



MONTHLY ECONOMIC REPORT
March 2023

Report Overview

Quarter 1, 2023



**ECONOMIC
PERFORMANCE**



**FIXED
INCOME**



**EQUITY
MARKETS**



**INVESTMENT
STRATEGY**

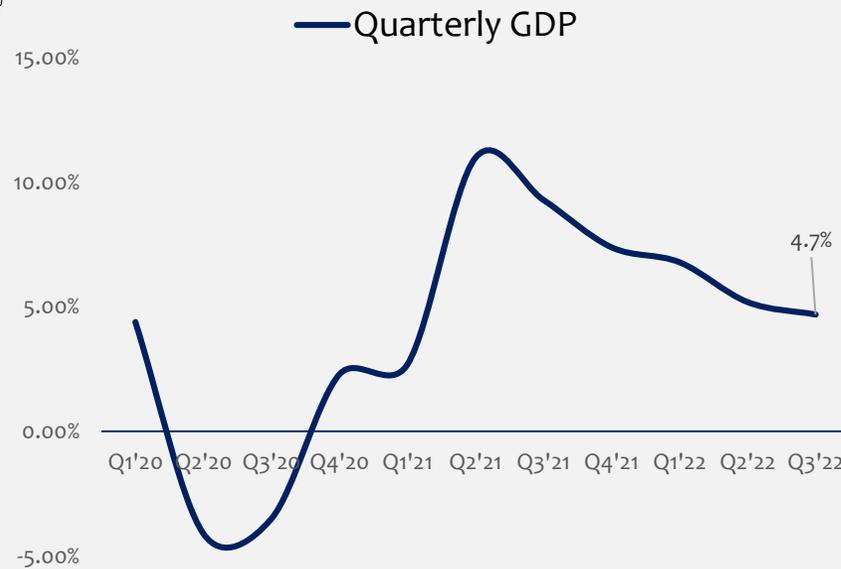
Economic Performance

Kenya's GDP growth is forecasted to grow to 5.3% in 2023 from 5.1% in 2022



Kenya GDP

GDP growth projected at 5.1% in 2022. Q3 slowed to 4.7%. Mostly driven by erratic weather, Elections in Aug 2022.



Kenya's Economic Growth

According to the World Bank, Kenya's medium-term growth prospects remain favorable, with GDP expected to expand by an average of 5.2% in 2023–2024. The baseline assumes growth of credit to the private sector, a near term recovery in agricultural production, and high commodity prices that are advantageous for Kenyan exports. Over the medium term, it is anticipated that these changes will in turn spur private investment.

In March 2023, the Stanbic Purchasing Manager's Index (PMI) rose to 49.2 from 46.6 reported in February. Despite the recovery in business conditions, this was still below the 50.0 optimal mark and thus informed of muted activity in the private sector.

