

MONTHLY ECONOMIC REPORT

May 2023

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Performance

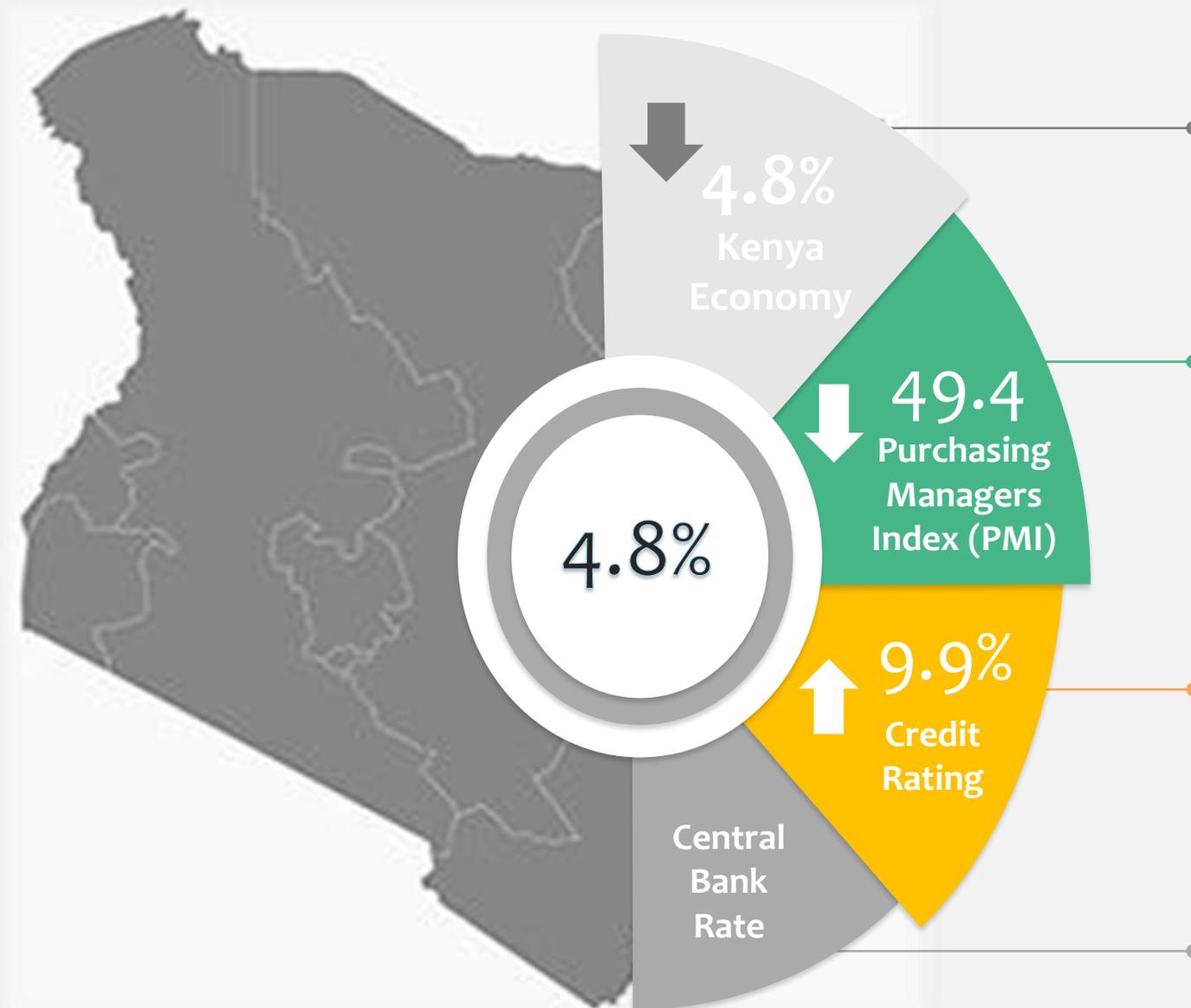
Highlights of performance of our funds

05

Investment Strategy

Overview of our investment strategy.





The Economy

GDP expanded by 4.8% in 2022. This was lower than the 7.6% growth reported in 2021. The downturn was attributed to drought, tighter financial conditions and base effects from the Covid-19 pandemic.

Purchasing Managers Index (PMI)

Stanbic bank released its monthly Purchasing Manager's Index (PMI), highlighting that the index for the month of May 2023 came in at 49.4, up from 47.2 in April 2023, which pointed a recovery in the business environment although at a slower rate. Furthermore, Inventories of inputs continued to grow slightly, as firms looked to keep unused items incase of low supplies and further increase in prices.

