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H1'2023
MARKET REPORT

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ACTUARIAL SERVICES EAST AFRICA LIMITED

KENYAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

Data received during the first half of the year indicates that Kenya's economy posted a 4.8% growth in 2022, a downward shift from 2021's 7.6% Covid-19 rebound, while surpassing Sub-Saharan Africa's 3.6% estimated growth for 2022. Despite the slight recovery experienced in the agricultural sector in Q4 2022, sustained pressures resulting from erratic weather patterns weighed down the annual figure to -1.6%, down from -0.4% in 2021. Services sector growth also took a hit, shrinking to 5.3% in Q4 2022 from 5.9% in Q3, while averaging at 7.0% for the year. The sector's performance was softer, compared to 9.8% recorded in 2021.

In Q1 2023, the economy experienced a 5.3% expansion, a notable recovery from 3.8% in Q4 2022. However, this growth fell below the 6.2% performance recorded during the same period in 2022, when the economy rode on much better macroeconomic indicators. The average annual inflation in the first quarter of 2022 stood at 5.34%, the Shilling traded at an average 113.66, Central Bank Rate rested easy at 7%, while the NSE All Share Index posted an enviable average of 163.39.

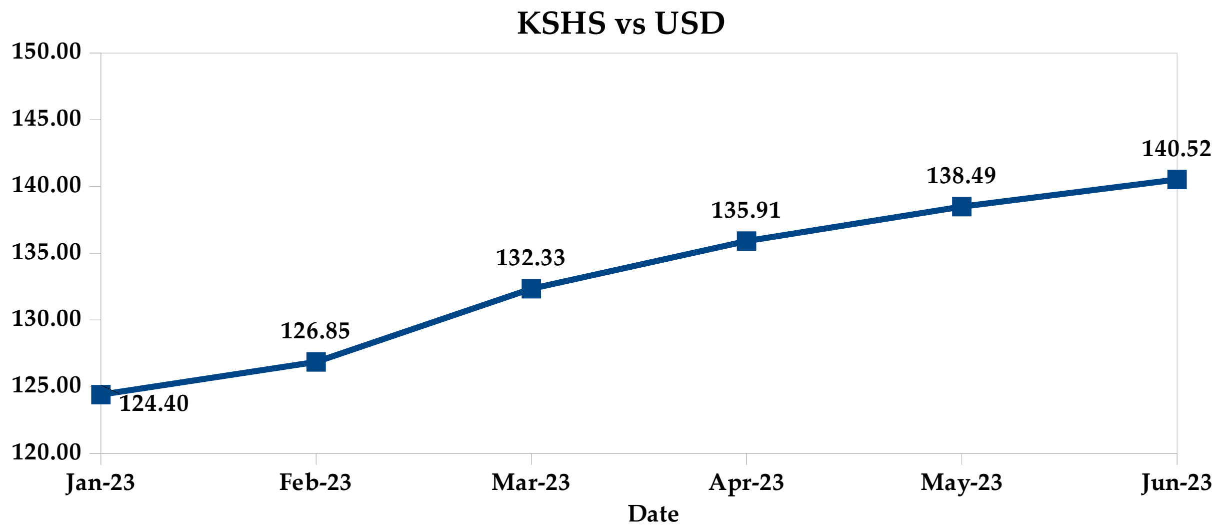
Within the first quarter of 2023, agricultural sector stood firm in its rebound as favorable weather conditions boosted production. Other sector growths pulling their weight were Accommodation and Food Service at 21.5%, Information and Communication Technology at 8.7%, Transport and Storage at 6.2%, Financial and Insurance at 5.8%, Wholesale and Retail Trade at 5.7%.

The country's outlook remains at the mercy of weak growth in major global economies, price shocks as global commodity prices remain elevated, flowing down into the general cost of living. Domestic factors such as the implementation of tax amendments, scrapping of fuel subsidies and a strained business environment pose a major threat to the growth profile. The upbeat pace of activity in the services sector and upward trajectory anticipated in agriculture will lend support to the economy, pushing it to stay on course for the projected 5.2% growth for the year.

Currency

During the second quarter, the Shilling buckled further relative to the US dollar, touching lows of Kshs 140.52 at the tail-end, translating to a 6.04% depreciation and a 13.85% slump year-to-date. The performance was attributed to a biting dollar shortage as pent-up demand for the Shilling from energy and commodity importers outweighed expected inflows. The usable foreign exchange reserves remained below the minimum required threshold set by CBK and EAC's convergence criteria for most of the first half of the year, further piling pressure on the Shilling. The reserves rebounded in June, reaching beginning of the year highs of 4.15 months of import coverage at $7,532 million, aided by receipt of the World Bank loan facility.

In the first quarter, politically-charged unrest was among the factors weighing down the Shilling's demand as international investors attached a high risk profile to the country. The government's inability to meet revenue targets as the curtains closed on the 2022/23 financial year brought to question the country's debt repayment ability. The onset of the government-to-government agreement to import fuel on credit has not had the intended effect of slowing the Shilling's free fall as greater macroeconomic stimuli remain at play.

