Q1 2024
MARKET REPORT

Insurance | Financial | Investment | Risk | Pension | Health | I.T

ACTUARIAL SERVICES EAST AFRICA LIMITED

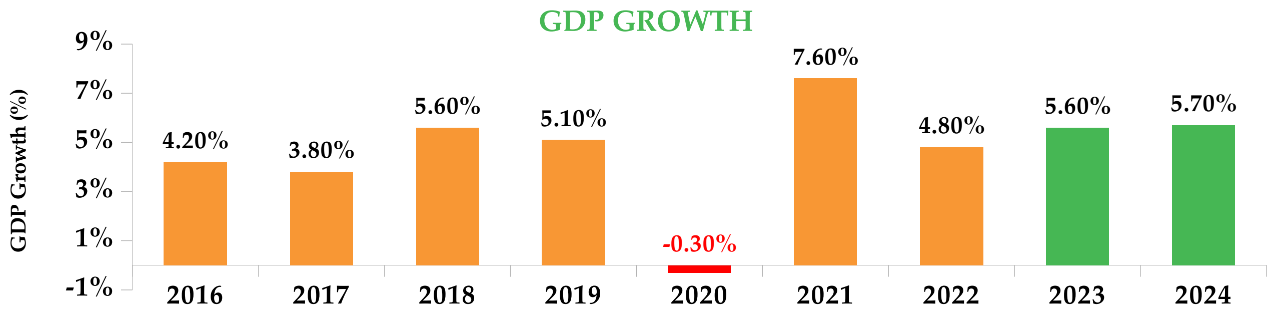
KENYAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

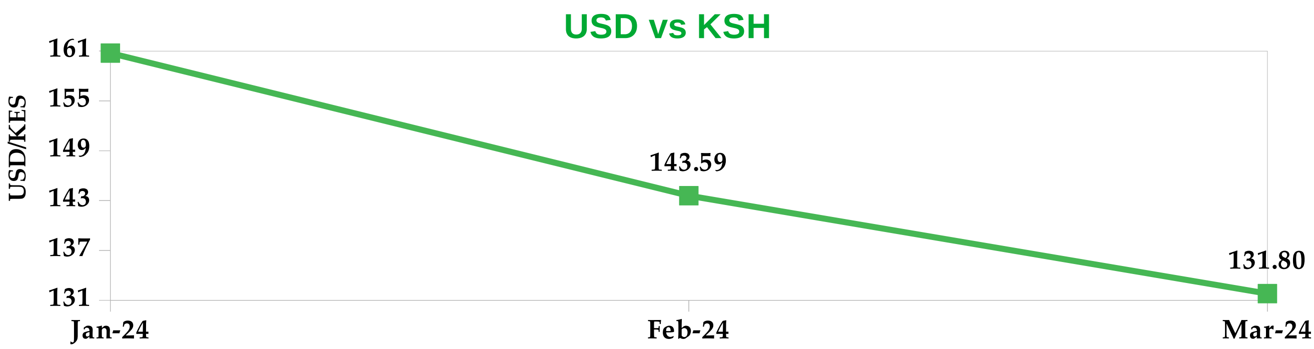
IMF projects continued resilience in the economy in the near-term, with growth forecasts of 5.5% in 2023, 5.0% in 2024 and 5.3% in 2025, amid ongoing adjustments in the fiscal policy and external accounts.

The Central Bank of Kenya (CBK) in its April 2024 forecasts anticipates a growth of 5.8% in Q4 2023, translating to an annual growth of 5.6% in 2023 and a projected increase to 5.7% in 2024, compared to 4.8% in 2022. This positive outlook is underpinned by a resilient services sector, robust performance of the agricultural sector, implementation of government measures to boost economic growth and an improved global growth outlook.



Currency

The Shilling reversed its year-long depreciation trend during the quarter, significantly appreciating against the USD, the Sterling Pound and the Euro by 15.76%, 16.64% and 17.90% respectively, closing the quarter at Kshs 131.80, Kshs 166.55 and Kshs 142.67 compared to Kshs 156.46, Kshs 199.80 and Kshs 173.78 in the previous quarter. This appreciation is attributed to strong investor confidence, evidenced by the oversubscribed 2014 Eurobond buyback tender, alongside increased diaspora remittances and tourism inflows.



Foreign Exchange Reserves

During the quarter, the usable foreign reserves increased by 7.20% to settle at USD 7.09 billion (3.80 months of import cover). However, this level falls short of CBK's statutory requirement to endeavor to maintain at least 4 months of import cover as well as EAC region's convergence criteria of 4.5 months of import cover.

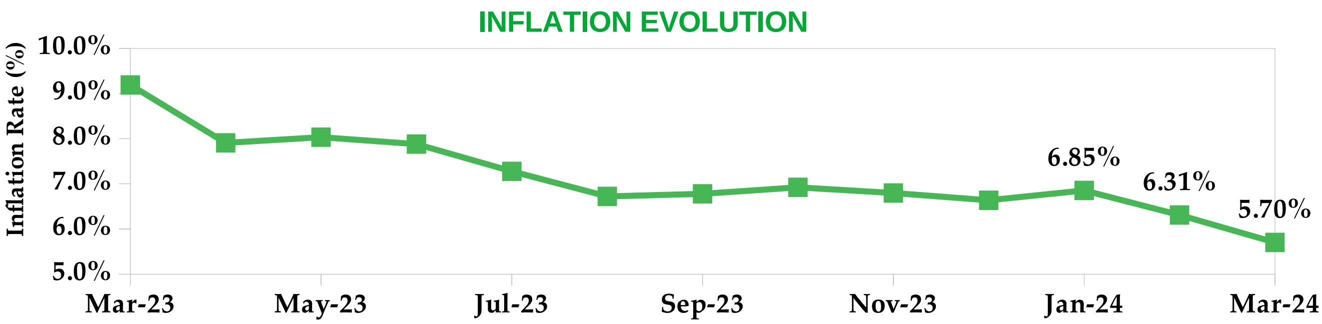
Diaspora Remittances

Remittance inflows surged in Q1 2024, reaching a record high of $1.21 billion. This represents an increase of 11.35% from $1.08 billion in Q4 2023 and an 18.77% rise from $ 1.02 billion in Q1 2023, supported by easing global inflationary pressures. US remained the dominant source of these remittances, accounting for 55.83% of total inflows. This consistent inflow of the USD contributed to alleviating the Shilling pressure during the quarter.