Credit Rating

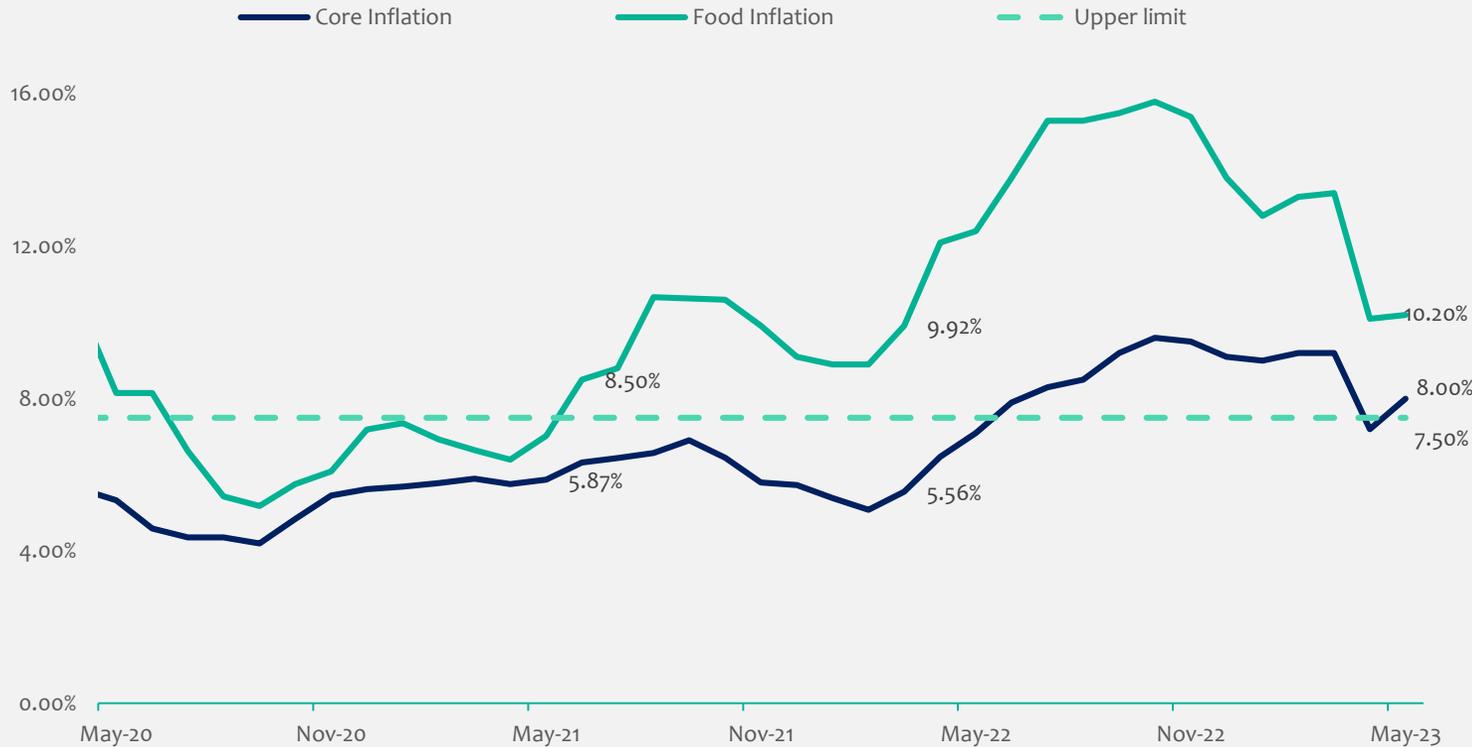
Moody's Credit Rating agency downgraded Government of Kenya's long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings to B3 from B2 with a negative outlook.

Central Bank Reference rate

The monetary policy committee met on 29th May 2023 and retained the CBR at 9.50%. The decision to maintain the rate was driven by eased inflationary pressures as the inflation rate decreased to 7.9% in April from 9.2% in March.

Inflation

Headline inflation increased marginally to 8.0% in May from 7.9% recorded in April 2023.



Headline inflation increased marginally to 8.0% from 7.9% registered in April 2023. This was mainly driven by increase in food and energy prices.

Food Prices



On M/M, food inflation slightly went up by 1.4%. A sharp rise in sugar prices, increase in prices of commodities such as beef, carrots, onions, maize grain and wheat flour contributed to the rise in food inflation.

Fuel Prices



Fuel prices went up by 1.9%, 4.0% and 10.4% to KES 182.7, KES 168.4 and KES 161.1 per litre of Super Petrol, Diesel and Kerosene respectively between 15th May to 14th June.

