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ANNUAL REPORT

2023

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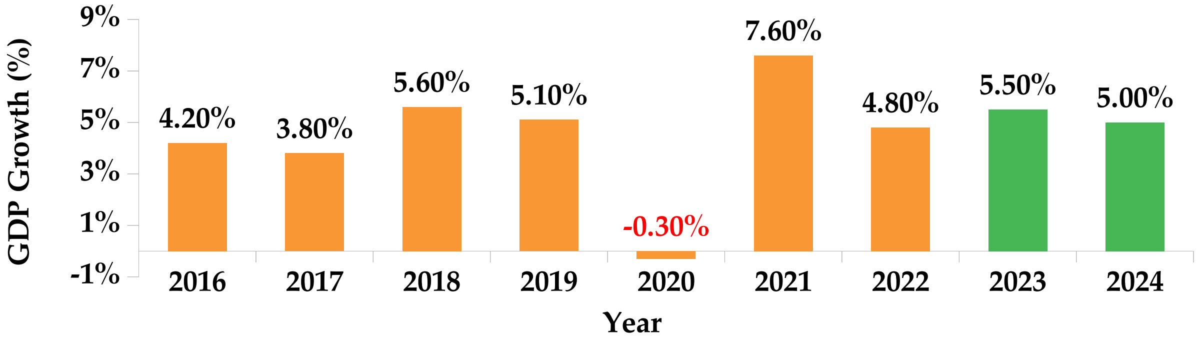
ACTUARIAL SERVICES EAST AFRICA LIMITED

KENYAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

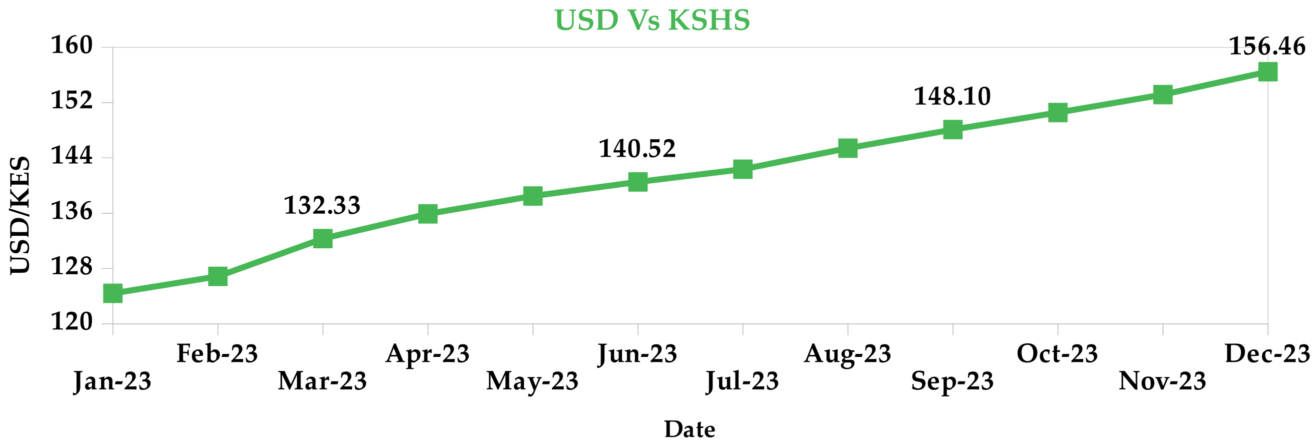
GDP

Kenya's GDP experienced a significant upswing, with Q3 2023's 5.9% growth marking the highest quarterly growth since Q1 2022. The Central Bank of Kenya and the IMF both project continued expansion, with growth estimates of 5.5% and 5.9% in 2023 and 5.0% and 5.3% in 2024 respectively. This upward trajectory stems primarily from the agricultural sector's rebound from its 1.6% contraction in 2022 and the continued strength of the services sector, particularly accommodation and food services. This represents a significant improvement compared to 2022's 4.8% growth.



Currency

The Shilling took yet another hit in Q4, depreciating by 5.65%, 10.66% and 11.40% against the Dollar, the Sterling Pound and the Euro. This led to a total depreciation for 2023 to a hefty 26.77%, 34.34% and 31.99%, leaving the Shilling at Kshs 156.46, Kshs 199.80 and Kshs 173.78 respectively by year-end. The Shilling plunge, particularly against the Dollar, was ascribed to persistently high demand for the greenback, elevated debt servicing costs due the greenback's significant appreciation, tightened global financial conditions and a rise in global inflation.



Foreign Exchange Reserves

Foreign exchange reserves dipped by 15.25% to close at USD 6,612 million (3.5 months of import cover) in 2023, falling short of both CBK's 4-month target and the East African Community's 4.5-month convergence criterion. While the World Bank loan provided short-term boost in June and July, reserves remained below thresholds throughout the year, contributing to the Shilling depreciation.

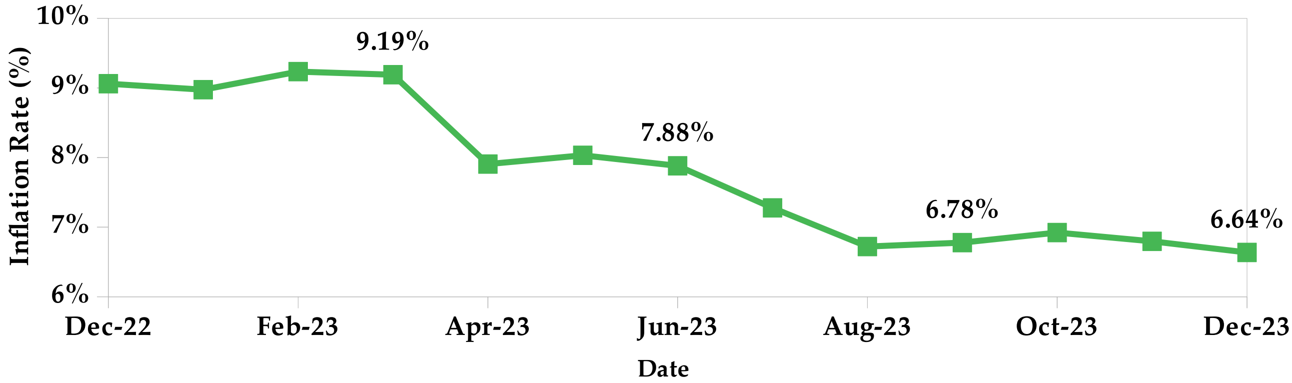
Diaspora Remittances

Remittances soared to record highs in 2023, with a total inflow of USD 4,190 million compared to USD 4,028 million in 2022. This surge was driven by a particularly strong final quarter, which saw USD 1,083 million flow into the country. US remains the dominant source of these remittances, accounting for a significant for 52.80% of the total in 2023.