Inflation

The first quarter of 2024 saw a downward trend in inflation. Following a January reading of 6.85%, inflation dipped to 6.31% in February and further declined to a two-year low of 5.70% in March, marking the lowest rate since March 2022. This positive trend is primarily attributed to a decline in fuel and electricity prices. However, food prices remained elevated.

Inflation is expected to continue its decline in the next quarter. Favourable weather conditions are expected to bring down food prices, further easing inflationary pressures. Additionally, the recent appreciation of the Shilling is anticipated to continue dampening fuel costs and other import costs, reinforcing the downward trend. However, global oil price volatility poses a downside risk.



Monetary Policy Committee

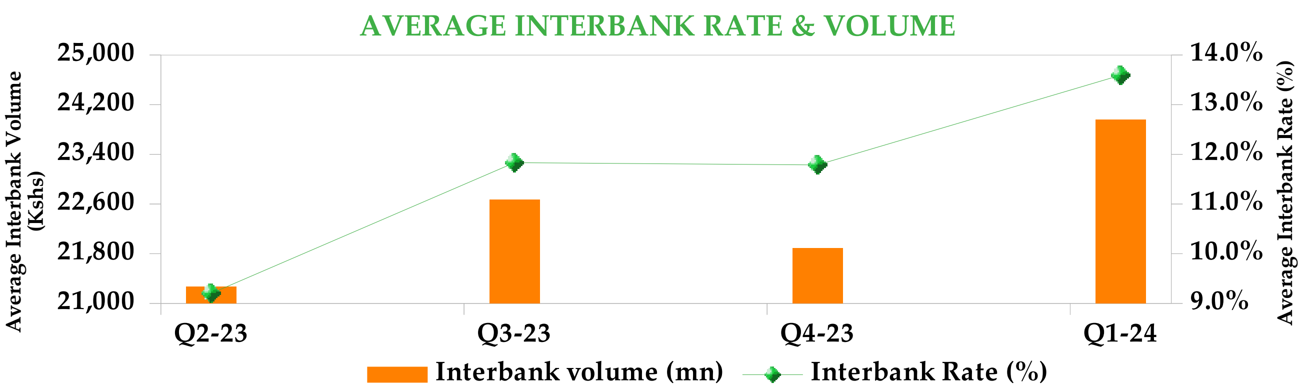
The Monetary Policy Committee (MPC) took a hawkish stance during the quarter to address inflationary pressures and stabilize the exchange rate. With inflation hovering around the upper bound of the target range of 2.5% - 7.5% and depreciation of the Shilling, the MPC raised the Central Bank Rate (CBR) by 50 basis points to 13% in February, marking a continuation of its tightening cycle initiated in December 2023.

At its subsequent meeting in April, the MPC maintained the CBR at 13%, a reflection that previous policy measures were having the desired effect, noting a decline in inflation and moderation in exchange rate pressures. The MPC concluded that the current stance would allow inflation to continue its downward trend towards the target range midpoint of 5%.

The MPC remains vigilant and will closely monitor the impact of its policy decisions alongside global and domestic economic developments and stands ready to take further action if necessary, in line with its mandate. The committee's next meeting is scheduled in June 2024.

Liquidity

During the quarter, liquidity in the money markets tightened, as evidenced by a surge in the average inter-bank rate from 11.79% in Q4 2023 to 13.59%, as tax remittances more than offset government payments. However, the average volume of inter-bank transactions increased from Kshs 21.89 billion in Q4 2023 to Kshs 23.96 billion. Commercial banks excess reserves rose from Kshs 17.92 billion in Q4 2023 to Kshs 21.85 billion.



PMI

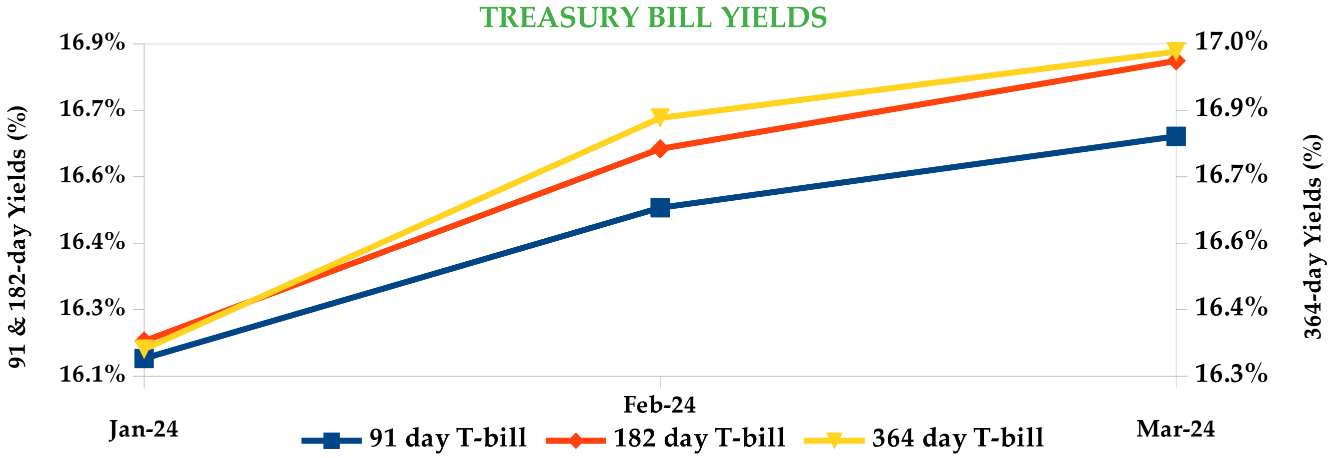
Kenya's private sector showed signs of recovery in Q1 2024, as evidenced by Stanbic Bank Kenya PMI. The average PMI for the quarter stood at 50.3, indicating an expansion compared to the contractionary reading of 48.1 in Q4 2023. Notably, February's PMI of 51.3 marked the first month of expansion since August 2023.