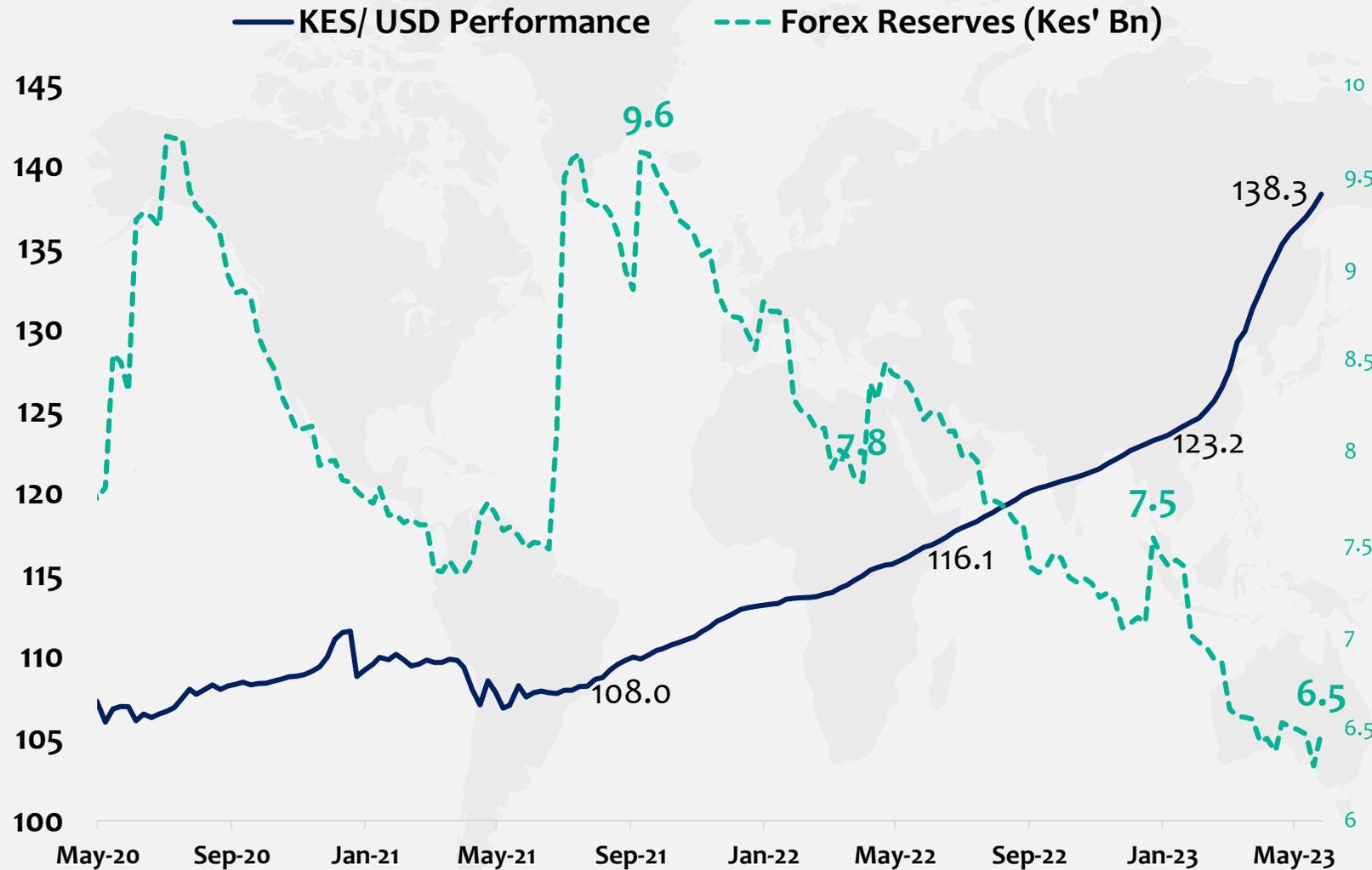
Housing and Electricity



The Housing, Water, Electricity, Gas and other Fuel's index rose by 7bps which was mainly attributable to the increase in the prices of electricity in the month of May and a rise in single room monthly house rent.

	FY 2018	FY 2019	FY 2020	FY 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	FY 2022	YTD 2023
Ave. Inflation Rate (Y/Y)	4.70%	5.20%	5.40%	6.10%	5.40%	7.20%	8.70%	9.40%	7.64%	8.52%