Inflation

After peaking at 9.1% in 2022, inflation steadily declined throughout 2023, culminating in the year's lowest average rate of 6.8% in Q4. This brought the overall inflation to 6.6%, well within the CBK's target range. Favorable weather conditions curbed food prices, while tight monetary and fiscal stances restrained consumer demand pressures. This downward trend is expected to continue in 2024, with further easing driven by sustained good weather that is expected to keep food prices subdued. However, potential disruptions in global oil supply, rising taxes and reduction of government subsidies pose upside risks to inflation.

INFLATION EVOLUTION



Monetary Policy Committee

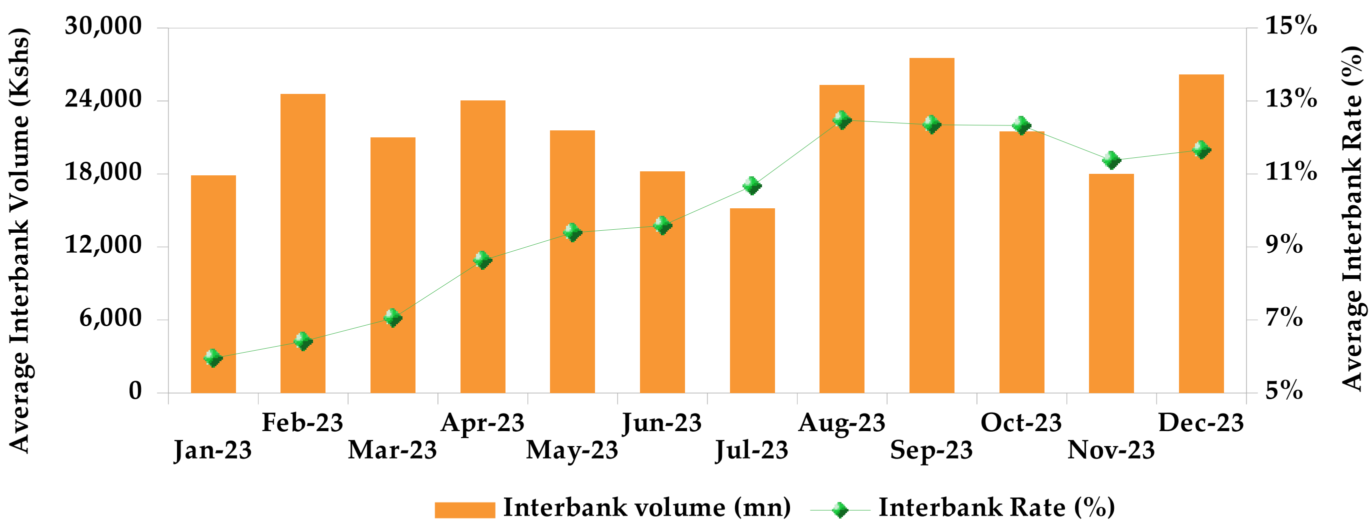
The Monetary Policy Committee (MPC) took a tightening stance against rising inflation and a depreciating Shilling in 2023. The Central Bank Rate (CBR) saw a substantial 42.9% increase, from 8.75% in January to 12.5% by year-end. Q4 witnessed the steepest rate hike of 2.0% implemented in its 5th December meeting, to address exchange rate pressures and mitigate the effects of global price shocks.

The MPC emphasized the need to anchor inflation expectations and reiterated its commitment to maintaining price and exchange rate stability. It remains vigilant and stand ready to further tightening if necessary, closely monitoring both domestic and global economic developments.

Liquidity

In 2023, liquidity tightened as tax remittances more than offset government payments. The average inter-bank rate significantly increased by 99.97% from 4.91% in 2022 to 9.82% in 2023. The average volume of inter-bank transactions increased by 16.06% from Kshs 18.74 billion to Kshs 21.75 billion. Commercial banks' excess reserves decreased from Kshs 12.70 billion at the beginning of the year to Kshs 10.10 billion at year-end.

AVERAGE INTERBANK RATE & VOLUME



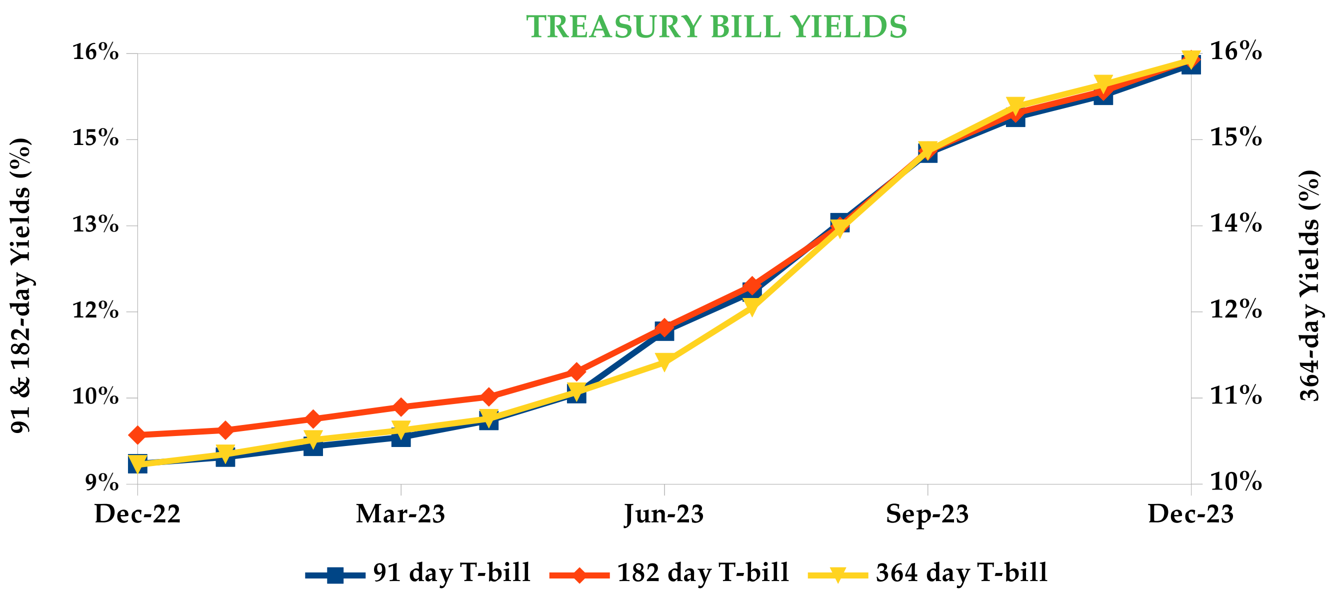
PMI

Kenya's private sector faced a year of contraction in 2023, as evidenced by a sinking Stanbic Bank Kenya Purchasing Managers' Index (PMI) that averaged 48.1, down from 49.2 in 2022. This downward trend was primarily driven by severe cost pressures and weakened customer demand. Output levels, new orders and employment all declined significantly. Fueling these contractions were severe inflationary pressures, exacerbated by a depreciating Shilling, tax hikes and surging fuel prices. These factors weighed heavily on input costs, forcing companies to substantially raise output prices in a bid to maintain their profit margins.