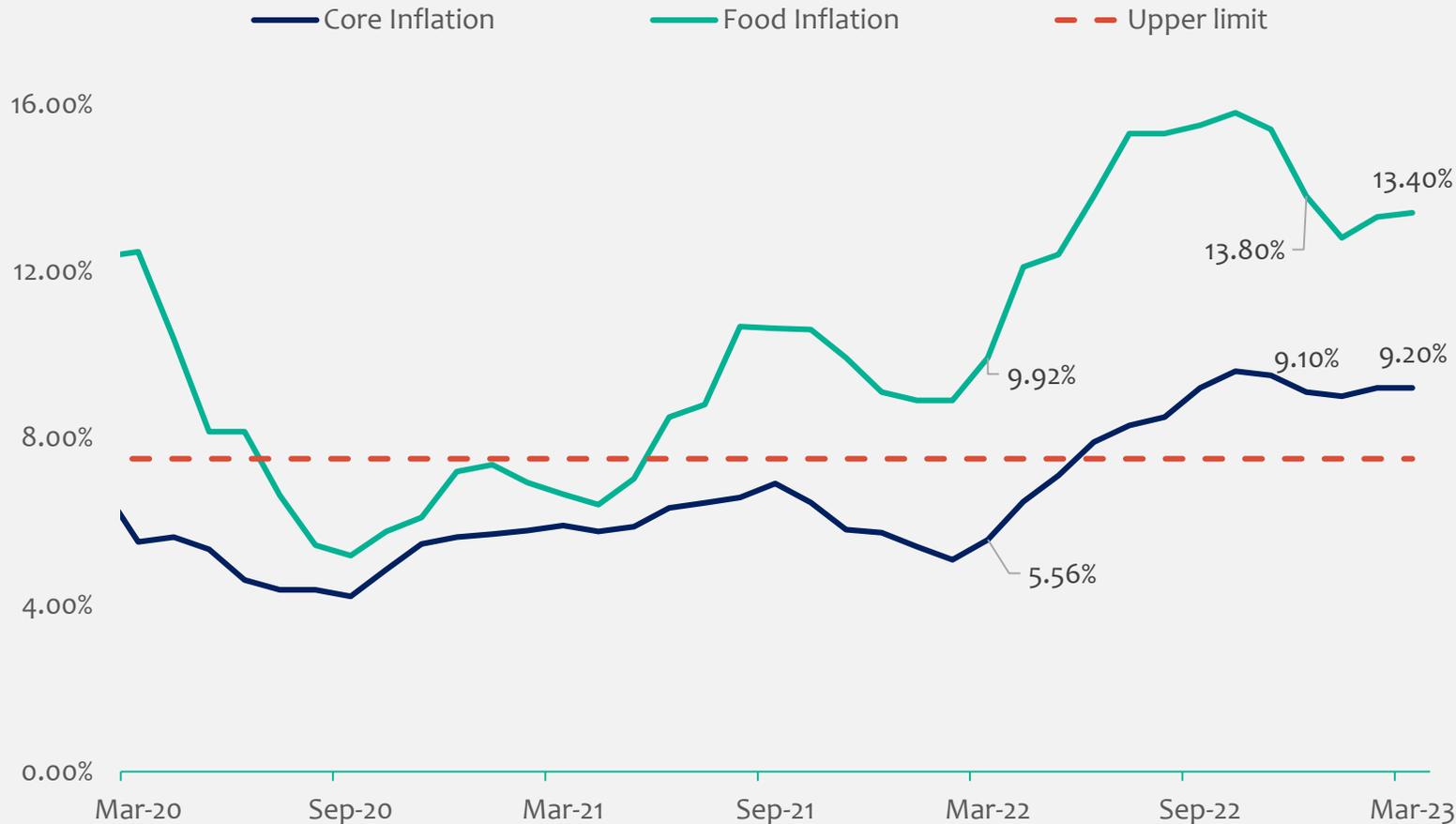


GDP OUTLOOK 2023

We forecast a growth of 5.3% in 2023.

Inflation

Inflation remains elevated averaging at 9.2% in March 2023 vs 5.6% in March 2022



Annual inflation held steady at 9.2% in March 2023. Price pressures were sustained by elevated food and energy costs, attributable to poor weather conditions and lingering supply disruptions.

Food Prices



Higher prices in food items such as cabbages, carrots and potatoes saw the food inflation index rise to 13.4% in March.

Fuel Prices



Despite an increase of petrol prices in the month of March, the transport inflation index moderated to 13.4% as global crude oil prices eased.