The KES continued to depreciate against the greenback



Performance

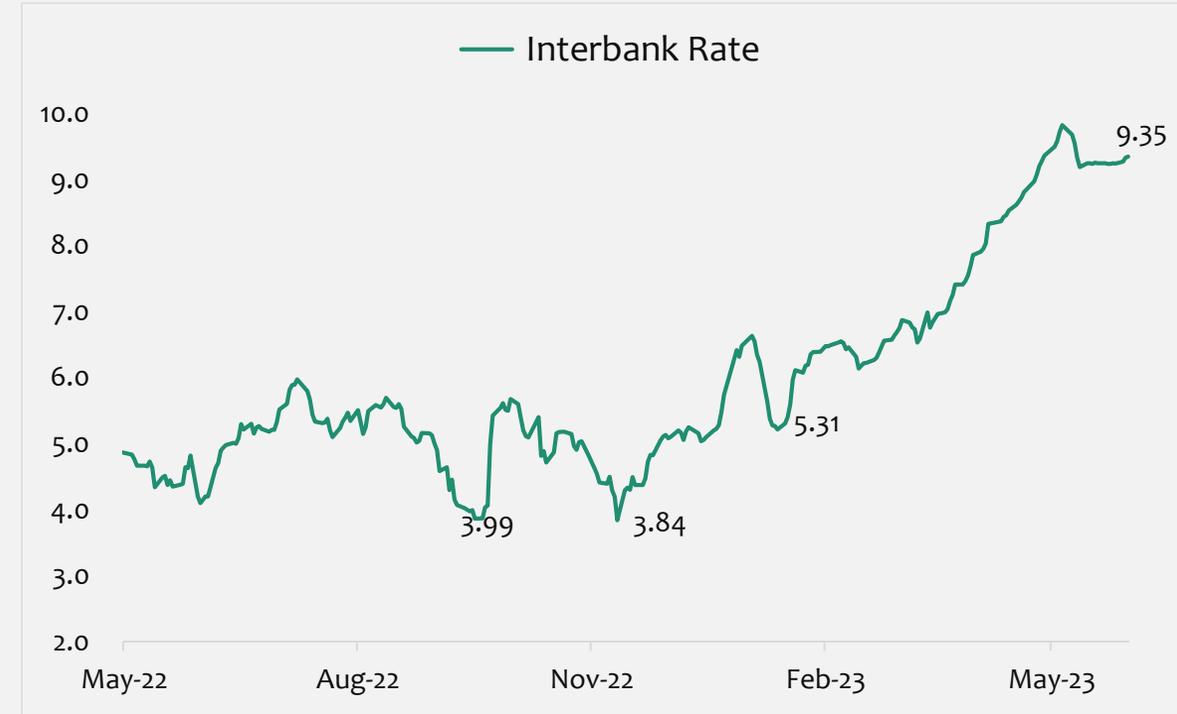
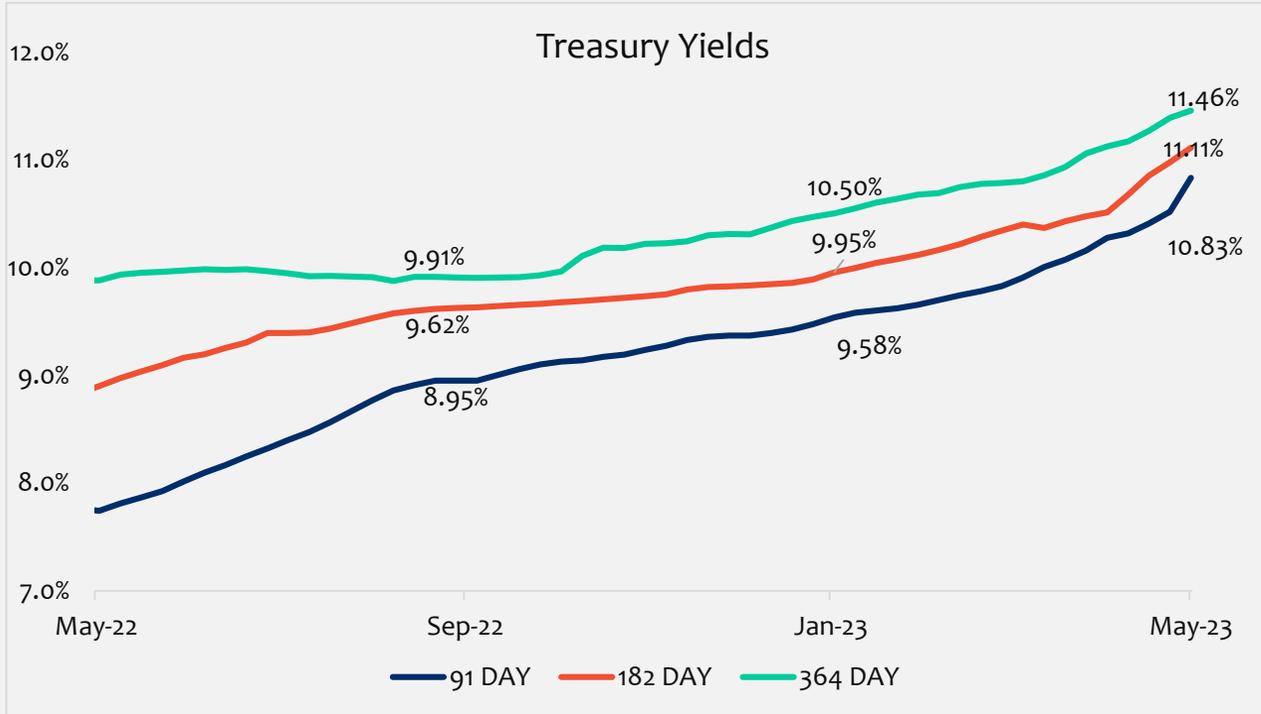
- The Kenya Shilling depreciated by 1.9% against the US dollar within the month of May to close at KES 138.49 from KES 135.91 in April.
- YTD, the KES has lost by 12.35%.