This upward trend was driven by improvements in output and new orders, suggesting an uptick in demand. Lower fuel prices also contributed to a moderation in input cost inflation. This, coupled with the appreciation of the Shilling against the USD, further eased inflationary pressures, allowing businesses to reduce their output charge inflation to its lowest level in over a year.

FIXED INCOME

Treasury Bills

T-bills remained over-subscribed during the quarter, with the overall subscription rate increasing to 138.90%, up from 127.63% recorded in the previous quarter. The performance of the 91-day, 182-day and 364-day papers stood at 503.42%, 60.74% and 71.26% respectively. On a quarterly basis, yields on the 91-day, 182-day and 364-day papers increased by 7.18%, 7.60% and 7.60% to 16.50%, 16.63% and 16.79% respectively. The acceptance rate decreased by 4.92% to close the quarter at 89.12%.

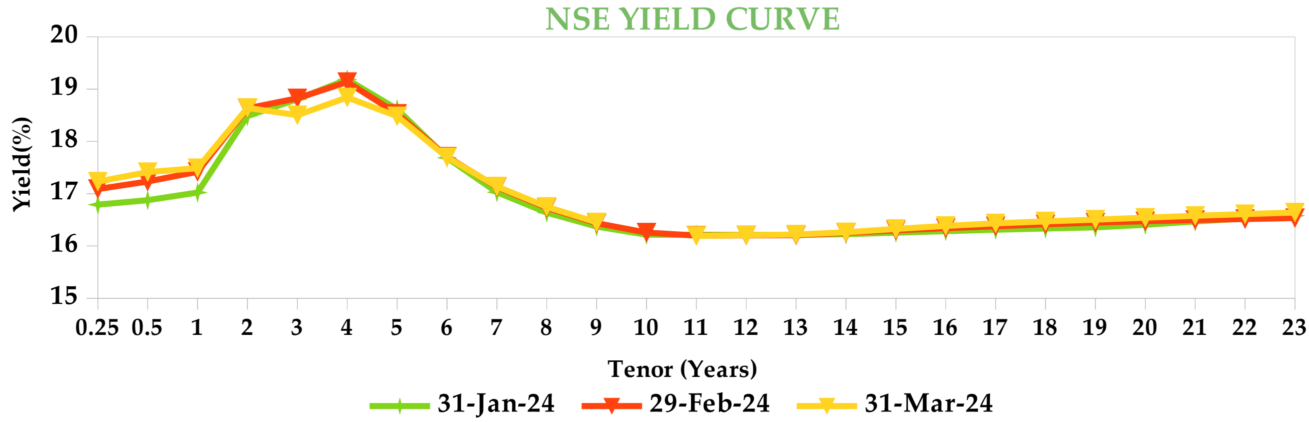


Treasury Bonds

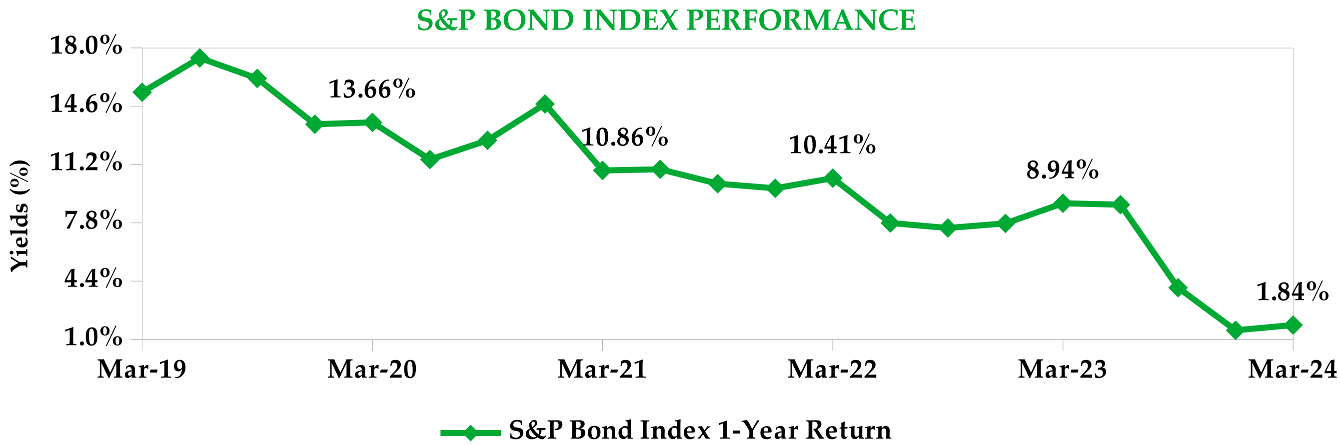
In the primary bond market, CBK sought to raise Kshs 190 billion, an increase from Kshs 145 billion in the previous quarter, indicating a rise in government's borrowing appetite. Bond issuance was met with strong investor demand, with the average subscription rate surging 66.54% compared to Q4 2023.

The new 8.5-year infrastructure bond, particularly attractive due to its tax-free status, attracted over four times its target amount. Average yields declined from 18.12% in Q4 2023 to 17.88%, attributed to a slowdown in interest rate hikes, strengthening currency which has reduced debt servicing costs and improved liquidity boosted by external financing inflows.

