poses risks to customers as well as posing a threat to fiscal stability. Crypto has been labeled the "gold of the millennials" and we expect its disruptions to continue going forward as the technology improves its scalability, sustainability, governance and blockchain interoperability.

## Crypto and Gold Market Capitalization



Source: Tellimer Research, TradingView and Gold.org.

### Non-fungible tokens (NFTs) and Tokenization

NFTs are digital assets that exist on the blockchain to record proof of ownership for the person holding it. Each token is completely unique and represents part ownership of a digital asset that can be bought and sold.

Anything can be tokenized including photographs, music, videos. A social token is a crypto token created for the purpose of it representing digital equity in a similar fashion how traditional shares represent equity in a company. Social tokens provide creatives with a means of monetising their work.

There are various marketplaces offering NFTs with the largest being OpenSea with over 600,000 active users as at December 2021. In March 2021, a digital artist called Beeple sold a NFT for US\$ 69 million at Christie's auction house.

### Beeple (b. 1981), Everyday: The First 5000 Days.



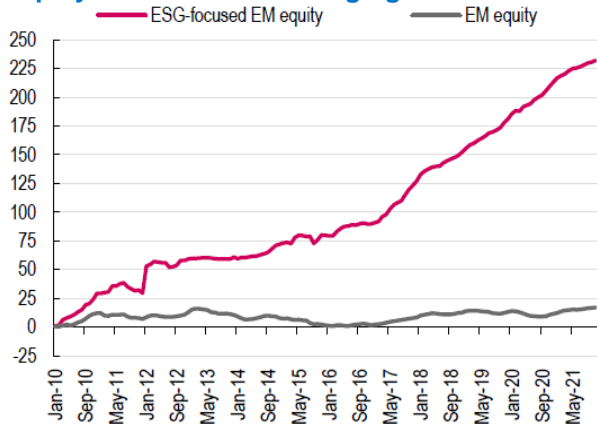
Source: Christie's.

This could quickly take over the business of Record labels and others similar. NFTs offer individuals and institutions an opportunity to invest in digital assets for purposes of reselling or long-term investments.

### The Green Transition: Growing interest in sustainable investing

There has been an increasing interest by investors and other stakeholders in corporate governance for the inclusion of Environmental Social & Governance (ESG) practices in African corporates. Investors are increasingly adding ESG qualitative factors as part of their investment analysis to identify material risks and growth opportunities. Some include carbon footprint, water consumption, diversity and inclusion in hiring and promotion practices, executive compensation structures among others.

## Equity Fund flows to Emerging Markets



Source: Renaissance Capital

Whilst ESG metrics are not commonly part of mandatory financial reporting, a recent trend has seen companies making disclosures in their annual report or in a separate sustainability report in compliance to investor and potential investor requirements.

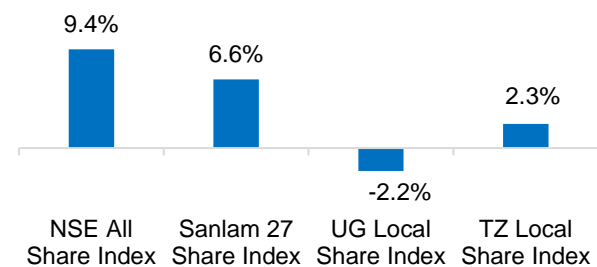
In Kenya, The Nairobi Securities Exchange (NSE) published Environmental, Social and Governance (ESG) Disclosures Guidance Manual at the end of November 2021. The ESG Manual provides listed companies with a guide on how they can collect, analyze, and publicly disclose important ESG information while referring to the international reporting standards.

## ASSET CLASS OUTLOOK

### Equities: Focusing on Fundamentals

Local equities markets had a strong rebound in 2021 with the Nairobi Securities Exchange (NSE) outperforming its EA counterparts. This was supported by a recovery in global economic growth and business activity. Up to September 2021, the market had gained 17.2% but jitters around Safaricom's investment in Ethiopia and fund flows out of frontier markets saw the gains claw back to close the year at a gain of 9.4% with a dividend yield of 4.3%.