FIXED INCOME

Treasury Bills (T-bills)

T-bills were over-subscribed during the year, with the overall subscription rate increasing to 120.01%, up from 87.78% recorded in the previous year. The 91-day paper received the highest subscription rate at 529.08% while the 182-day and 364-day papers had subscription rates of 47.73% and 28.65% respectively. On a yearly basis, yields on the 91-day, 182-day and 364-day papers significantly rose by 50.84%, 39.16% and 29.67% to 12.29%, 12.49% and 12.82% respectively as investors aggressively bid to compensate for a weaker Shilling and inflationary pressures. The acceptance rate increased by 3.07% to close the year at 92.53%.



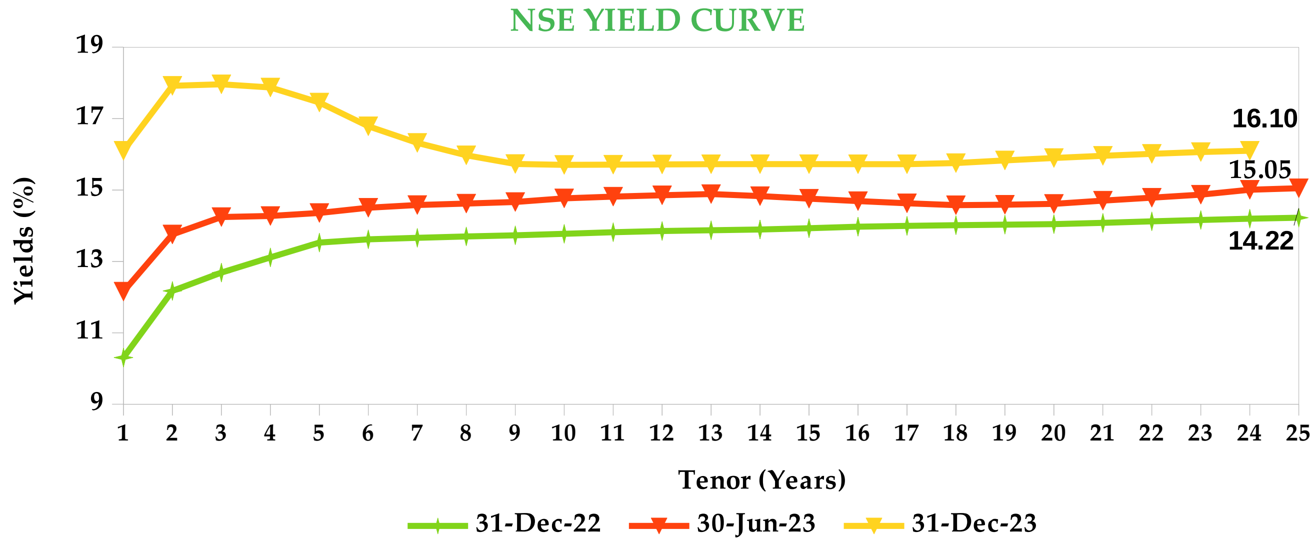
Treasury Bonds

The primary bond market in 2023 saw a strategic shift by CBK, with a 22.30% decrease in the targeted issuance from Kshs 889.30 billion in 2022 to Kshs 691 billion. However, overall investor demand remained robust, with bids reaching Kshs 873.64 billion, representing a subscription rate of 126.43% compared to 94.32% in 2022.

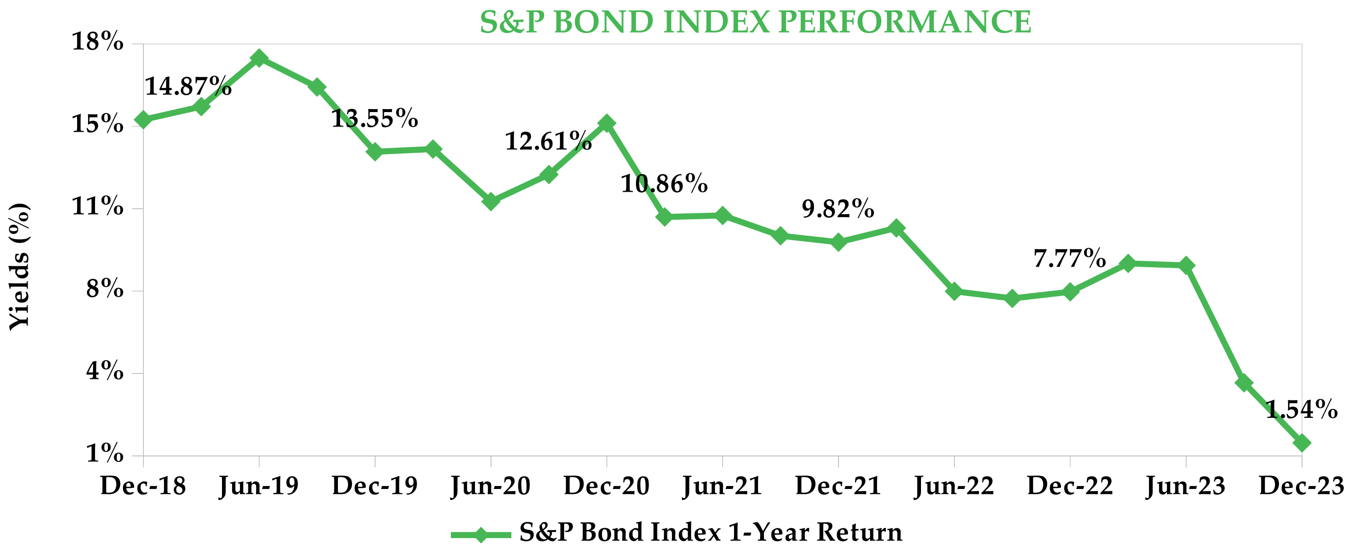
CBK adopted a more cautious approach to treasury bond issuance, targeting Kshs 476 billion through 14 bonds, down from Kshs 546.5 billion raised from 20 bonds in 2022. Despite the reduced offering, investor appetite was robust, with the average subscription rate jumping 12.33% to 92.31%. Investors placed Kshs 439.38 billion in bids, with CBK accepting only Kshs 340.81 billion, representing an acceptance rate of 77.57%, down from 83.22% in 2022. The average rate of accepted bids increased significantly by 18.15% to close the year at 15.83%, reflecting the rising interest rate environment.