The secondary bond market saw an upsurge in demand for bond offers, with quarterly turnover rising 221.70% to Kshs 459.12 billion from Kshs 142.72 billion in Q4 2023. Total bond deals soared 35.89% from 6,196 in the previous quarter to 8,420 deals. Yields on government securities in the secondary market increased by 1.49% to 16.47% during the quarter. Considering the current environment of high interest rates and rising government borrowing needs, the secondary bond market could experience a further upsurge in activity over the next quarter.



The S&P Kenya Sovereign Bond Index recorded a modest increase in Q1 2024, with a return of 2.52%, marking the highest increase since Q4 2022. This is compared to 0.09% in Q4 2023. This improvement likely reflects the impact of continued interest rate hikes, but at a slower pace compared to the previous quarter.



Eurobonds

In the international market, Kenya's Eurobonds showed notable improvement in sentiment during the quarter. Yields decreased by an average of 95 basis points, a stark reversal compared to an increase of 274 basis points in the previous quarter. This positive shift can be attributed to a successful Eurobond buyback which signaled a boost in investor confidence. Improved macroeconomic conditions, including positive GDP growth, easing inflationary pressures and an appreciating Shilling, also contributed to easing pressure on yields.

Major highlights in the Fixed Income Market

- The Affordable Housing Bill 2023, which involved a levy of 1.5% on employees' gross monthly pay matched by their employer, was signed into law.
- CBK licensed 19 new Digital Credit Providers, raising the total to 51.
- The revised NSSF contribution rates, reflecting increased employee and employer contributions, came into effect on 1st February 2024.
- KRA launched eTims Lite for the Informal Sector and Small Businesses.
- CMA granted a fund manager license to VCG Asset Management Limited.
- CMA automated its license application process through the e-Citizen platform.
- NSE set to operate a hybrid fixed-income market, following CMA's approval of amendments to its fixed income trading rules.

EQUITIES

The Kenyan stock market reversed the sharp decline witnessed in 2023, experiencing a significant recovery in Q1 2024. This upturn, largely attributed to appreciation of the Shilling, saw all major indices post strong gains compared to the previous quarter. The NASI, NSE 20, NSE 25 and NSE 10 Indices rose by 22.78%, 16.74%, 25.01% and 27.32% respectively. This was primarily driven by notable gains recorded by all large cap stocks, with Equity Bank's 40% gain leading the pack.

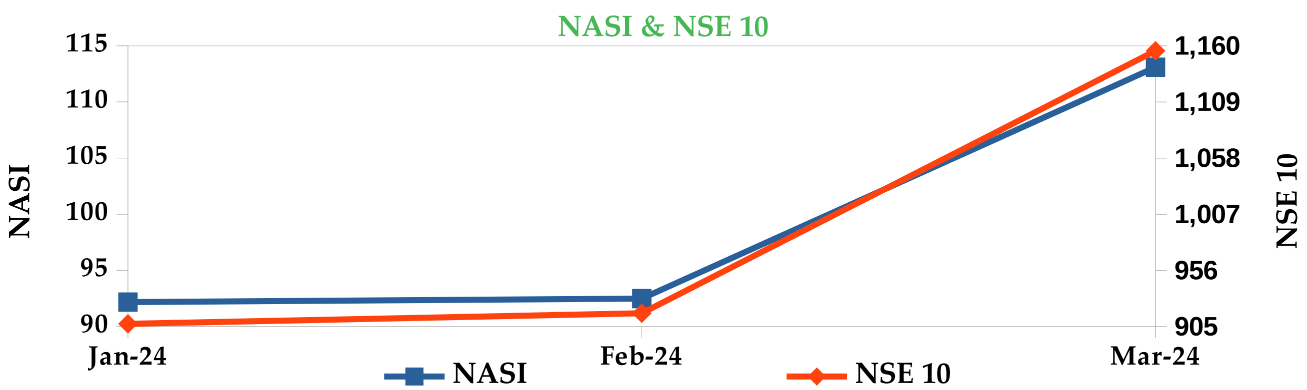
Top Gainers and Losers in the Equities_Markets

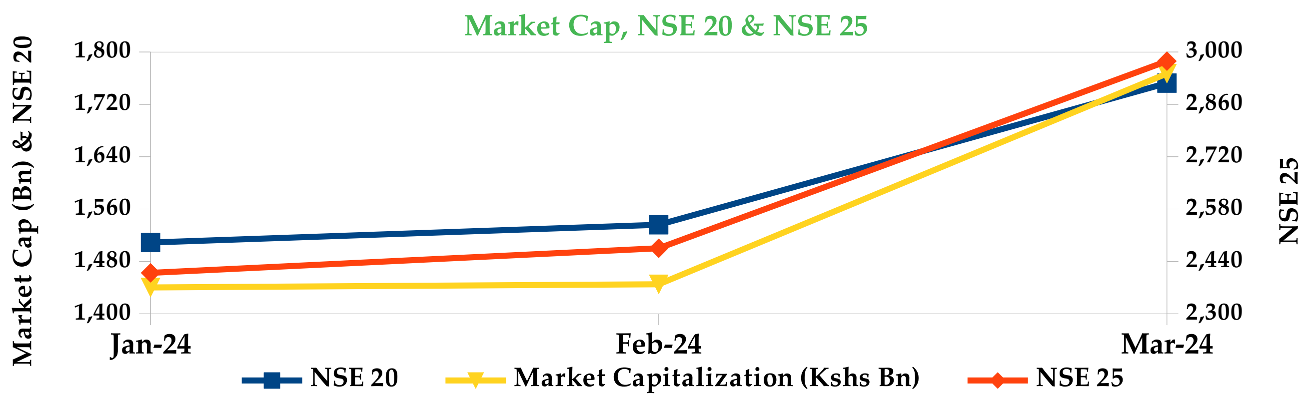
Top Gainers	Q1 Change	Yearly Change
Liberty	48.51%	41.97%
Equity	40.12%	37.87%
KCB	37.21%	36.90%
Co-op Bank	31.58%	32.16%
Kenya Power	30.99%	32.86%

Top Losers	Q1 Change	Yearly Change
Olympia	-85.02%	-85.02%
Home Afrika	-18.92%	-23.08%
Standard Group	-16.02%	-16.02%
NBV	-14.81%	-6.50%
Unga	-12.46%	-12.46%

Market capitalization rose by a substantial 22.79%, reaching Kshs 1.77 trillion from Kshs 1.44 trillion in Q4 2023. This indicates a notable increase in the overall value of listed companies on the stock exchange. Trading activity also increased considerably. Total shares traded increased by 37.26% to 1.07 billion shares compared to the previous quarter.