### Equity Market Returns 2021

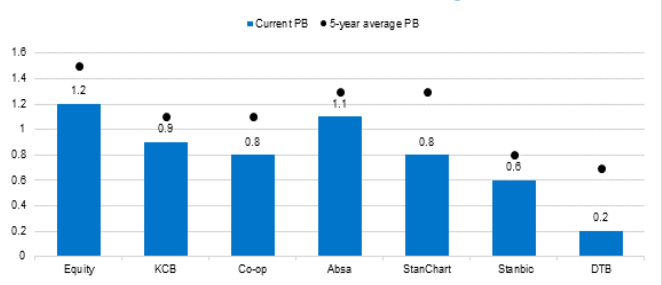


Source: Nairobi Securities Exchange & Bloomberg

The Tanzania President has enacted policies aimed at improving investor protection, is creating a more investor-friendly tax environment, improving foreign relations and easing media restrictions.

Even though stock prices went up in 2021, valuations remain below their historical averages. As earnings improve, we expect the market to continue to pick up and rerate in the medium term. The political risk of 2022 elections as well as the possibility of foreign outflows due to currency concerns may pose a risk to our outlook.

## Price to Book Ratios Below Historical Averages

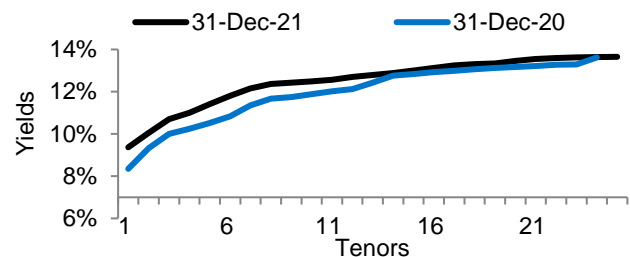


Source: Bloomberg

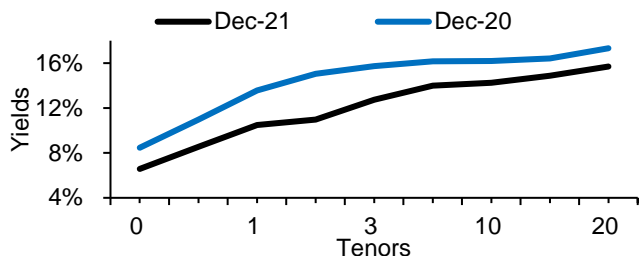
## Fixed Income:

In 2021, Central Banks in the region maintained an accommodative policy stance geared towards improving private sector credit growth which had plummeted at the height of the COVID-19 pandemic. Despite the accommodative stance, interest rates in Kenya edged higher on account of increased domestic borrowing and reduced tax revenue collection. Rates fell in Uganda on high liquidity and increased demand for Treasury bonds by offshore investors while rates in Tanzania edged lower as pressure on domestic borrowing was alleviated by access to external donor funds.

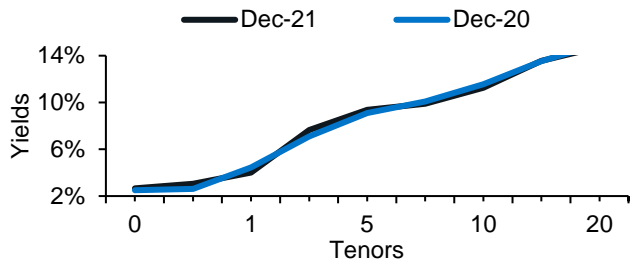
### Kenya Yield Curve



### Uganda Yield Curve



### Tanzania Yield Curve



Source: Central Bank of Kenya, Bank of Uganda and Bank of Tanzania

In 2022, we expect regional interest rates to be stable supported by liquidity owing to high investor appetite for government debt. In Kenya, interest rates could come under pressure as government front loads on domestic debt before general elections in August 2022. Currency is a key risk to our outlook, as developed markets look to tighten monetary policy. However, central banks have adequate forex reserves to mitigate significant volatility.

## 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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Disclosure statement Last updated April 2018