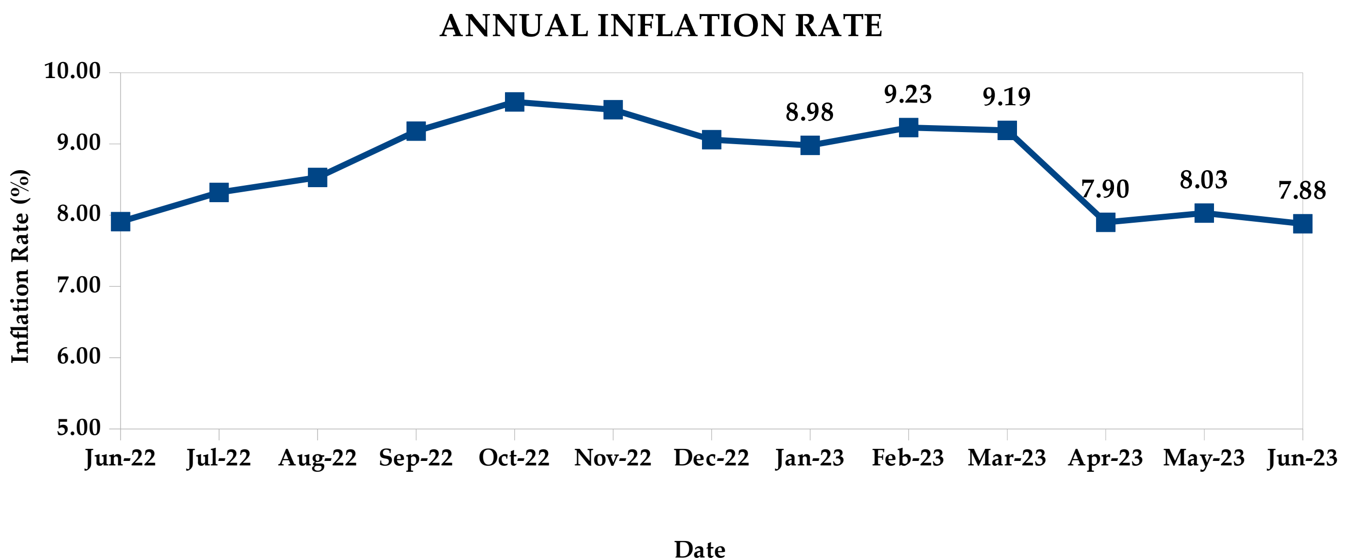


As interest rates in the US and Europe settle at historical peaks, these currencies become more appealing to foreign exchange traders and hedgers, contributing to the Shilling's downward spiral. While the Central Bank of Kenya (CBK) has made strides, with the hope of a dual effect towards taming inflation and reinforcing the Shilling's value, these fall behind major economies' central banks. In 2023, CBK has adjusted interest rates upward by 1.75%, while the European Central Bank (ECB), Bank of England (BoE) and the Fed have delivered hikes of 1.5%, 1.5% and 0.75% respectively, forcing rates to settle at historical highs. A stronger foreign currency amplifies the government's debt service costs, as the country moves closer to realizing its maturing obligations.

In the second half of the year, the Shilling is expected to receive support from strides by several regulators towards reviving and sustaining an efficient foreign exchange interbank market, resilient diaspora remittances and the narrowing current account deficit, which shrank from 5.6% to 4.9% of GDP on eased import costs.

Inflation

During the second quarter, annual inflation averaged 7.94%, easing steeply to 7.90% in April from 9.19% in March, before gaining traction to 8.03% in May and receding to 7.88% in June. Compared to Q1's 9.13% annual average, the second quarter evidenced a slight recovery in agriculture in the domestic landscape, easing food prices, while global supply chain conditions favored lower commodity prices.



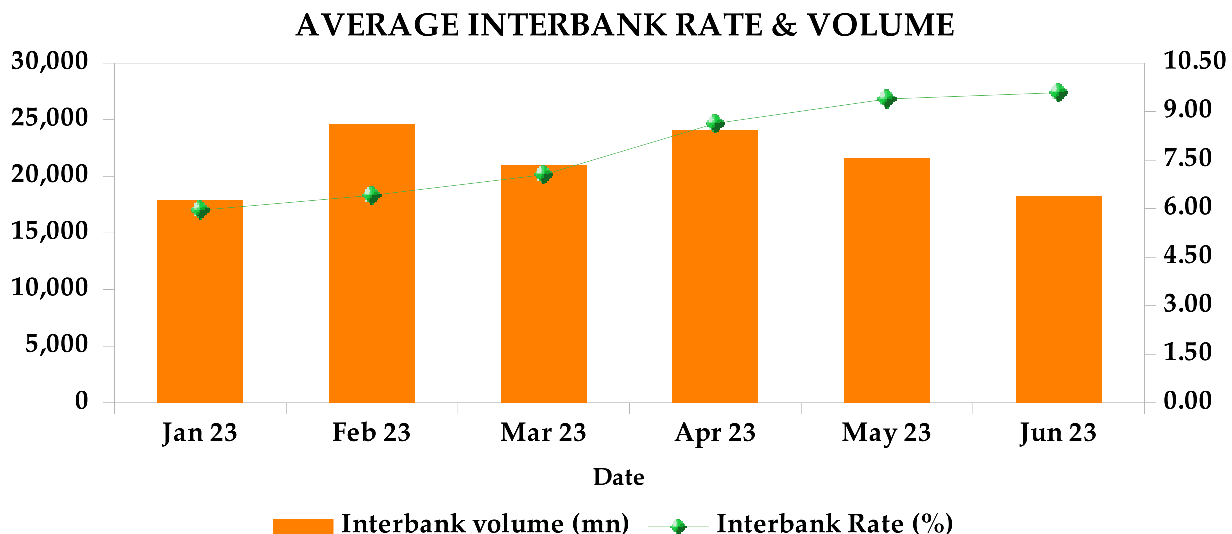
In the May 2023 meeting, the Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.5%, stating that the effect of the March tightening on curbing inflation reflected in the lower headline figure, alongside the government's efforts to moderate prices by allowing duty-free imports on specific food items and improved weather conditions.