Drivers

- The depreciation was largely attributable to:
 - **Deteriorating forex reserves;** High foreign debt servicing costs and a widening trade deficit have been putting pressure on foreign reserves. Kenya's forex reserves fell to USD 6.48 billion (3.60 months of import cover) as of May 26th.
 - **A widening Current Account (CA) deficit:** as of 31st December 2022, the CA had widened to a deficit of Kes 679.6Bn following an increase in the cost of imports.
 - **Increased dollar demand;** from importers of oil and other energy sectors against a slower supply of hard currency.
 - **US rate hikes;** the sustained rate hikes by the US Fed has seen the dollar maintain a stronger position as compared to other currencies.

Money Markets

Yields on money market instruments maintained an upward momentum



Rates raging higher month on month



During the month, short-term interest rates were on the rise: On average, the 91-day, 182-day and 364-day treasury bills rose by 43bps, 41bps and 37bps, to close the month at 10.83%, 11.11% and 11.46%, respectively.

Rate movement drivers



Investors appetite towards short term fixed-income securities continues to rise hence moving the rates higher as the government's demand for cash remains elevated amidst tightened liquidity in the money market.

Liquidity



Tight liquidity conditions continue to prevail in the market as evidenced by the high interbank rates (9.35% as of 31th May). These levels were last seen in 2018.

Fixed Income – Longer Tenors

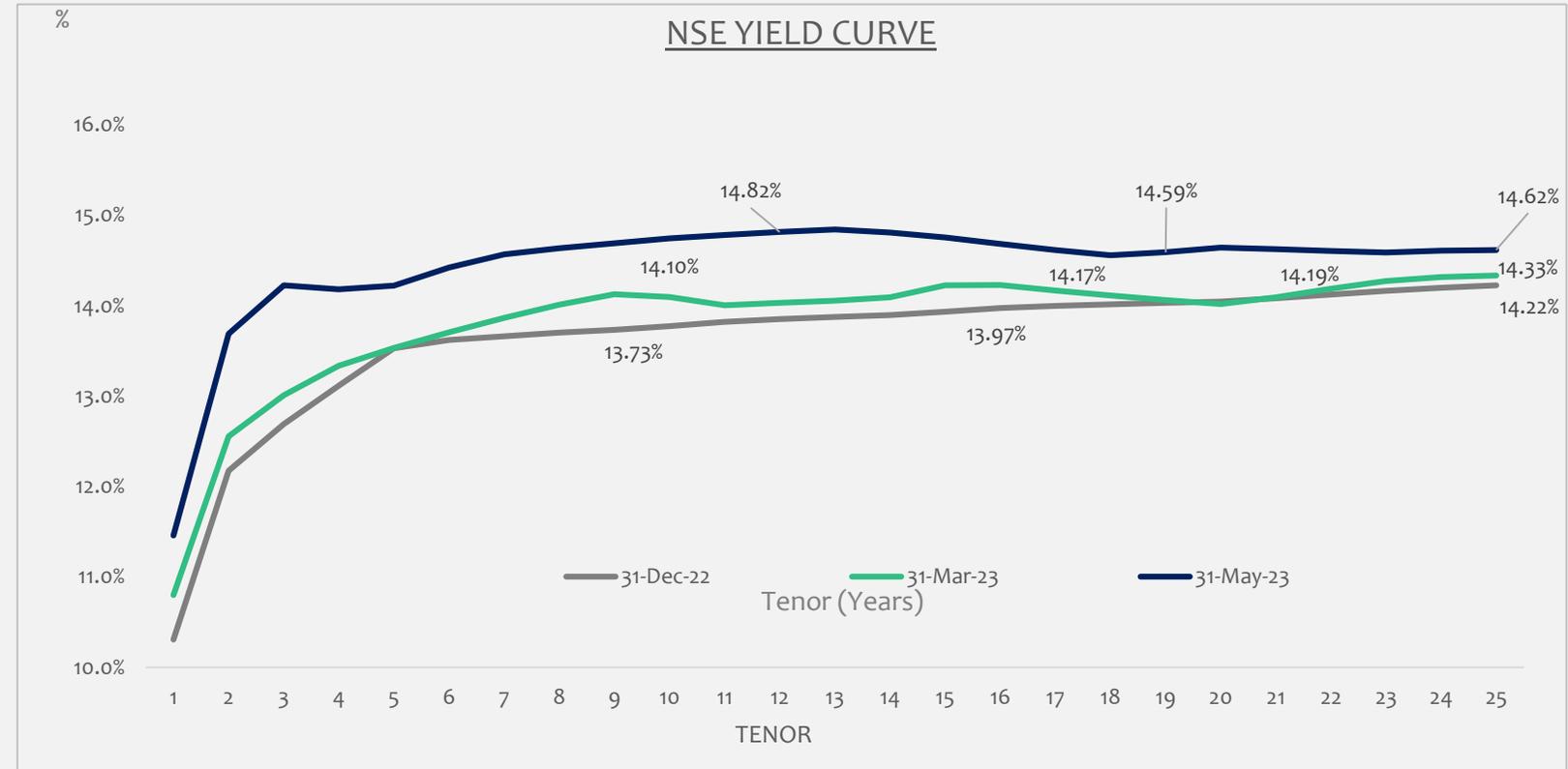
Yields on treasury bonds were on an upward trajectory in May 2023