Infrastructure bonds, given their tax-exempt status, witnessed even greater investor interest in 2023. CBK sought Kshs 215 billion through two new and one reopened bond auctions, a significant decrease from the Kshs 342.80 billion raised in 2022. Bids received totaled Kshs 434.26 billion, representing an over-subscription of 201.98%, significantly higher than 113.70% recorded in 2022. The acceptance rate also increased to 91.43%, reflecting a 6.86% increase. Similar to treasury bonds, the weighted average rate of accepted bids for infrastructure bonds also surged to 15.82% from 13.54% in the previous year.

In 2023, the secondary bond market experienced a decline in demand for bond offerings. Bond turnover decreased by 9.78%, from Kshs 737.07 billion in 2022 to Kshs 664.96 billion in 2023. However, total bond deals increased by 6.50%, from 25,752 in the previous year to 27,425. Overall, yields on government securities in the secondary market increased by 21.66% in 2023.



The S&P Kenya Sovereign Bond Index lost 80.21% in 2023, yielding a dismal 1.54% return, as a result of the year's steep rise in interest rates. This marked a significant drop from 7.77% recorded in 2022.



Eurobonds

Despite rising global interest rates in 2023, Kenya's Eurobonds saw an average yield decline of 0.45% compared to increases of 4.77% in 2022 and 1.7% in 2021. This positive trend suggests potential investor confidence, likely fueled by positive economic indicators like improved GDP growth and easing inflation, particularly in the second half of the year.

High government borrowing needs, rising debt servicing costs and significant funding requirements continue to put significant upward pressure on yields. Declining foreign exchange reserves, a depreciating shilling, a tightening monetary stance and tax hikes further exacerbate this pressure. However, the strong investor participation in the recent 2014 Eurobond buyback tender suggests a boost in investor confidence, potentially easing yields pressure.

Major Highlights in the Fixed Income Market

- Kenya collected Kshs 1.09 trillion in revenue for the first half of 2023/24 financial year, falling short of the target by 15.25%. Expenditure reached Kshs 1.44 trillion, creating a deficit plugged by Kshs 351.77 billion in financing.
- The President enacted the Public Finance Management amendment, shifting the debt ceiling from a static figure to 55% of GDP. This aligns with the Constitution by including all financial obligations in the public debt calculation.
- Kenya secured major financial support to fuel its development plans. The IMF increased its loan by $938 million, providing immediate access to $682 million, bringing its total support to $2.68 billion. The World Bank also committed a $12 billion loan package starting July 2024.
- The government approved the Privatization Bill (2023), to fast-track selling off non-performing state-owned firms. This bill allows privatizing via public stock offerings, tenders or other cabinet-approved methods.

EQUITIES

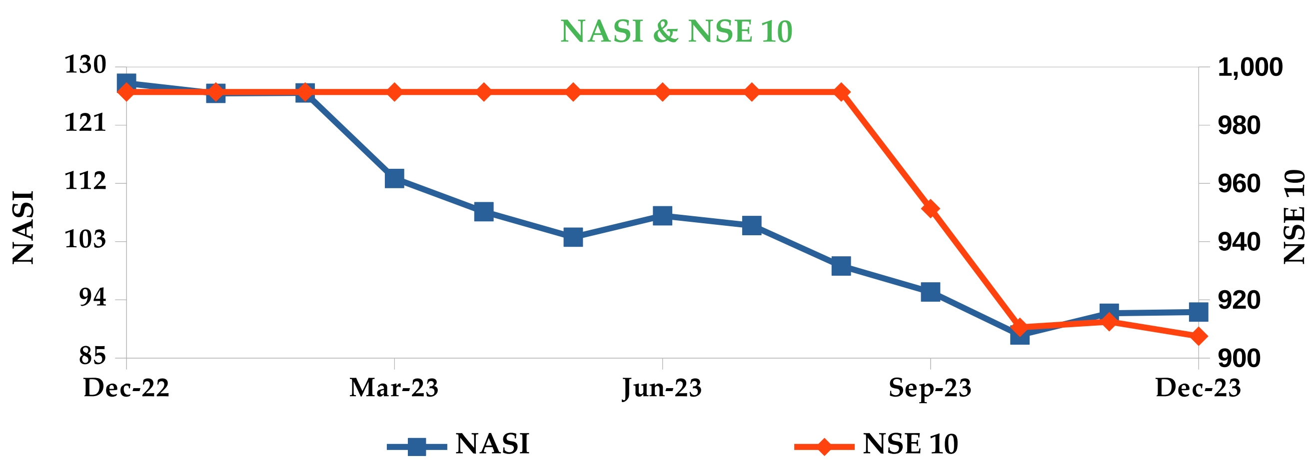
Kenya's stock market suffered a significant downturn in 2023, with major indices contracting sharply. The NASI, NSE 20 and NSE 25 fell by 27.74%, 10.44% and 24.04%, respectively. The newly launched NSE 10 Index also declined 4.61% in Q4 2023. The slump was driven by hefty losses from a majority of large-cap stocks such as KCB, Safaricom and EABL of 42.52%, 42.44% and 31.94%.

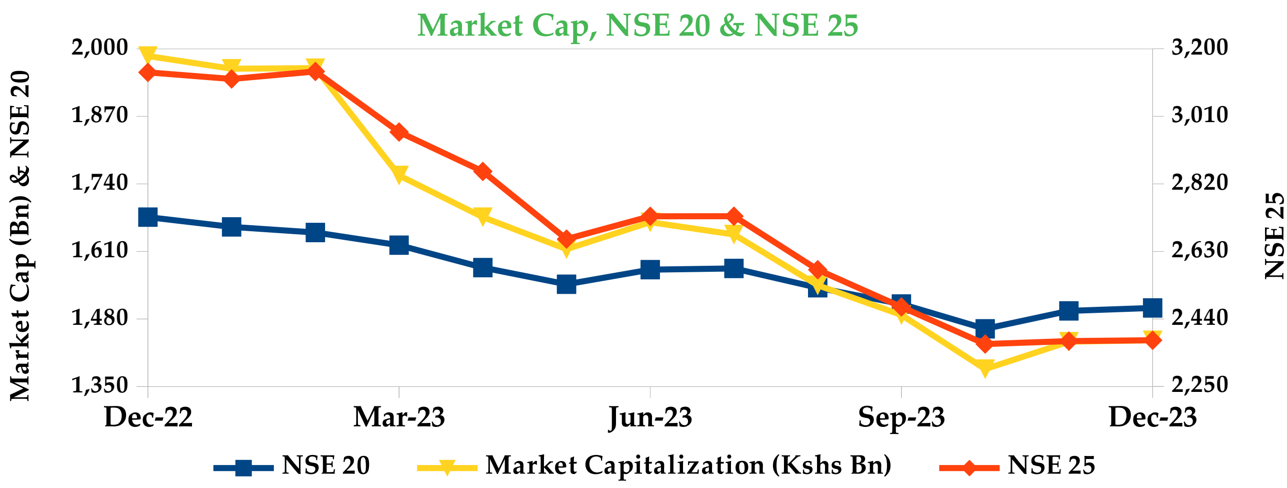
Top Gainers and Losers in the Equities Markets