In June, the MPC convened, their meeting coming as a surprise, moving away from the two-month sequence norm and lifting the CBR by 100bps to 10.5%. The stance comes as the second highest hike, coming behind the July 2015 150bps increase. The MPC stated that the decision was informed by anticipated elevated inflation numbers owing to the scaled down fuel subsidies and the sustained increase in electricity prices.

Given that a majority of the country's inflation is borrowed, heavily impacted by global commodity prices, domestic inflation is expected to remain above the statutory level as long as global uncertainties persist. Other internal influences such as the elimination of fuel subsidies, tax proposals and electricity prices, will continue to raise the cost of living.

Liquidity

Liquidity in the money markets generally tightened over the second quarter, with the average interbank rate peaking at 10.17% at the end of June, as tax remittances offset government payments. The volume of interbank transactions yo-yoed from Kshs 30.40 billion at the beginning of the quarter to Kshs 38.54 billion at the end of the quarter. Commercial banks' excess reserves rose from Kshs 8.9 billion at the start of the quarter to Kshs 59.3 billion.



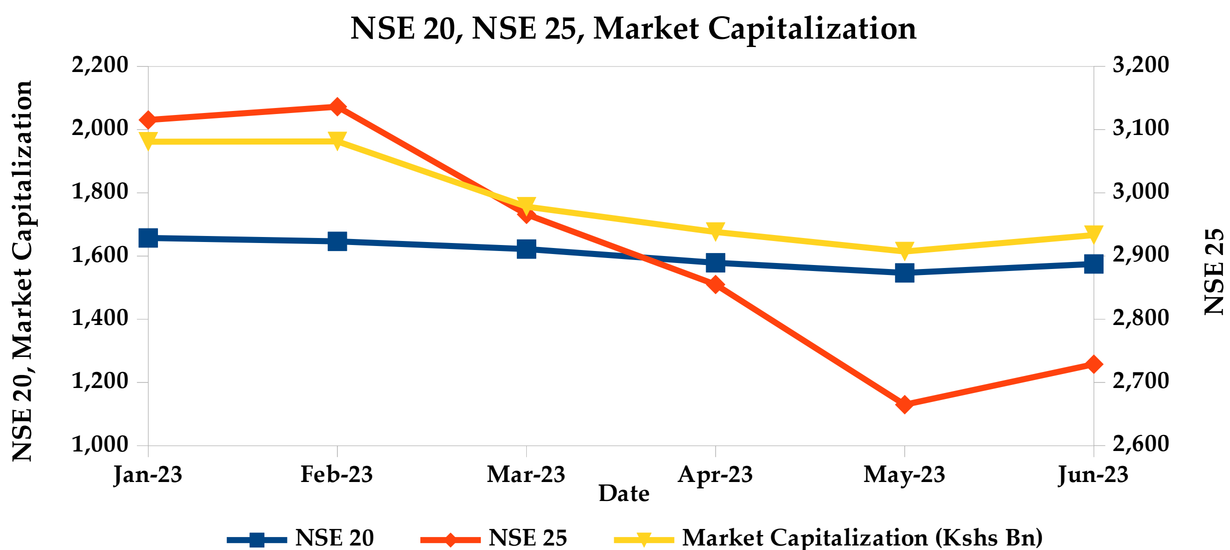
PMI

During the second quarter, the headline PMI maintained below the 50.0 mark, hovering just below at 49.4 in May, after slowly climbing from 47.2 in April and before sliding to 47.8 in June. Private sector activity remained subdued, following a contraction that began in February across several sectors. The cost of living crisis, albeit marked by softer inflationary pressures in the last 3 months, continued to pose a hindrance to business performance. Export sales and rising hiring activity beamed some light to businesses as they sought to improve client services. Weak consumers' purchasing power was widely reported, reflecting weak domestic market demand. Price pressures maintained momentum, linked to elevated fuel costs and the impact of a weak exchange rate, leaving businesses with little choice but to transfer costs to consumers.

In April, firms' outlook for the upcoming 12 months was dismal, recorded as the lowest since the PMI survey's inception. However, sentiment improved in the following months as they remained optimistic about growth. In the coming months, private sector activity is expected to remain subdued, as the business environment is set to be muddied with high borrowing costs following the hawkish rise in the benchmark lending rate and tax proposals expected to raise both cost of doing business and cost of living. Rising government borrowing is expected to redirect flow of funds from the private sector, amid stiff competition for commercial banks' funds by individuals and enterprises, stifling credit even further.

EQUITIES

NASI, NSE 20 and NSE 25 shed 5.11%, 2.91% and 7.99% over the second quarter and 16.06%, 6.04% and 12.92% respectively over the first half of the year. The bourse was seemingly on course towards recovery from the first quarter's record low in terms of market capitalization. However, the pendulum swung right back, this time to a further low mid quarter, as valuation hit Kshs 1.45 trillion. While this improved to Kshs 1.67 trillion at the end of June, the market is still a long way off its Kshs 1.98 trillion high recorded at the beginning of the year.