The yield curve registered an upward shift across majority of the tenors in the month. The short (1-5 Year) and long (15 – 25 Year) term papers jumped by 74bps and 27bps, respectively. Overall, the yield curve rose by 49bps in May 2023.

Inflation, tight liquidity and increased appetite on government borrowing matched with low bids on issued bonds have seen yields rise through out the yield curve with more emphasis on the short - medium(1-15 Year) tenors.

In the primary market, the government issued a new bond FXD1/2023/003 seeking to raise KES 20Bn. Overall, they received bids worth KES 20.7Bn and accepted KES 20.3Bn in total. They also issued two tap-sales on FXD1/2023/003 seeking to raise 10.0Bn and 20.0Bn. The sovereign accepted almost all bids in both tap-sales totaling KES10.6Bn and KES27.2Bn.

In the secondary market, bond market turnover increased by 75.8% to KES 68.0Bn in May from KES 38.7Bn recorded in April 2023.



	1-5Yr	6-10Yr	11-15Yr	15-25Yr
May 2023 change(bps)	74.0	63.0	58.0	27.0

Equities Market Performance

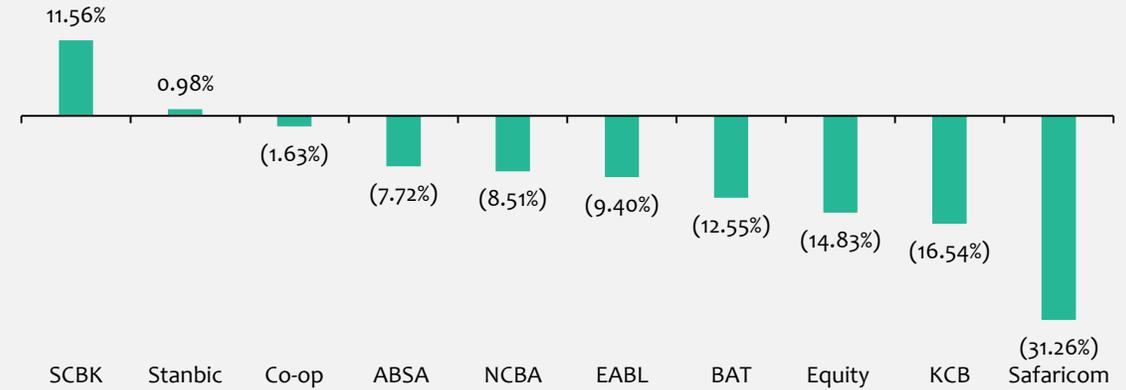
NSE benchmark indices close the month in negative territory



During the month, the equities benchmark indices were on a downtrend with the NASI, NSE 20 and NSE 25 falling by 3.7%, 2.0% and 6.7% respectively. This decline was attributed to losses in large cap stocks such as Equity Group, DTB-K, Co-op Bank, NCBA and ABSA Bank. However, the losses were mitigated by gains registered by large cap stocks such as Standard Chartered Bank of Kenya (4.8%).

Equity turnover in May recovered by 41.1% to USD 44.4mn from USD 31.4mn recorded in the previous month. Foreign investors maintained a net selling position in the month, with net outflows of USD 9.6mn, compared to net outflows of USD 2.1mn recorded in April.

Performance of the top 10 counters based on market capitalization. Ytd change



During the month of May most large cap stocks such as Equity Group, NCBA, SCOM, KCB and ABSA recorded losses due to continued outflow of foreign investors who eyed attractive returns in developed countries such as the US, thereby causing panic sells from retail investors.