Equity turnover, which represents the total value of shares traded, surged by an impressive 66.03% to Kshs 18.51 billion, supported by an increase in the number of deals from 56,983 in Q4 2023 to 64,266 in Q1 2024. This suggests heightened investor participation in the Kenyan stock market.





Despite a rally in equities during Q1 2024, foreign investor participation remained cautious. Net outflows persisted at Kshs 2.32 billion, representing a 5.54% increase from Q4 2023. However, it marked a significant 83.35% decline compared to the hefty outflows of Kshs 13.93 billion in Q1 2023, suggesting a potential gradual easing of foreign investor flight. Notably, foreign investor turnover increased by 59.37% to Kshs 7.77 billion during the quarter, dominated by Safaricom and KCB accounting for 74.56% and 50.33% respectively.

Foreign Investor Activity (Kshs. 'Mn')			
Month	Inflows	Outflows	Net
JAN	1,230.16	1,309.46	-79.30
FEB	2,399.32	3,039.37	-640.05
MAR	6,547.87	8,147.60	-1,599.73
Q1 24	**10,177.35**	**12,496.43**	**-2,319.08**

Top 5 Performers by Foreign Investor Turnover		
Counter	Total Foreign Turnover (Kshs. 'Mn')	% of Total Foreign Turnover
Safaricom	5,795.21	74.56%
Equity	3,912.20	50.33%
KCB	860.09	11.07%
ABSA	360.04	4.63%
EABL	245.52	3.16%

Improving macroeconomic conditions fueled by the successful Eurobond buyback, easing inflation and a stronger Shilling could boost foreign investor confidence leading to a modest slowdown in foreign investor flight. Geopolitical tensions, however, pose a potential risk to this positive sentiment.

Major Highlights in the Equities market:

- ILAM Fahari I-REIT received regulatory approval from CMA to delist from the Main Investment Market Segment (MIMS) of NSE, effective from 12th February 2024.
- CMA granted a license to NCBA Bank Kenya PLC to operate as a REIT Trustee.
- KCB announced the sale its entire stake (100%) in its subsidiary, National Bank of Kenya (NBK), to Nigerian lender, Access Bank.
- The Competition Authority of Kenya (CAK) unconditionally approved East Africa Growth Holdings' proposed acquisition of a 10.13% stake in I&M Group.
- East African Cables announced its proposed sale of a majority stake (51%) in its subsidiary, East African Cables (Tanzania), to Msufini. Upon completion of the sale, the subsidiary will cease being part of the the company.

GLOBAL MARKET PERFORMANCE

MACROECONOMIC REVIEW

Economic activity has shown surprising resilience despite concerns about stagflation and global recession. According to the IMF's April 2024 World Economic Outlook (WEO), global growth is estimated at 3.2% in 2023 and is projected to hold steady at 3.2% in both 2024 (0.1% upward revision from January 2024) and 2025. However, this growth remains sluggish compared to historical trends, due to tighter monetary and fiscal policies, lingering effects from the COVID-19 pandemic and Russia-Ukraine war, weak productivity growth and increasing geo-economic fragmentation.

Global inflation is expected to decline steadily, falling from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025. While advanced economies may approach their inflation targets sooner, emerging markets may take longer. As inflation nears target, prompting central banks to ease policy, fiscal tightening aimed at curbing high government debt through higher taxes and lower spending may dampen future growth.

COMMODITIES

Crude Oil

Oil futures indices edged higher during the quarter on a tightening supply outlook. This was driven by OPEC+ production cuts extensions and rising geopolitical tension in the oil-rich Middle East region. Crude Oil WTI futures and ICE Brent Crude Oil settled 16.08% and 13.55% higher to close at $83.17 and $87.48 per barrel. In March, several OPEC+ countries announced extensions of these cuts by a total of of 2.2 million bpd for the second quarter of 2024. While these cuts help stabilize the market in the short-term, they are expected to be gradually phased out based on future market conditions.

Gold

Gold prices surged 8.83% in Q1 2024, reaching a record high of $2,254.80 at the end of the quarter. This upswing was driven by softer US inflation data which fueled expectations of a Fed rate cut in June, strong demand amid heightened geopolitical uncertainties and continued central bank buying. Gold is expected to maintain its upward trend, supported by persistent geopolitical risks, rising investor demand and anticipated rate cuts.

US MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

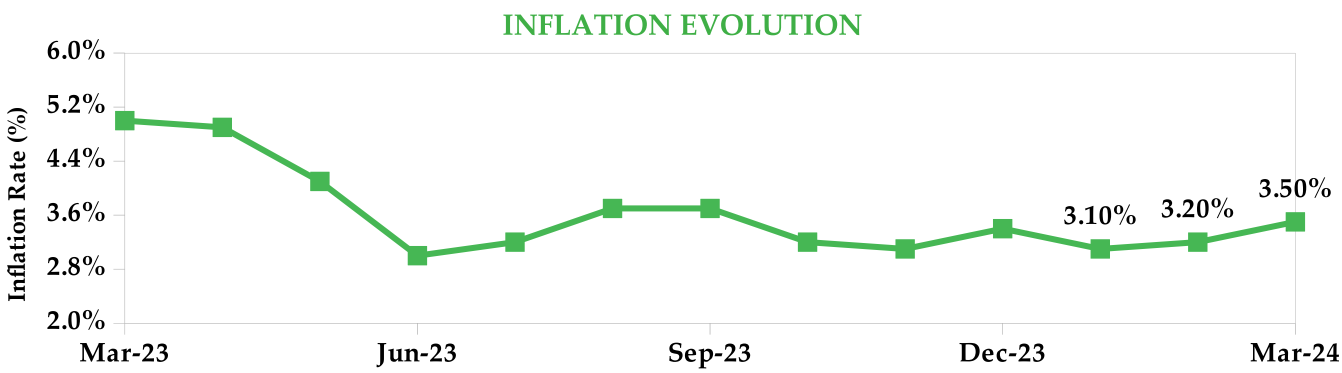
The US economy is projected to expand by 2.7% in 2024, reflecting a 0.6 percentage point upward revision from January 2024 forecasts. This revision is attributed to statistical carryover effects stemming from stronger-than-anticipated Q4 2023 growth, with this momentum likely to persist through 2024. However, growth is expected to moderate to 1.9% in 2025 as a result of gradual fiscal tightening measures and a softening in labour markets, which will dampen aggregate demand.

Interest Rates

The Federal Reserve opted to maintain its hawkish monetary policy stance during the quarter. The target federal funds rate remained unchanged within the 5.25% - 5.5% range, marking a continuation of the 23-year high. This decision underscores the Fed's prioritization of curbing inflation. Policymakers emphasized that future rate cuts would be contingent upon achieving greater confidence in a sustained decline of inflation towards their 2% target. The Fed signaled its readiness to adjust its monetary policy stance as necessary to address potential risks that could hinder the achievement of these goals.

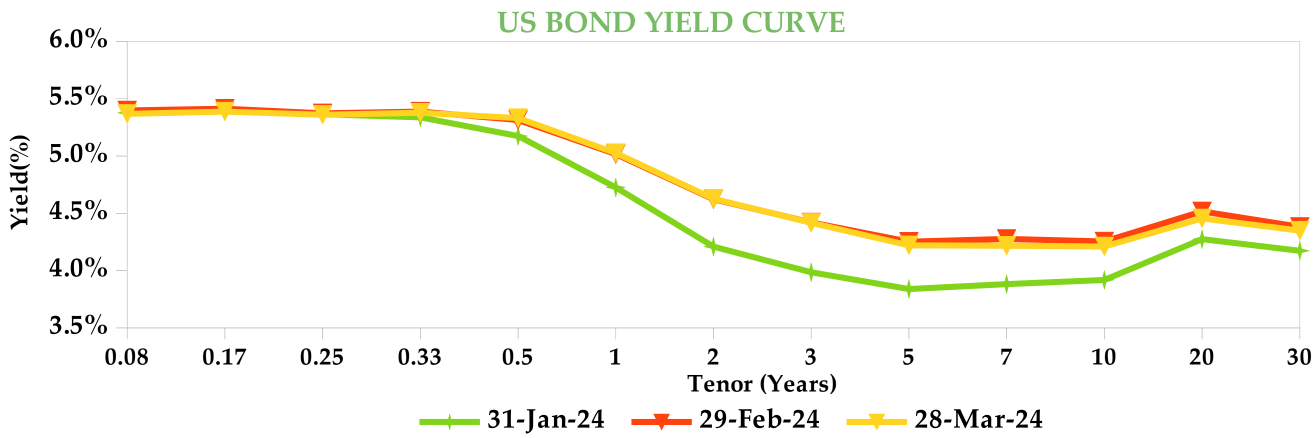
Inflation

Inflation in the US accelerated during the first quarter of 2024, reaching a peak of 3.5% in March, the highest level since September 2023. This upward trend, compared to 3.1% in January and 3.2% in February, was primarily driven by a surge in energy and gasoline costs. Transportation and apparel prices also witnessed sharp increases. However, core inflation, which excludes volatile food and energy prices, remained relatively stable throughout the quarter. It hovered around 3.8% in February and March, suggesting that underlying inflationary pressures may be showing signs of stabilization, excluding the recent spikes in energy and specific goods.



FIXED INCOME

US Treasury bond yields on an upward trajectory during the quarter. Average yields climbed from 4.6% in January to 4.8% in March, reflecting the Fed's continued hawkish stance to curb inflation. This rise in yields coincided with a further deepening of the yield curve inversion. The closely watched 2-10 year spread remained negative throughout the quarter, widening from -0.29% at the beginning to -0.42% by the close.