Agricultural sector stocks were among the biggest quarterly gainers, with Kapchorua Tea posting 63.70% gains, Williamson Tea at 48.03% and Kakuzi at 44.89% following dividend announcements for the year ended March 2023. Other notable gains included Olympia's 50.38% as the company announced impressive financials and Absa's New Gold ETF which garnered 8.82% amid investors' increased demand as they stretched the confines of their portfolio diversification. While some large-cap banking stocks traded at discounts for the second quarter, their half year performance proved resilient, such as Standard Chartered and Co-operative Bank, posting 10.69% and 0.83% year-to-date gains. Other large-cap counters such as KCB and Equity sustained discounts in both periods, trading at 23.60% and 15.09% year-to-date.

Foreign investors turned net buyers in the final weeks of the second quarter, registering Kshs 2.02 billion in purchases and Kshs 1.80 billion in sales for the month of June. However, the effect of their activity for both the second quarter and first half of the year was a net outflow of Kshs 1.33 billion and Kshs 15.26 billion respectively. Foreign investor participation was heightened in Safaricom, Equity and EABL counters as they stock-piled on attractive price points awaiting the release of financial results.

Foreign Investor Activity		
Month	Inflows (Kshs. 'Mn')	Outflows (Kshs. 'Mn')
January	2,522.45	5,399.13
February	1,690.44	2,032.94
March	4,544.36	15,252.15
April	1,854.37	2,136.99
May	1,954.98	3,223.16
June	2,015.88	1,797.13

Top 5 Performers by Market Turnover		
Counter	Turnover (Kshs. 'Mn')	% of Total Market Turnover
EABL	24,487.18	41.36%
Safaricom	19,456.91	32.86%
Equity	5,278.93	8.92%
KCB	2,593.27	4.38%
BAT	1,475.44	2.49%

Major highlights within the Equities Market (Q2 2023)

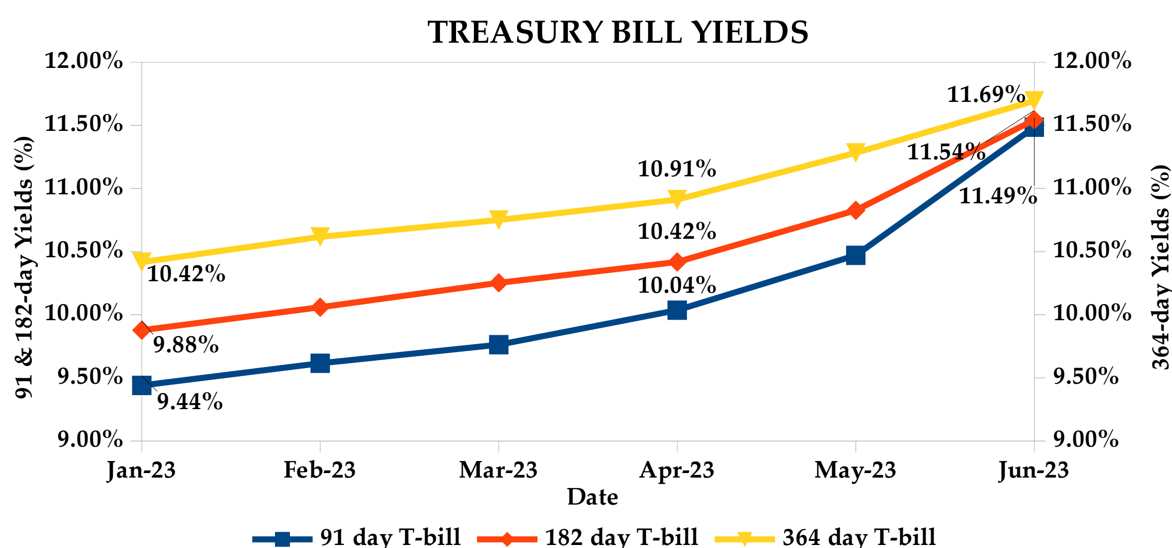
1. Equity Group Holdings announced a 91.93% acquisition of the issued share capital of Compagnie Generale de Banque (Cogebanque) PLC Ltd, with the intention of making an offer to the remaining shareholders to own 100%.
2. Nation Media Group announced a share buyback, the second since its 2021 debut program, planning to repurchase 10% of its issued and paid-up share capital.
3. CBK announced 20% acquisition of Credit Bank PLC by Shorecap III, LP.
4. CBK launched the Kenya Quick Response Code Standard to boost the use of digital payments.

FIXED INCOME

Treasury Bills

The overall average subscription rate for the second quarter came in at 110.83%, a decline from 130.53% recorded in Q1 2023. Investors' preference for the shorter-term 91-day paper prevailed, more pronounced compared to Q1, at an average subscription rate of 521.12% compared to 434.68%, in a bid to hedge against duration risk and on the appealing return compensation. Yields rose by 1.12%, 0.92% and 0.76% to settle at an average 10.74%, 10.99% and 11.37% for the 91-day, 182-day and 364-day papers respectively.