Top Gainers	Q4 Change	Yearly Change
Umeme	22.61%	115.63%
Kapchorua Tea	7.50%	89.85%
Kenya Orchards	0.00%	87.50%
Eveready	-20.59%	56.52%
ABSA New Gold	15.22%	34.64%

Top Losers	Q4 Change	Yearly Change
Olympia	-84.93%	-82.43%
Unga	-3.71%	-47.34%
Car & General	-2.53%	-47.31%
Trans-Century	4.00%	-44.09%
KCB	5.04%	-42.52%

Market capitalization shrank by 27.54% to Kshs 1.44 trillion from Kshs 1.99 trillion in 2022. Despite an 18.56% increase in total shares traded to 3.11 billion, equity turnover actually declined by 15.97% to close the year at Kshs 86.30 billion. This reflects a shift towards smaller trades amidst the broader market downturn, given that the number of deals remained relatively stable at 270,063 compared to 271,790 deals the previous year.





Despite a constrained global economy in 2023, foreign investors' flight slowed in the second half. Net outflows totaled Kshs 5.14 billion, down from Kshs 15.26 billion in the first half, with the full-year figure coming in at Kshs 20.40 billion. Overall, foreign investor turnover reached Kshs 37.26 billion.

Safaricom, EABL, Equity, BAT and KCB dominated foreign activity, accounting for 96% of total turnover, with individual shares of 59.62%, 16.11%, 14.63%, 3.14% and 2.77%, respectively. While improving global sentiment and anticipated interest rate cuts in 2024 offer hope for increased foreign participation, the country's prevailing macroeconomic risks remain a concern for global investors, potentially leading to further outflows.

Foreign Investor Activity (Kshs. 'Mn')			
Quarter	Inflows	Outflows	Net
Q1	8,757.25	22,684.22	-13,926.97
Q2	5,825.23	7,157.28	-1,332.05
Q3	5,740.17	8,680.54	-2,940.37
Q4	5,755.67	7,953.05	-2,197.38
Total	**26,078.32**	**46,475.09**	**-20,396.77**

Top 5 Performers by Market Turnover		
Counter	Market Turnover (Kshs. 'Mn')	% of Total Market Turnover
Safaricom	34,990.85	39.67%
EABL	25,158.25	28.52%
Equity	9,436.76	10.70%
KCB	4,368.73	4.95%
ABSA	2,395.96	2.72%

Major highlights within the Equities market

- Safaricom takes full ownership of M-Pesa Trust, acquiring all shares of M-Pesa Holding Company from Vodafone.
- CMA green-lights First Future Holdings innovative platform, in partnership with Sterling Capital, allowing them to test a USSD solution that simplifies CDS account creation and trading within the NSE.
- CMA sandbox opened its doors to Frictionless Enterprises, allowing them to pilot their pioneering Power IO app.
- Vodafone and Microsoft join forces in a decade-long pact to transform the digital lives of 300 million in Europe and Africa.

GLOBAL MARKET PERFORMANCE

MACROECONOMIC REVIEW

According to the IMF World Economic Outlook, January 2024 Update, global growth is projected at 3.1% in 2024 (revised up 0.2% from October 2023) and 3.2% in 2025. This revision is due to greater-than-expected resilience in the US and several large emerging market and developing economies, as well as fiscal support in China. However, the forecast remains below the historical average of 3.8%.

Global inflation has continued to decline, driven by factors such as moderating energy and fuel inflation. This, combined with slowing demand and tighter monetary policy, has led to easing global supply pressures. Consequently, global headline inflation is expected to fall to 5.8% in 2024 and 4.4% in 2025.

World Bank's Global Economic Prospects, January 2024 issue, also projects a slowdown in global growth, with figures of 2.6% in 2023, 2.4% in 2024 and 2.7% in 2025. Both reports identify similar downside risks, including geopolitical tensions, financial tightening and climate disasters. Real policy rates are expected to remain elevated for an extended period in Emerging Markets & Developing Economies (EMDEs) despite softening inflation and a measured easing of nominal policy rates globally. The World Bank also emphasized the need for improvement in spending efficiency in EMDEs through better governance and fiscal management. Both institutions call for global cooperation to address debt, climate change, trade fragmentation and food insecurity.

COMMODITIES

Crude Oil

Crude Oil futures declined in 2023, with WTI dropping 10.96% from $80.47 in 2022 to $71.65 in 2023 and Brent crude losing 10.32% from $85.91 in 2022 to $77.04 in 2023. This decline was primarily driven by concerns about slowing demand, particularly in China, and higher-than-expected supply. Despite production cuts from OPEC and its allies, consistently high U.S. production is expected to keep global oil markets well-supplied in the first quarter of 2024, potentially putting further downward pressure on prices.

According to the International Energy Agency's (IEA) January 2024 Oil Market Report, global oil demand growth is expected to decline in 2024, while supply is forecast to rise. The IEA reports a slowdown in oil demand growth to 1.7 million barrels per day (mb/d) year-on-year in Q4 2023, falling from 3.2 mb/d in the second and third quarters of 2023. This reflects China's post-pandemic travel demand normalization. Growth is expected to further drop to 1.2 mb/d in 2024 due to macroeconomic headwinds, stricter fuel efficiency standards and electric vehicle adoption.

On the other hand, global oil supply is forecast to climb by 1.5 mb/d to a record high of 103.5 mb/d, driven by increased production from the US, Brazil, Guyana and Canada. Non-OPEC+ production will lead this growth, while OPEC+ supply is expected to remain stable. With supply outpacing demand, this could potentially put downward pressure on oil prices.

Gold

Gold rallies in 2023, reaching record highs, with potential for further gains in 2024. Gold prices jumped 13.45%, closing at $2,071.80, despite a volatile year. December's surge, fueled by hopes of early Federal Reserve interest rate cuts, pushed prices to an all-time high of $2,135, surpassing the 2020 record. Gold is expected to maintain its upward momentum in 2024 due to persistent geopolitical risks, such as ongoing conflicts in the Middle East, uncertainty surrounding elections in major economies, continued buying of gold by central banks like China and anticipated rate cuts.

US MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

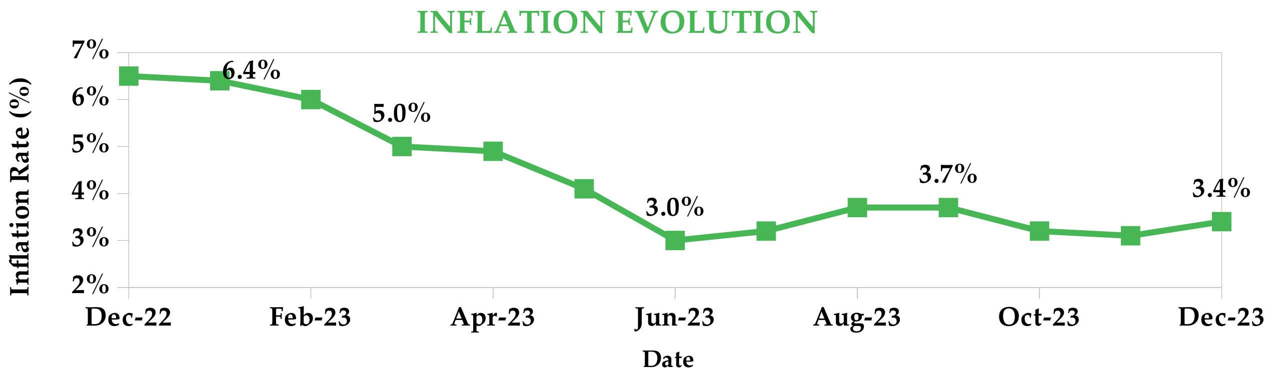
US GDP grew 2.5% in 2023, exceeding the previous year's 1.9%. While the Federal Reserve's interest rate increases impacted the economy, the tight labor market helped sustain consumer spending. Key drivers include personal consumption expenditures (PCE) which rose 2.2% compared to 2.5% in 2022. Non-residential investment slowed to 4.4% compared to 5.2% in 2022, while residential investment declined further to 10.7% from 9%. Exports saw modest growth of 2.7%, while imports fell to -1.7% from 8.6% in 2022. Government spending rebounded by 4% from a decline of 0.9% in 2022. The IMF's WEO January update predicts a drop in US growth from 2.5% in 2023 to 2.1% in 2024 (revised slightly upward) and 1.7% in 2025. This is attributed to the lagged effects of tighter monetary policy, gradual fiscal tightening and slower job growth impacting overall demand.

Interest Rates

The Federal Reserve raised interest rates significantly in 2023 to combat inflation and mitigate global financial risks. By December, the target range reached a 23-year high of 5.25%-5.5%, representing a 100 basis points increase since December 2022's range of 4.25%-4.5%. The Fed implemented a series of rate hikes throughout the first half of the year, but slowed down its pace of tightening in the second half. It raised rates by 25 basis points in July and then paused on further increases, reflecting easing inflation concerns. With a healthy economy, recovering labor market and moderating inflation, the Fed suggests that policy rates may be nearing their peak, raising expectations of potential rate cuts in 2024. However, the Fed remains adaptable and ready to adjust its stance as needed.

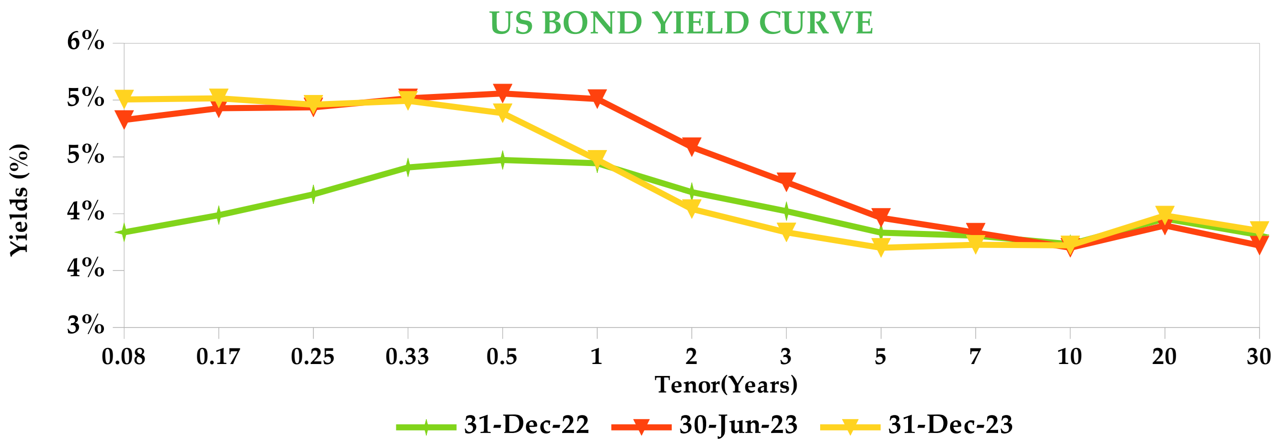
Inflation

US inflation eased significantly in 2023, dropping from 6.5% in December 2022 to 3.4% by December 2023, moving closer to the Fed's 2% target. The decline was driven mainly by moderating costs of food, energy (particularly gasoline and fuel) and used cars and trucks. However, rising prices in electricity, shelter, medical services and transportation pose ongoing challenges. This trend of moderating inflation is expected to continue in 2024.



FIXED INCOME

Throughout 2023, the US Treasury yield curve remained inverted, reflecting economic uncertainties and shifting expectations. Fears of a recession, fueled by rising inflation and aggressive Fed tightening, dominated the first half of the year. This triggered the inversion, with short-term yields exceeding long-term yields, a potential recessionary signal. However, the US economy proved surprisingly resilient, driven by strong labor markets and consumer spending. This challenged the recession narrative, causing the curve to flatten and briefly steepen at times. Ultimately, the Fed's continued hawkish stance and volatile inflation kept the curve predominantly inverted.