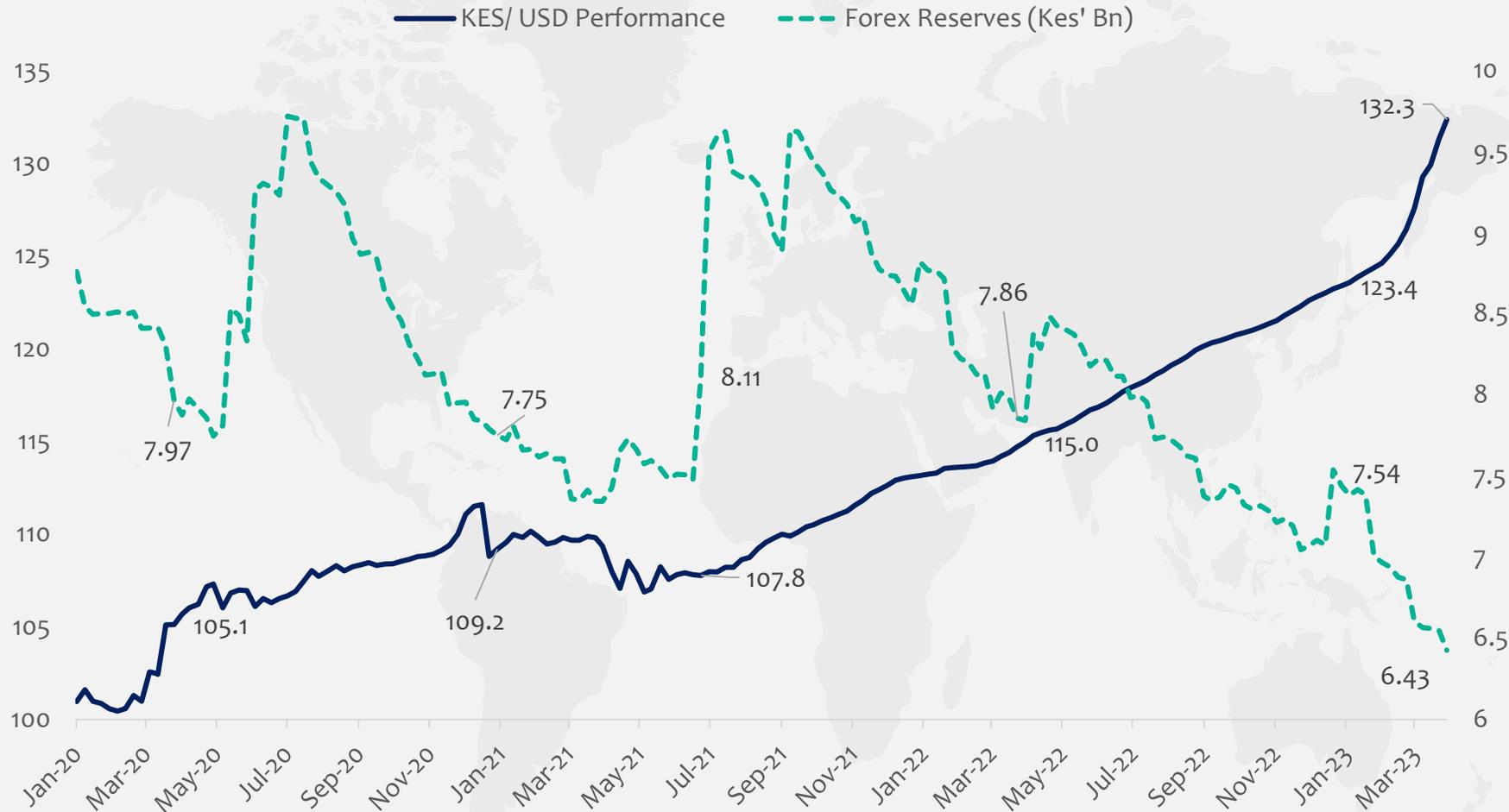
Housing and Electricity



The Housing, Water, Electricity, Gas and other Fuel's index rose by 60bps which was mainly attributable to the increase in the prices of electricity (+11.6%) in the month of March.

	FY 2018	FY 2019	FY 2020	FY 2021	Q1 2021	FY 2022	Q1 2023
Ave. Inflation Rate (Y/Y)	4.70%	5.20%	5.40%	6.10%	5.34%	7.60%	9.13%