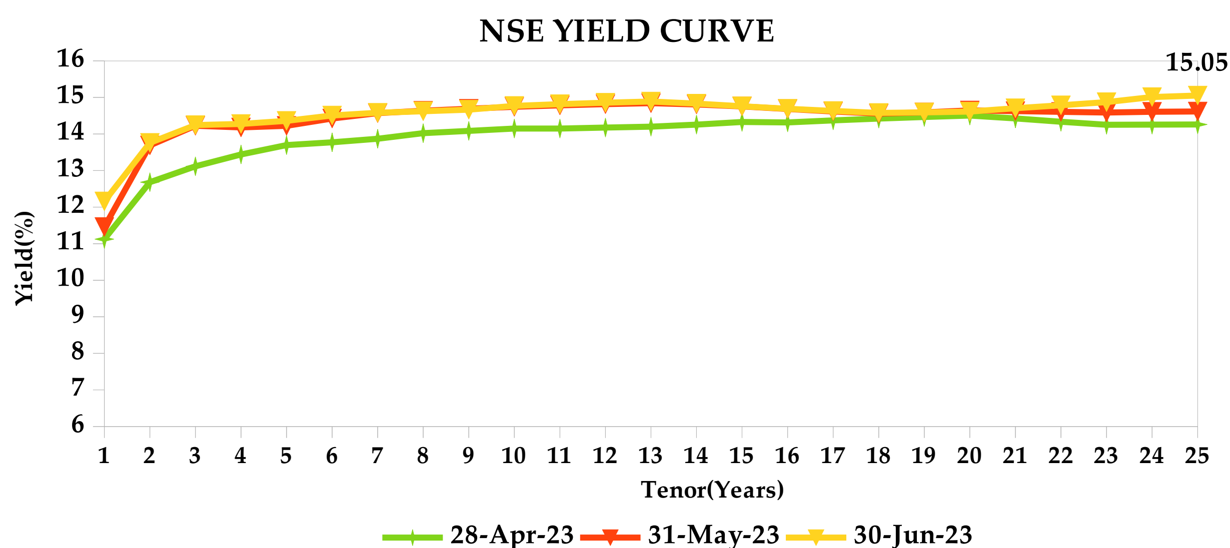
Investors have resorted to aggressive bidding for these instruments, pushing the rates closer together. In future auctions, given the rising macroeconomic strain on investors, yields on these issues will continue to be quoted at close margins.



Treasury Bonds

In the primary market, CBK sought to raise Kshs 135 billion from three bond issues in the second quarter, almost half of which stemming from a single paper, deemed investors' favorite seeing the frequency of tap sales. The FXD1/2023/003, an attractive 3-year paper, first issued in May, initially intending to raise Kshs 20 billion, has been over-subscribed each time at a weighted average rate of 14.23%. During the quarter, investors submitted bids going as high as 15.84% for a 7-year infrastructure bond. This particular paper garnered almost 4 times the target amount given its duration and appealing tax-free status. As a result, average yield rose from 13.97% in Q1 to 14.56% in Q2 as investors took advantage of the government's borrowing appetite, presenting bids that returned value above inflationary pressures and the Shilling's woes.

In the secondary market, there was a lower demand for bond offers, with total turnover shifting 5.34% lower, from Kshs 161.15 billion in the first quarter to Kshs 152.54 billion in the second quarter. Total bond deals dropped 21.11% from 7,902 in Q1 to 6,234 in Q2. Activity in the secondary market is expected to pick up pace in the third quarter as rates in primary auctions keep rising, paving way for trade-offs.



Eurobonds

In the international market, yields on Kenya's Eurobonds declined by an average 0.96% from the beginning of the second quarter, but rose 0.29% year-to-date. This represented foreign investors' mixed sentiments defined by the downgrade of Kenya's rating by Moody's followed by IMF's reassurance of the country's stability.

Bond	QTD Change	YTD Change
2014 10-Year Issue	-1.12%	-0.30%
2018 10-Year Issue	-1.09%	0.59%
2018 30-Year Issue	-0.36%	0.20%
2019 7-Year Issue	-1.75%	0.50%
2019 12-Year Issue	-0.56%	0.31%
2021 13-Year Issue	-0.86%	0.45%

Investors' concerns regarding the country's debt vulnerabilities seem to be at bay, at least for now, as the country services its current obligations, and cements measures such as buyback plans towards restructuring upcoming maturities, which have boosted confidence in the country's ability to redeem the 2024 Eurobond. Receipt of external inflows from IMF, African Development Bank among others continue to offer respite to investors on the country's debt management.

Major highlights within the Fixed Income Market (Q2 2023)

1. Kenya secured a $500 million syndicated loan from Citigroup, Standard Chartered Bank, Africa Export-Import Bank, Standard Bank and Rand Merchant Bank, used to offset pending foreign loans in the month of June and finance development projects.
2. Oil marketers presented a proposal to the Kenyan government to convert their outstanding payables into an interest-bearing bond.
3. World Bank approved a $1 billion loan facility under the Development Policy Operations (DPO) program.
4. Moody's Investors Service downgraded Kenya's long-term foreign currency and local-currency issuer ratings and senior unsecured debt ratings to B3. This was necessitated by increased government liquidity risk in the wake of strained domestic and external funding conditions.
5. The Finance Bill 2023 was assented, with tax measures to be implemented ranging from excise duty, VAT, income tax and actualization of the National Housing Development Fund.
6. The 2023/24 Budget was unveiled, packed with revenue mobilization strategies lifted from the Finance Bill. The tax amendments are expected to unlock Kshs 211 billion to ensure revenue targets are met. Annual expenditure target stands at Kshs 3.68 trillion, to be financed by a revenue target of Kshs 2.96 trillion and debt financing of Kshs 718 billion.
7. The Public Debt and Privatisation Committee approved conversion of the country's debt ceiling from Kshs 10 trillion to 55% debt anchor on GDP, while allowing a 5% buffer to accommodate existing debt threshold which currently stands at 60%.