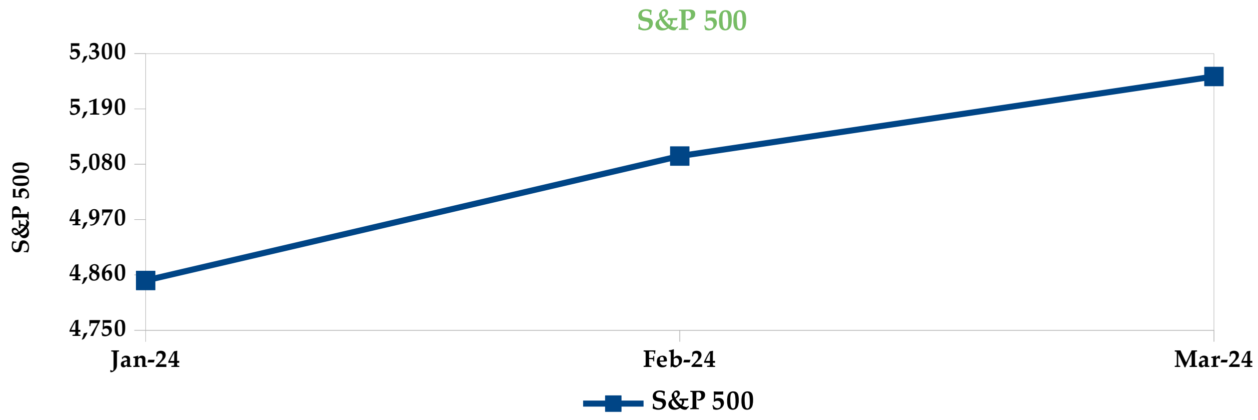


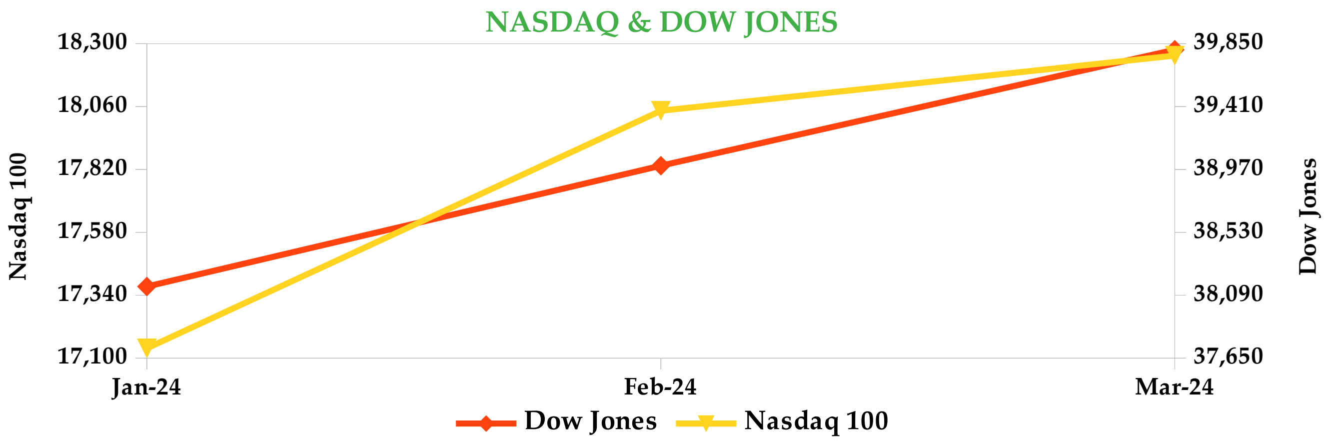
Despite projections of continued economic expansion in 2024, rising inflation throughout Q1 tempered market expectations of a dovish shift from the Fed. This, coupled with ongoing economic growth, could lead to a prolonged period of higher interest rates, potentially pushing yields further upwards.

EQUITIES

US stock indices delivered a stellar performance in Q1 2024, recording their best quarterly gains since 2009. The S&P 500, Dow Jones Industrial Average and Nasdaq 100 surged by 10.16%, 5.62% and 8.49% respectively compared to the previous quarter. This upswing was primarily driven by an unexpected display of resilience in the US economy during Q4 2023, particularly in the labor market. Standout performers within the market included RH (home furnishings), Walgreens Boots Alliance (pharmacy chain) and Take-Two Interactive Software (video games).

Despite the strong performance, investors continue to raise concerns about the possibility of interest rates staying elevated for a longer period than initially anticipated. This shift in expectations, compared to earlier hopes for rate cuts, could dampen future market momentum.





EUROPEAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

The Euro Area and UK economies are both forecast for a gradual rebound following a challenging 2023 significantly impacted by the war in Ukraine. Growth in the Euro Area is projected to rise from a sluggish 0.4% in 2023 to 0.8% in 2024 and 1.5% in 2025. This recovery is expected to be driven by strengthening household consumption. As the initial shock of rising energy prices subsides and inflation eases, real incomes are anticipated to rise, boosting consumer spending.

The UK economy is projected to rebound from near-stagnation in 2023, with growth rising from an estimated 0.1% to 0.5% in 2024. This improvement is attributed to the easing of negative effects from high energy prices. Growth is then anticipated to accelerate to 1.5% in 2025, as disinflation allows for less stringent financial conditions and a recovery in real incomes.

Interest Rates

Both the European Central Bank (ECB) and the Bank of England (BoE) maintained interest rates at historically high levels over the quarter. The ECB held rates steady at 4.5%, while the BoE kept rates at 5.25%. This hawkish stance reflects the continued commitment of both central banks to combat inflation. Policymakers signaled a wait-and-see approach, emphasizing their intention to hold rates steady until they observe a sustained decline in inflationary pressures. Only then will they consider a dovish shift towards potentially lowering rates.

Inflation

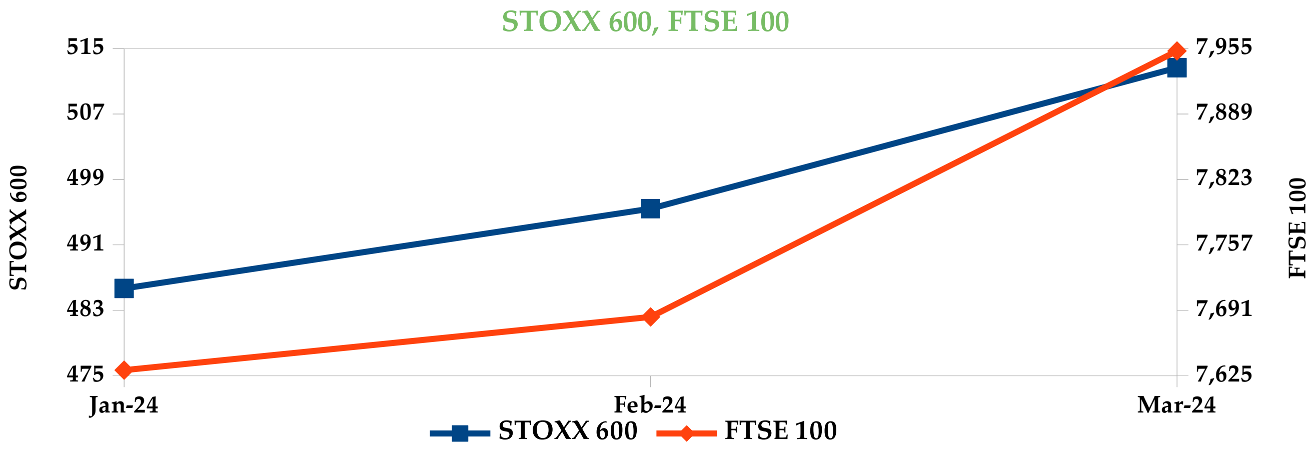
Euro Area inflation rate eased over the quarter, with the rate falling steadily from 2.8% in January to 2.4% in March. This brings inflation closer to ECB's target of 2%. The decline was driven by a drop in energy prices and a moderation in price increases for food, alcohol & tobacco, and non-energy industrial goods. The core inflation rate also cooled to 2.9%, marking its lowest level since February 2022.