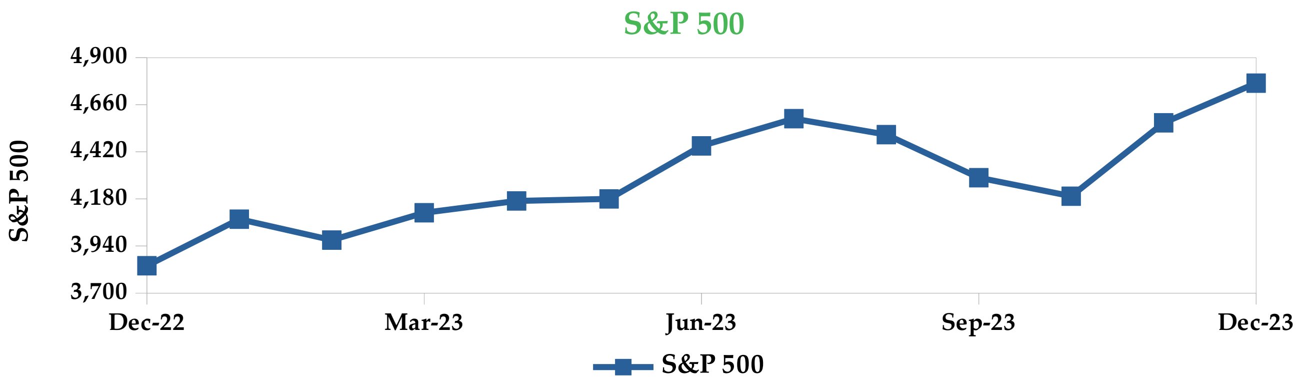


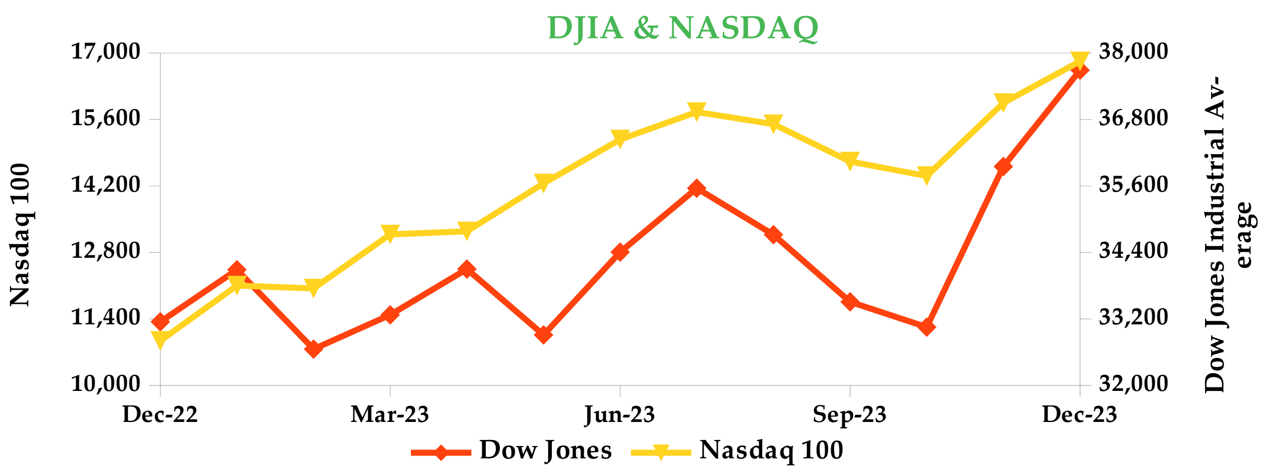
Expectations of a dovish shift from the Fed with potential interest rate cuts could lead to a steeper yield curve in 2024 because short-term yields would likely fall more than long-term yields. However, the pace and extent of this steepening remain uncertain, heavily dependent on inflation's trajectory.

EQUITIES

Defying expectations, the US stock market displayed surprising strength in 2023, culminating in a remarkable Q4 upsurge. This momentum was fueled by growing anticipation of interest rate cuts in 2024, triggering a significant year-end rally. The uptrend reflected the continued strength of consumer demand, a key driver of economic growth and inflation since the pandemic's start.

The S&P 500, Dow Jones Industrial Average and Nasdaq 100 all surged in 2023, exceeding year-end projections by 24.23%, 13.70% and 53.81% respectively. Technology stocks, fueled by enthusiasm for artificial intelligence (AI) innovations and dovish policy expectations, were among the top performers. Communication services and consumer discretionary sectors also outperformed. However, utilities, energy and consumer staples were among the sectors that recorded year-end losses.





EUROPEAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

According to IMF's WEO January update, Eurozone growth is projected to rebound from 0.5% in 2023, impacted by Ukraine war, to 0.9% in 2024 and 1.7% in 2025. Strong household consumption fueled by subsiding energy costs and falling inflation is expected to drive the recovery. However, the 2024 forecast was revised down 0.3% due to weaker-than-expected 2023 growth.

UK growth is projected to modestly rise from 0.5% in 2023 to 0.6% in 2024, reaching 1.6% in 2025. This reflects easing financial conditions and recovering real incomes as inflation falls. However, the 2025 forecast was reduced by 0.4% due to recent upward revisions to the level of output during the pandemic.

Interest Rates

The European Central Bank (ECB) kept interest rates steady in Q4 2023, following an aggressive tightening in the preceding months. This tightening resulted in a total of 200 basis point increase, closing the year at a main refinancing operations rate of 4.5% (up from 2.5% in 2022) and a deposit facility rate of 4.0% (up from 2% in 2022). This move aimed to combat inflation.

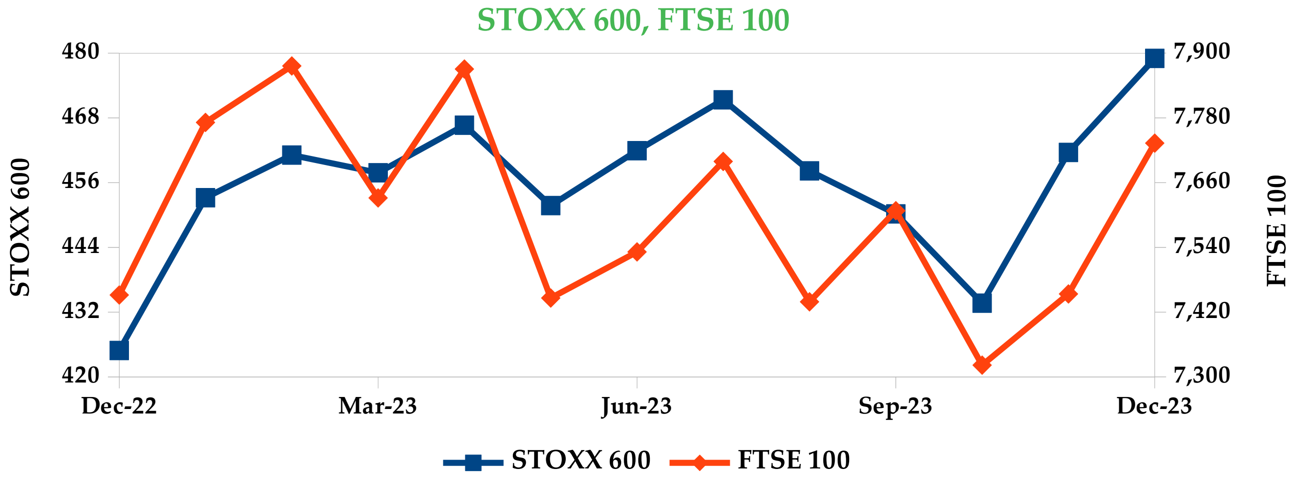
However, the prospects of ECB rate cuts in 2024 appear slim despite lingering concerns about a possible recession and a gradual easing of inflationary pressures. Policymakers remain committed to maintaining sufficiently restrictive interest rates for as long as necessary to bring inflation back to its 2% target in a timely manner.