GLOBAL MARKET PERFORMANCE

MACROECONOMIC REVIEW

According to IMF's World Economic Outlook April 2023 update, global growth for the year is expected to retreat from 3.4% in 2022 to 2.8% in 2023, before moderating to 3.0% in 2024. Inflation for the year was also adjusted, from an initial forecast of 6.6% in the January update to 7%. World Bank's June 2023 Global Economic Prospects attributes the growth slowdown to restrictive credit conditions resulting from tight monetary policies and stubbornly high inflation. The report points out that we might not be in the clear regarding banking sector turmoil, the effect of which could cripple financially vulnerable emerging markets and developing economies.

Within the global macro environment, growth prospects remain muted. Most central banks remain cautious of elevated inflation than weak economic growth indicators. The regions will pencil in a few quarters of lackluster growth before the impact of monetary tightening generates a recession. The flip side of things is that a resilient labor market, robust service sector activity and reserve savings from the pandemic have kept markets afloat, compensating for higher prices and interest rates.

As the recession indicators linger, with the inverted US yield curve, runaway global inflation, laboring growth expectations across the globe, the geopolitical tensions and recession in Europe, the general outlook appears to be deteriorating, rather than looking up. Potential upsides are the tipping of US inflation towards the Fed's target driving a shift to cooler monetary policies. Lower inflation speaks to avoidance of a recession in the US, at least in the near term, propping up Equities and risky bonds. Consensus around the Equities market is that periods of financial turbulence almost always precede economic resurgence as well as a resultant rally in prices.

COMMODITIES

Crude Oil

For a brief period at the beginning of the second quarter, oil futures indices traded at $80-87 before volatility ensued, causing prices to dip to lows of $68. Over the quarter, both indices posted quarter-on-quarter loses, with US crude futures at 6.65% while international Brent futures recorded a 6.11% decline. Oil markets seem to be at cross roads, with leading data providing conflicting direction. While macroeconomic indicators from major economies point towards slowing growth, and in turn lower demand, key consuming countries have a renewed oil usage.

In their June 2023 issue of the Oil Market Report, the International Energy Agency projected that global oil demand is set to defy the current murky macroeconomic environment, rising by 2.4 million barrels per day (mb/d), exceeding earlier expectations and 2022's 2.3 mb/d increase. 60% of this increase is attributed to China, amid rising transport and petrochemical use. Contrasting these numbers is OECD's demand, which remains underwhelming amid an ongoing manufacturing slump and muted economic growth.

OPEC reaffirmed its earlier planned oil production cuts for this year, announcing a limit of 40.463 mb/d over the year 2024. The initial plan entailed a 2 mb/d cut, announced in October 2022, after which several OPEC+ member voluntarily agreed to drop around 1.6 mb/d in April 2023. This was expected to last until the end of this year but has since been extended until the end of 2024. Following OPEC's June meeting, Saudi Arabia announced a new voluntary oil production cut of 1 mb/d for July 2023. The expected decline in global oil inventory from Q3 2023 through to Q4 2024 will impose a gradual upward pressure on oil prices.

Gold

During the second quarter, gold prices settled at 2.01% below the close of Q1, as the precious metal, being a non-yielding asset, sustained hits from rising yields and upward adjustments of the Fed's monetary policy decisions. The Fed warns of an additional 50bps hike this year, keeping rates elevated, and dragging down prices. However, the outlook is not entirely gloomy. As we saw in the last leg of the first quarter, weaknesses that emerged in banking systems lent support to gold prices. In the same way, the US economy can only withstand the 5% peak in interest rates for a while, before the cracks begin to show. Once the economy edges closer to a recession, and the rate cuts take shape, bringing with them yields on Treasury instruments, the rally on gold will be restored.

Gold has historically played the role of portfolio diversifier. Future outlook is a relatively stable rise in prices towards the end of the third quarter, into the close of the year. Central banks' demand continues to support prices and create a floor, as they move towards reserve diversification.

US MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

The US economy performed better than predicted in the first half of the year, defying expectations and holding up well despite central bank tightening. Discretionary income increased due to a variety of reasons, including a milder winter, which resulted in lower heating consumption, saving households money. Second, debt ceiling talks resulted in Treasury accumulating reserves in banks, significantly mitigating the effect of the Fed's aggressive tightening policies in the first quarter. Further, holders of inflation-linked income received near double-digit adjustments, increasing real income.

A dive into the numbers suggests that, while a recession is not imminent in the region, it lurks within the 2024 horizon. Household savings from the pandemic era have sustained households' consumption patterns so far, and are expected to drive GDP for the rest of the year, much longer than anticipated. GDP was reported to have increased at an annual rate of 2.0% in the first quarter of 2023, compared to 2.6% in Q4 2022. The rise in GDP reflected robust consumer spending and strong exports. An economic report highlighting lower than expected layoffs suggests that the labor market is proving resilient even in the face of a hawkish Fed environment.