The KES continued to depreciate against the dollar



Performance

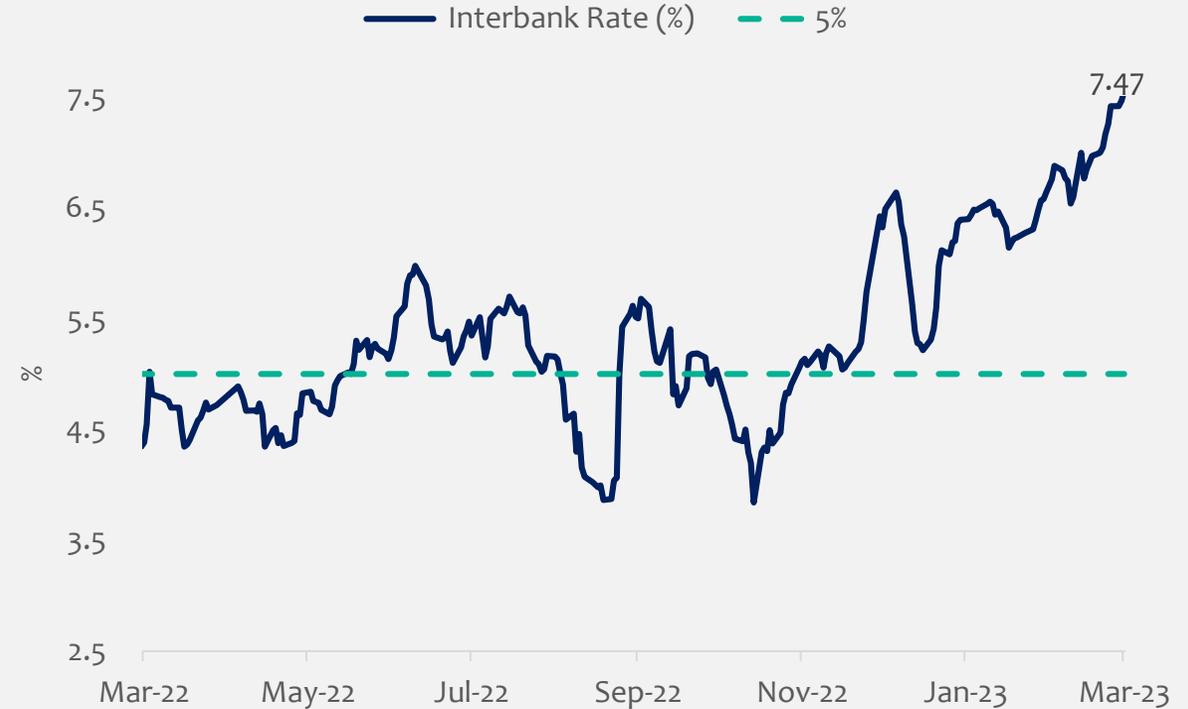
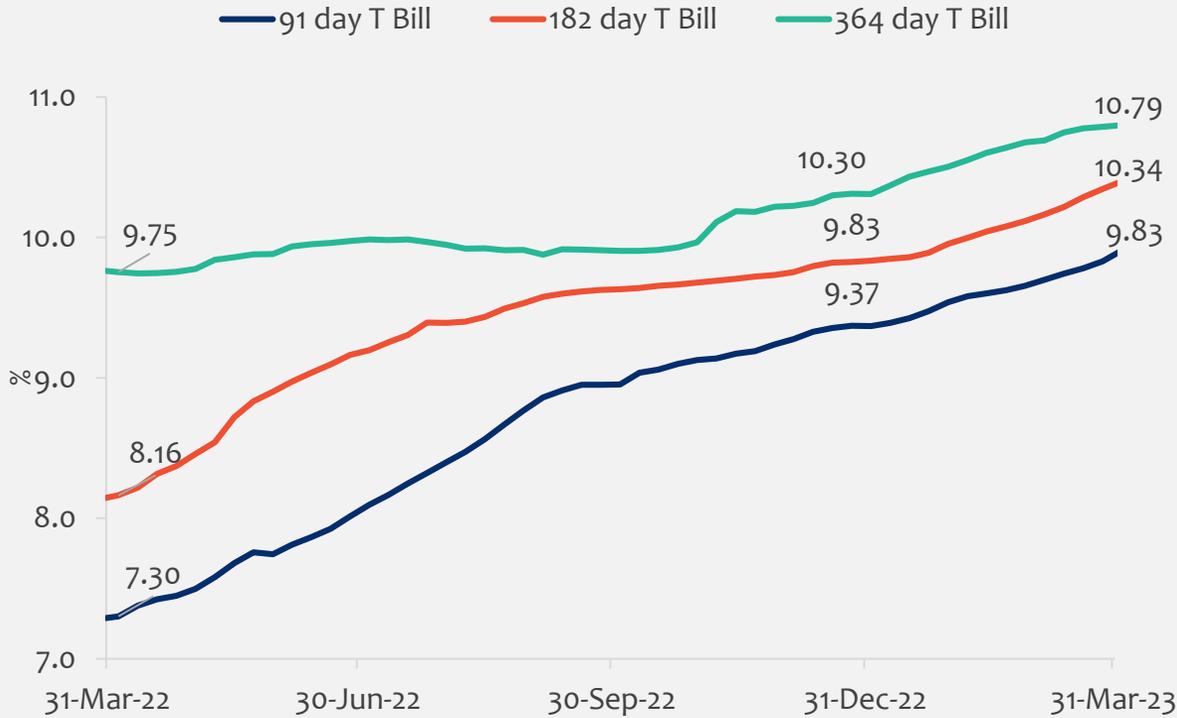
- The Kenya Shilling depreciated by 4.3% against the US dollar within the month of March to close at KES 132.33 from KES 126.85 in February.
- YTD, the KES has lost by 7.3%.