Inflation

The inflation rate in the Eurozone declined to 2.9% year-on-year in December 2023 from 9.2% in December 2022, slowly getting closer to the ECB's 2% target. The significant easing was attributed to a decline in energy prices, a slowdown in food, alcohol and tobacco inflation and a decline in non-energy industrial good prices. The core rate, excluding volatile food and energy prices, closed the year at 3.4%, marking its lowest point since March 2022.

EQUITIES

Driven by hopes of a more dovish monetary policy in 2024, European stocks closed 2023 on a positive note. The pan-European STOXX 600 and UK's FTSE 100 indices gained 12.74% and 3.78% year-on-year, respectively. Among the best performers were rate-sensitive technology stocks and the retail sector. Additionally, Italian stocks out-performed their regional peers while Swiss and UK indices lagged behind.



ASIAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

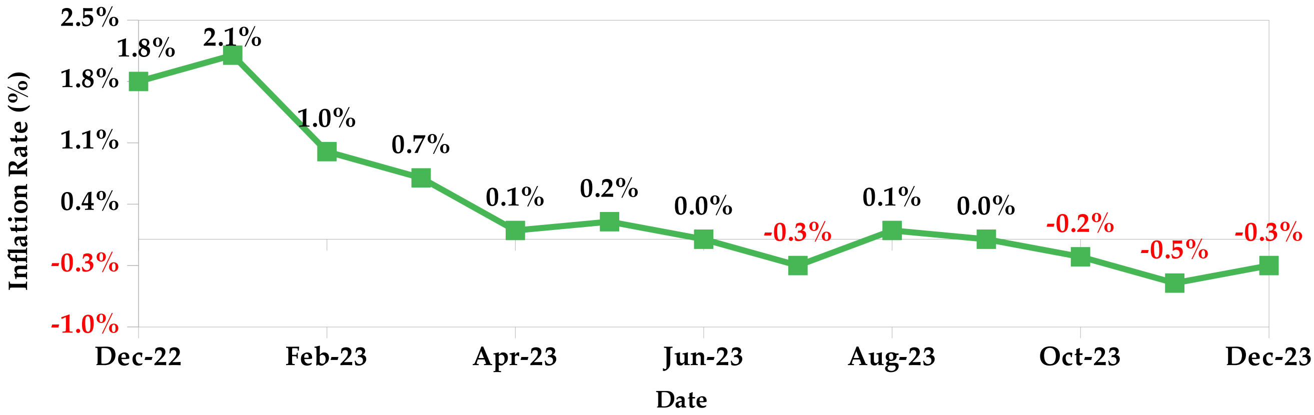
GDP

Growth in emerging and developing Asia is expected to decline from 5.4% in 2023 to 5.2% in 2024 and 4.8% in 2025. China's growth is projected at 4.6% in 2024, an upward revision driven by stronger-than-expected 2023 performance and increased government spending on capacity building against natural disasters, and 4.1% in 2025. India's growth is projected to remain strong at 6.5% in 2024 and 2025, revised up 0.2% for both years, driven by resilient domestic demand.

Inflation

China's inflation data revealed persistent deflationary pressures in the world's second-largest economy, raising concerns about the sustainability of its economic recovery due to sluggish demand. In 2023, inflation peaked at 2.1% in January but ended the year in deflationary territory at -0.3%. This significant decline was mainly driven by the steep drop in food prices, which went from 6.2% in January to -3.7% in December 2023. Core consumer prices, excluding food and energy, also remained subdued, closing the year at 0.6% year-on-year.

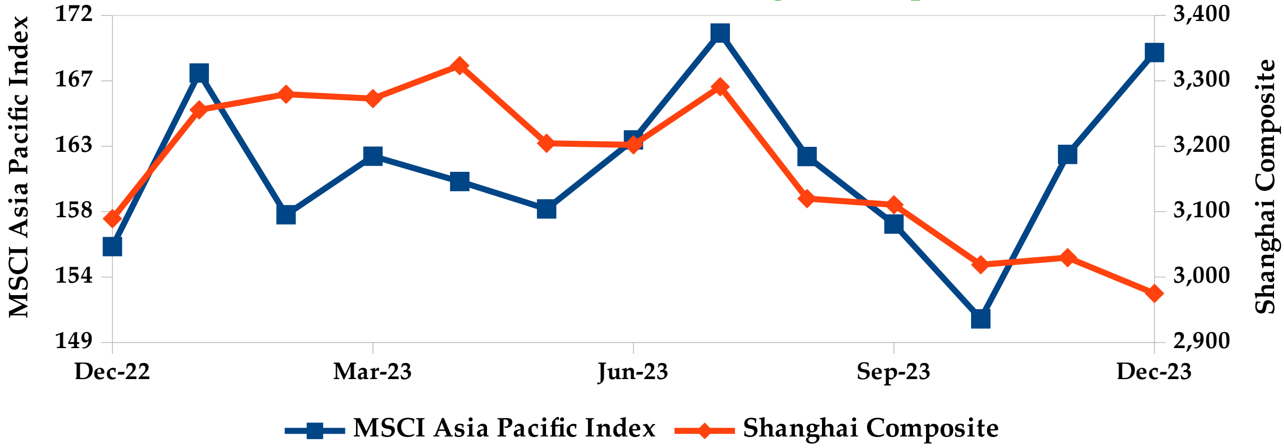
INFLATION EVOLUTION



EQUITIES

Asian stocks showed mixed performance in 2023. The MSCI Asia Pacific Index gained 8.76%, while the Shanghai Composite Index lost 3.30% compared to 2022. Japanese and Indian stocks were the top performers, benefiting from a dovish Bank of Japan and optimism over the Indian economy. However, Chinese blue-chip stocks underperformed due to persistent concerns about an economic rebound, leading investors to shift their focus away from the Chinese market.

MSCI Asia Pacific Index, Shanghai Composite



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