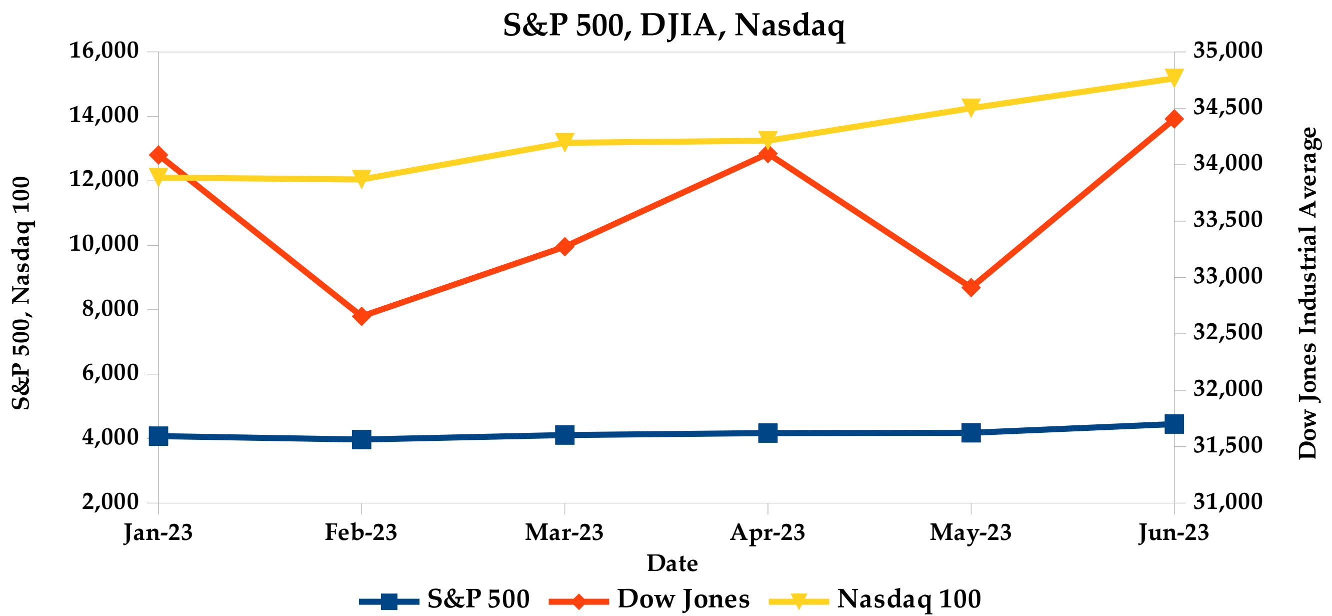
Inflation

US inflation numbers released in the second quarter of the year indicate a clear downward trend, from 5% in March, further slowing to 4.9% in April and 4.0% in May. The U.S. Bureau of Labor Statistics attributed the pace to declining prices of energy such as gasoline and electricity, as well as a slowdown in food prices. May's reading marked the slowest annual pace increase since March 2021, bringing a much needed reprieve.

The trend seems to be in the right direction, as the Fed has raised the benchmark lending rate by only 0.75% this year, adjusting by 25bps at each meeting. While there was a move to hold rates steady during the June meeting, several officials have expressed dissatisfaction in the slow rate of disinflation. The general expectation for Fed rate shows that a 25bps lift is likely in the next meeting, before they hit the pause button for the remainder of the year, followed by rate cuts from H1 2024 as recession edges closer and inflation lies within target.

EQUITIES

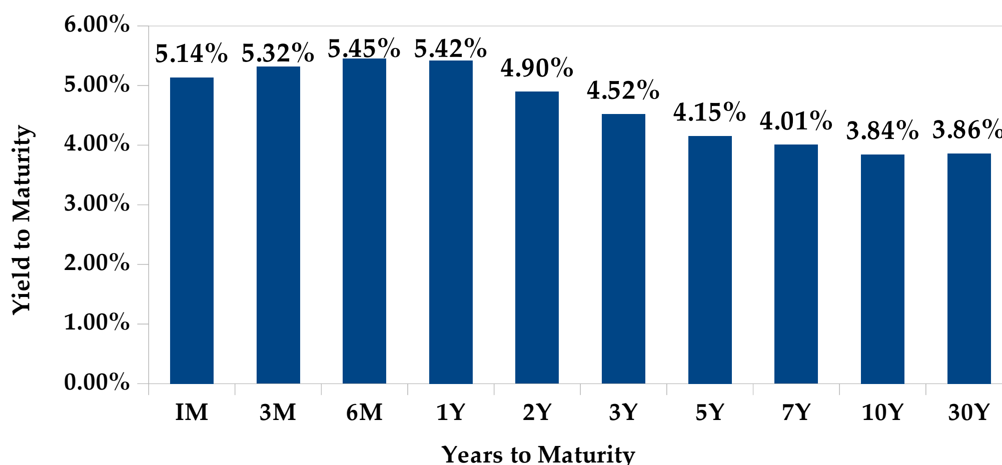
US equities delivered impressive returns in the second quarter, following improved sentiments around the debt ceiling talks, resilience of the economy and fading banking system pressures. The assimilation of artificial intelligence in markets ignited something within Wall Street, propelling Equities, especially technology indices higher. Tech-heavy Nasdaq 100 brought in a 15.16% gain during the second quarter, extending quarter one's strong start. S&P 500 and Dow Jones surpassed Q1's returns, achieving 8.30% and 3.40% respectively. Performance was muffled by utilities, energy and consumer staples. The potential end to bulk rate hikes has welcomed attractive valuations. On a year-to-date basis, all indices were up, with Nasdaq leading gains at 39.74% return, S&P posting 16.38% while the Dow gained 3.84%