Drivers

- The depreciation was largely attributable to:
 - **US rate hikes;** this has seen the dollar maintain a stronger position as compared to other currencies.
 - **Deteriorating forex reserves;** High foreign debt servicing costs and a widening trade deficit have been putting pressure on foreign reserves. Kenya's forex reserves recorded a 13.6% decline to a 7-year low of USD 6.43 bn as at the end of 1Q23.

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: the 91-day, 182-day and 364-day treasury bills rose by 15bps, 19bps and 13bps, and closed the month at 9.83%, 10.34% and 10.79%, respectively. Commercial Bank rates also edged higher in Q1'23 by approximately 50bps.



Rate movement drivers



High inflation driven by food and fuel prices has seen investors demand more compensation for the elevated perceived risk. Inflation has also had an impact on Central Bank rates and thereby interest rates. CBR rate up to 9.50% from 8.75%.

Liquidity



Tight liquidity conditions continue to prevail in the market as evidenced by the interbank rates which are currently at levels last seen in 2018 (>7%). 1 - 3months deposit have averaged at 11.99% while 4 - 12 months deposits averaged at 12.04% across different banks.

Fixed Income – Longer Tenors

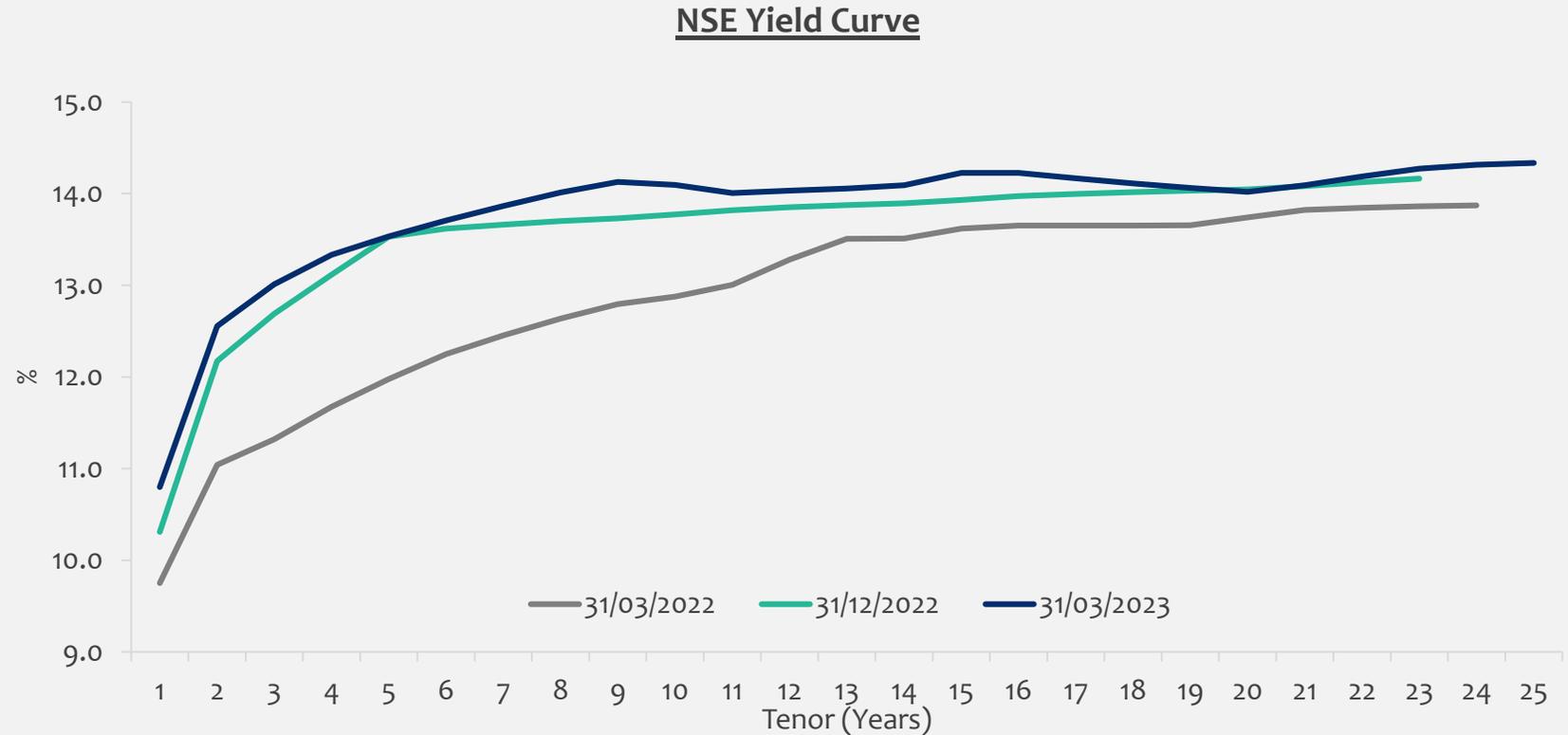
Yields on treasury bonds were on an upward trajectory in March 2023