However, some counters such as SCBK and Stanbic registered gains of 11.56% and 0.98% respectively.

On a year-to-date basis, Safaricom lost 31.26% to close at Kshs.16.60 per share on increased foreign selling.

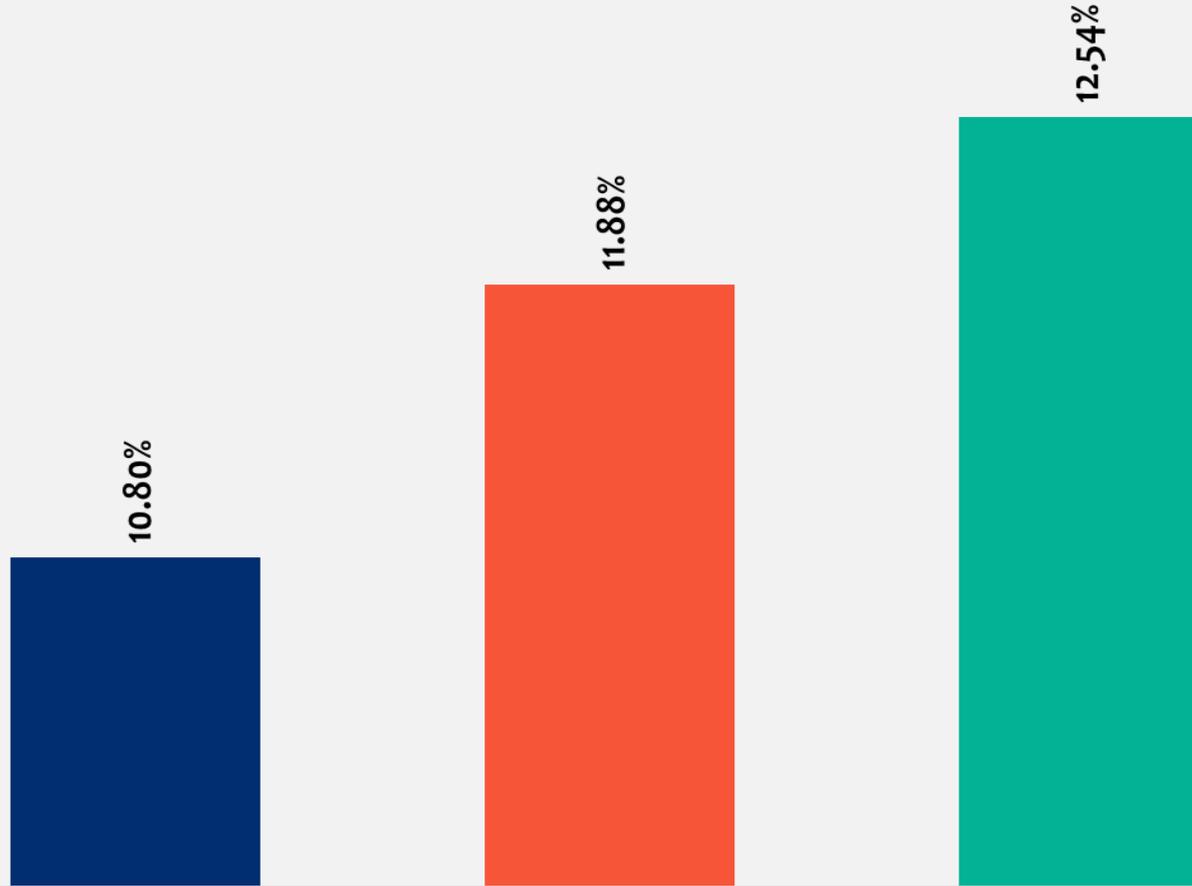


Performance

Fund Performance: MADISON FUNDS

OUR FUNDS' PERFORMANCE

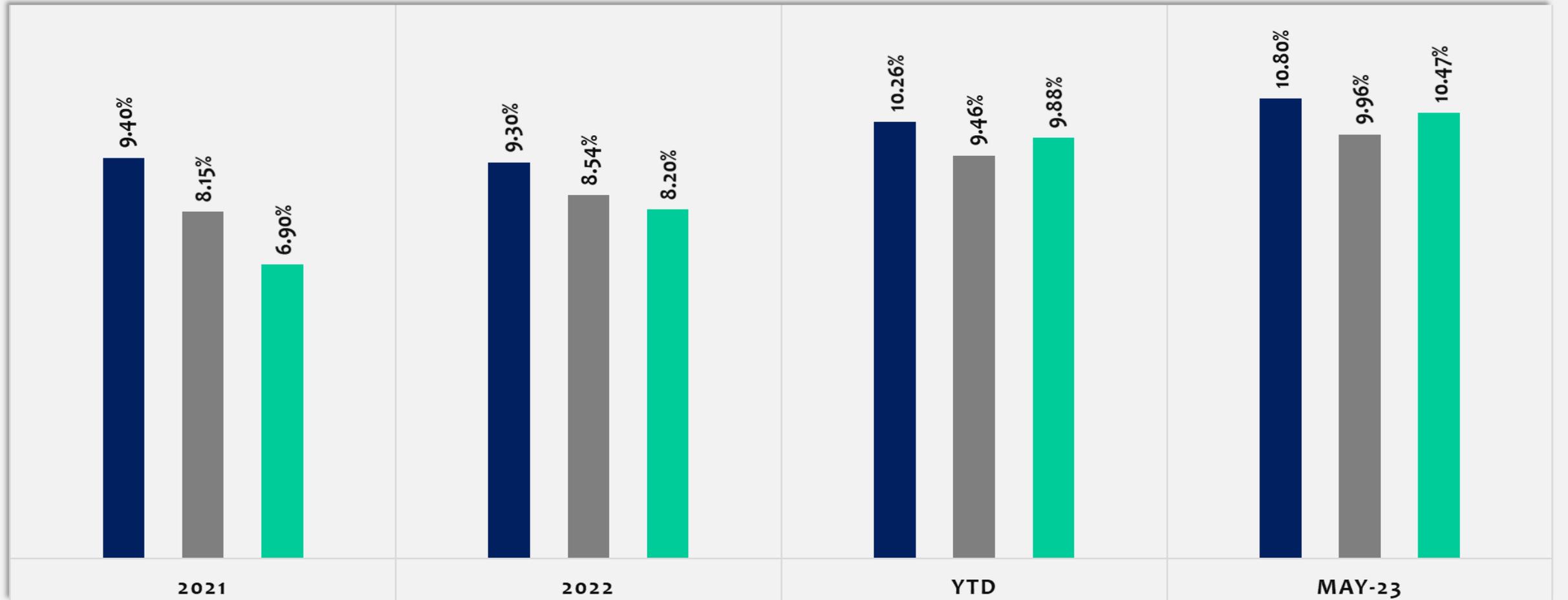
■ Madison Money Market Fund ■ Madison Fixed Income Fund ■ Madison Wealth Fund



MAY-23

Market Analysis: Money Market Funds

■ Madison MMF ■ Market Average ■ 91-Day Tbill





LOOKING AHEAD?



Fixed Income

- Heightened inflation, depreciating KES, global increase in interest rates, tightening liquidity (as demonstrated by the high interbank rates), rising private sector growth and budgetary deficit - all point to a rising interest rate environment.
- Investing in short term tenor assets of not more than 3 months for deposits might prove to be beneficial to investors. This will shield portfolios from interest rate risk and duration risk. Bank deposits of rates of 12% and above remain attractive.
- On a long-term basis, Infrastructure Bonds (IFBs) are likely to provide value for investors in the bonds space more than Fixed Coupon Bonds (FXDs) due to their tax-free nature.

Equities

- Increased global volatility driven by weak macro economic conditions continue to see foreign investors pull out from the Kenyan market in search of safe havens. Currency depreciation and dollar scarcity has compounded the foreign out flows.