UK also witnessed a similar trend, with inflation easing from 4% in January to 3.2% in March, the lowest since September 2021. This was owed to a continued decline in the cost of housing, a slowdown in food inflation, a slower pace of price increases in restaurants and hotels, and recreation and culture sectors. The core inflation rate also dropped to 4.2%, the lowest rate since December 2021.

EQUITIES

European stock markets continued their upward trend in Q1 2024, reaching record highs. The broad-based STOXX 600 index climbed 7.02%, while the UK's FTSE index rose 2.84%. This positive performance was driven by optimism around interest rate cuts and a surge in tech stocks fueled by rising investor enthusiasm for artificial intelligence (AI).

Additionally, cyclical sectors like industrials and banking outperformed expectations. This suggests a potential shift in investor sentiment, with reduced concerns about a recession and increased confidence in central banks adopting a more dovish monetary policy stance later in the year. The industrial goods and services sector also experienced gains during the quarter, further supporting the overall market upswing.



ASIAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

Growth in emerging and developing Asia is expected to moderate, with forecasts revised slightly upwards from January 2024. Growth is projected to decline from an estimated 5.6% in 2023 to 5.2% in 2024 and 4.9% in 2025. This moderation is primarily driven by a slowdown in China's economic growth. China's growth is projected to decelerate from 5.2% in 2023 to 4.6% in 2024 and 4.1% in 2025.

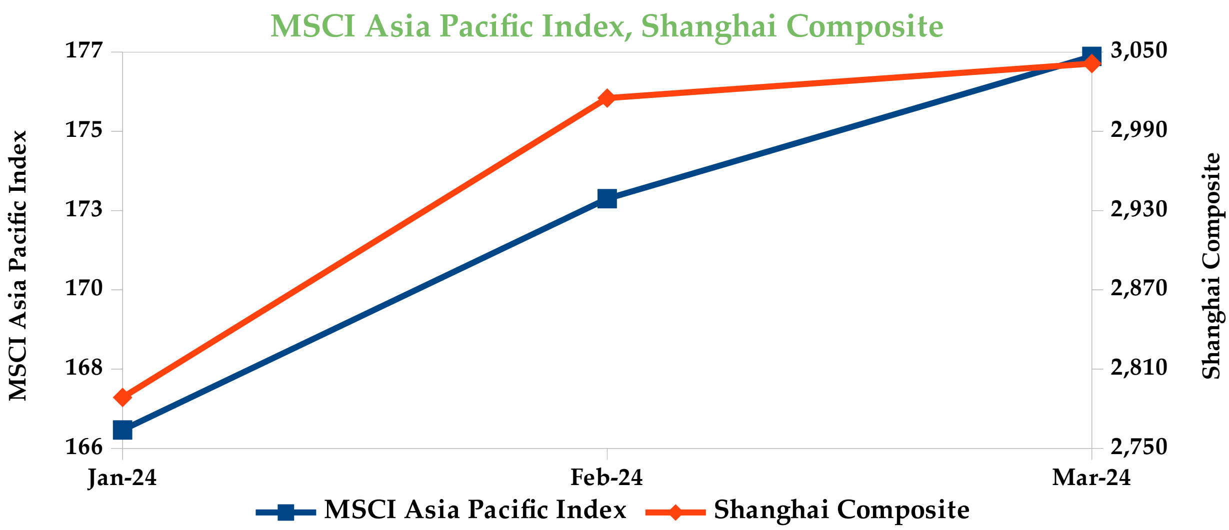
This slowdown stems from the fading effects of one-off stimulus measures, such as the post-pandemic consumption boost and fiscal stimulus programs. Additionally, persistent weakening of the property sector is expected to further dampen growth.

Inflation

China's inflation in Q1 2024 was marked by significant volatility. The quarter began with a sharp deflationary shock, with inflation falling to -0.8% in January, the steepest decline in over 14 years, primarily driven by a record pace of decline in food prices. However, a swift reversal occurred in February, with inflation surging to 0.7%. This rise coincided with the Lunar New Year holiday, typically associated with increased spending and price hikes. The quarter ended with inflation hovering around 0.1%. Non-food inflation eased as the cost of education saw a sharp moderation, while transport prices declined further. This suggests a potential return to a more subdued inflationary environment.

EQUITIES

Asian equities delivered positive returns in Q1 2024, even as concerns about deflation in China persisted. The MSCI Asia Pacific Index and the Shanghai Composite Index rose by 4.42% and 2.23% respectively. This positive performance can be attributed to a boost in investor confidence in China, fueled by signs of resilience in the Chinese economy. Strong PMI readings in both manufacturing and non-manufacturing sectors indicated potential for continued expansion, which encouraged investors. Uncertainties surrounding the future trajectory of US interest rates, however, limited further gains in Asian stocks.



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Actuarial Services E.A. Limited
1113 Kayahwe Rd, Off Galana Rd, Kilimani,
P. O. Box 10472 - 00100 NAIROBI, KENYA
Tel. +254 202 710 028 / Cell: +254 111 037 100 / +254 708 710 028 / +254 785 710 028
Office Email: info@actserv-africa.com
Website: www.actserv.co.ke