The yield curve registered an upward shift across majority of the tenors in the quarter. The short (1-5 Year) and long (15 – 25 Year) term papers jumped by 28bps and 9bps, respectively. Overall, the yield curve rose by 19bps in the 1st quarter of 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 IFB1/2023/17 seeking to raise KES 50Bn for budgetary support. They received bids worth KES 59.8Bn and accepted KES 50.9Bn in total. They also issued a tap-sale on the same bond, accepting bids worth KES 12.7Bn. As a result, the CBK raised KES 63.6 Bn.

In the secondary market, bond market turnover rebounded by 5.9% to KES 51.3Bn from KES 46.6Bn recorded in February 2023.



	1-5Yr	6-10Yr	11-15Yr	15-25Yr
Q1 2023 change(bps)	28.3	26.3	20.8	9.3

Equities Market Performance

Recovery in the Kenyan Equities Market following the release of the FY22 financials



During the month, the equities benchmark indices closed in the negative territory. This was led by the NASI which retreated by 10.5%, followed by the NSE 25 and NSE 20, which declined by 5.4% and 1.5%, respectively.

Following the closure of the Diageo tender offer, equities turnover in March surged by 603.9% to KES 32.4bn from KES 4.6bn recorded in the prior month. Foreign investors maintained a net selling position in the month, with net outflows of KES 1.8bn, compared to net outflows of KES 0.3bn recorded in February.

Performance of the top 10 counters based on market capitalisation



FY 2022, saw the banking sector post strong asset and earnings with most banks declaring all-time high dividends. As evidenced by the chart above, most of the banking stock saw pick ups in share price for the 1st quarter of 2023.

Out of the nine Kenyan banks listed on the Nairobi Securities Exchange (NSE), Standard Chartered had the highest dividend payout after it distributed 68.9% of the Kshs.12Bn reported net income. Following this, the bank closed at a share price of Kshs. 170 (+19.1%ytd). Other lenders such as Stanbic and ABSA followed suit, distributing more than half of their net income.

In the three months to March 2023, Safaricom lost 25.1% to close at Kshs.18.10 on increased foreign selling. KCB was also among the leading losers after the bank cut its dividend despite other lenders announcing record payouts.