- Although the market is cheap on a price to earnings perspective and attractive on a dividend perspective. We feel that global volatility still continues to further weigh on the equities market.
- We maintain a cautious exposure in the asset class for long term investors



Fit your size...



Our tailored solutions:

1

MADISON MONEY MARKET FUND

INDICATIVE RATE:

10.5% pa

Features :

- Initial minimum investment - **Kes 5,000**
- Minimum top-up - **Kes 1,000**
- No restriction on tenor
- Monthly distribution of interest
- Withdrawal – 2 working days

2

MADISON FIXED INCOME FUND

INDICATIVE RATE:

11.3% pa

Features :

- Initial min investment - **Kes 5,000**
- Minimum top-up - **Kes. 1,000**
- Tenor – 6 months
- Withdrawals - 4 working days
- Semi-annual distribution of interest.

3

MADISON WEALTH FUND

INDICATIVE RATE:

12% pa

Features :

- Initial min investment - **Kes 1 Million**
- Minimum top-up - **Kes. 500,000**
- Tenor – 6 months
- Withdrawals - 6 working days
- Semi-annual distribution of interest.

4

MADISON SEGREGATED SCHEME

INDICATIVE RATE:

9%-15% pa

Features :

- Minimum investment - **Kes 30 Million**
- Portfolio is constructed as per particular client desire
- Access markets locally and globally
- Allows for flexibility in investments.

5

MADISON TRAINING & ADVISORY SERVICES

Financial training
for organizations
and individuals

Features :

- Financial and Investment Planning for Individuals
- Pre and Post Retirement Planning for individuals
- Workforce Upskilling for salaried employees
- Formulation of Investment Policy Statements (IPS) .

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