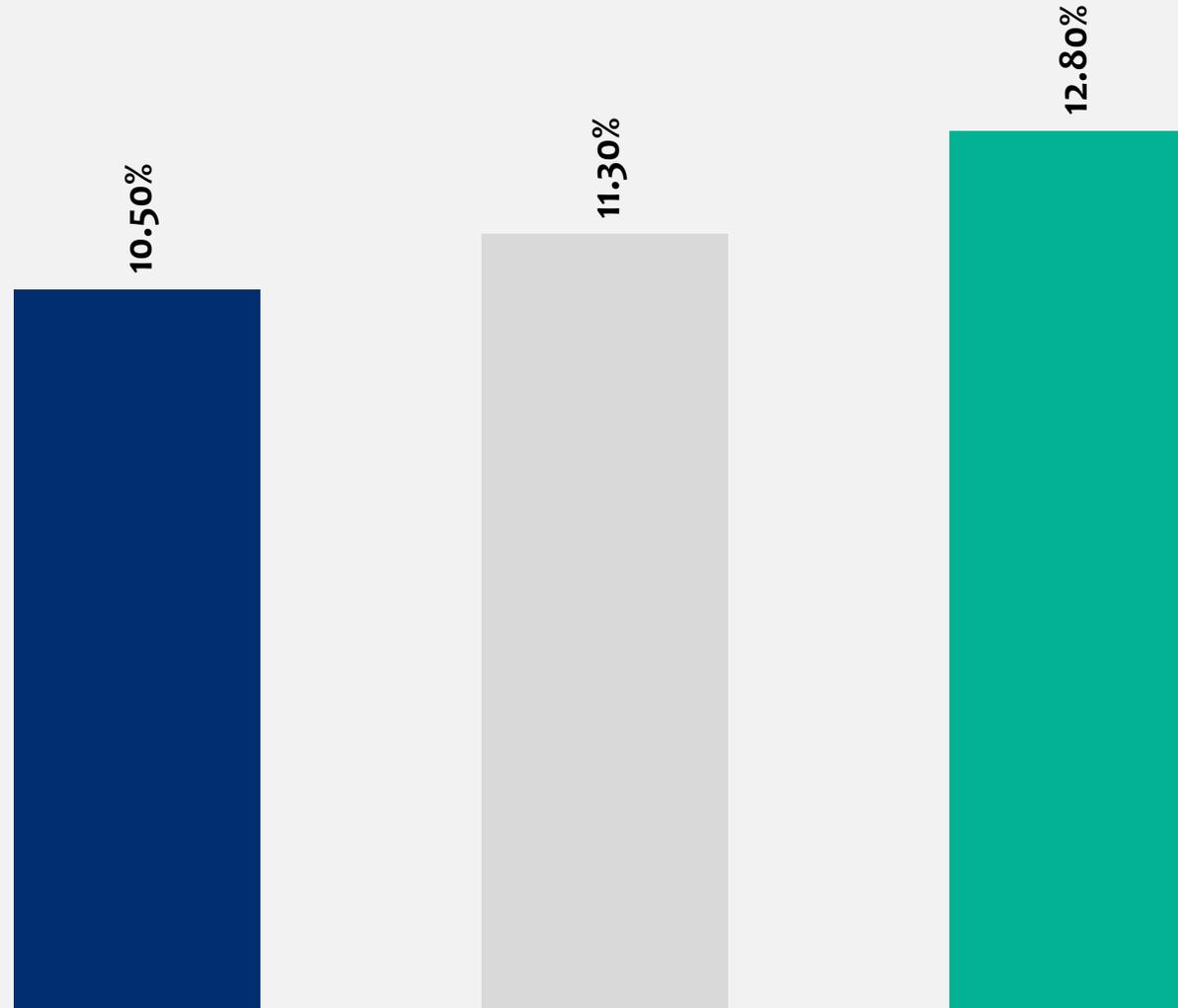


Performance

Fund Performance: MADISON FUNDS

OUR FUNDS' PERFORMANCE

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



MAR-23

Market Analysis: Money Market Funds

■ Madison MMF ■ Market Average ■ 91-Day Tbill





LOOKING AHEAD?

Investment Strategy:



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

Regional Fixed Income

- The Ugandan bond market has considerable higher yields on a FX adjusted perspective than Kenya. The Bank of Uganda recently cut taxes on interest income from 20% to 10% on bonds with tenors under 10 years.
- There exists pockets of value on long-term bonds which are yielding north of 16% - 18% on selected bonds.



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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