Sector specific headlights are turned to healthcare, communication services and technology indices. Healthcare performance presents a defensive strategy given the weak macroeconomic outlook, while technology offers a hedging position. Historically, while technology counters' performance are watered down in a recession, they offer attractive returns in the periods leading up to and after. Communication services sector has had the strongest earnings trajectory in 2023, as well as attractive valuations. Energy sector stocks are expected to shy away from gains in Q3, following downward prices movements for the better part of the second quarter. High interest rates continue weighing on property prices, negatively impacting real estate sector stocks.

FIXED INCOME

During the first half of the year, bond investors have faced the Fed's aggressive rate hikes, a weak banking system and intense debt ceiling talks, raising concerns that the U.S. government may default on its obligations. The Fed's policy pushed yields on short term papers higher, with the 2-year rising to 4.90%, up from 4.37% at the beginning of the year, against the 10-year's 3.84%, up from 3.75%, as the yield curve remains inverted.



In the second half of the year, bond yields are likely to nosedive as economic growth slows. Returns are less likely to be affected even as the Fed rate peaks higher, given the cushion that current high yields offer.

EUROPEAN MARKET PERFORMANCE

MACROECONOMIC REVIEW

GDP

Euro area economy contracted by 0.1% in Q4 2022 and Q1 2023. The situation has been exacerbated by Germany's technical recession following a plunge in GDP to 0.5% in Q4 2022, and a meager 0.3% shrink in Q1 2023. Given the country's status as Europe's largest economy, the drawdown stemmed from over-reliance on Russian gas. As tensions with Ukraine escalated, supply was cut off, tampering with manufacturing activity and largely, the sector, whose contribution to the economy is significant.

UK posted a 0.1% GDP growth in the first three months of the year, holding steady from the previous quarter, while steering clear of a recession but with the anticipation that a bulk of the impact from high interest rates is still yet to transmit into the economy. Monthly estimates indicate that growth began with a strong 0.5% in January, followed by no growth in February, before falling to 0.3% in March. Households felt the squeeze from a high cost of living, forcing them to reach into their savings, and driving growth by their consumption. The savings ratio has been reported as higher than before the pandemic, creating a necessary buffer for the tough conditions.

Inflation

Euro area's annual inflation rate began the year at 8.6% in January, and has been slowly easing through the first half, settling at 6.1% in May 2023. Corporate profits remain the largest pressure point for high inflation as wage rate gains seem to lag behind price growth. The crucial question then becomes if companies will absorb the higher wage bill without further increasing prices. The alternative is keeping macroeconomic policies tight to anchor expectations and maintain subdued demand.

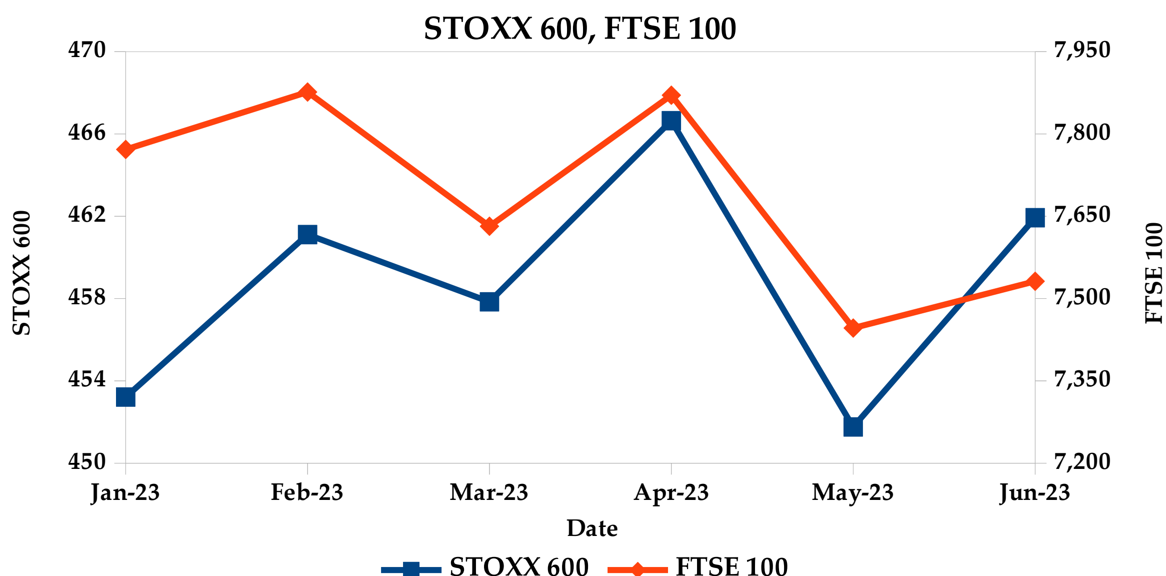
ECB's Governing Council raised the three key rates by 25bps two consecutive times during the second quarter. This comes as a slowdown from the 50bps increase in February and March. General sentiments around the ECB's future moves is a sustained 25bps hike a few more times as they slow to a halt.

In the UK, headline inflation stands at 8.7% in May, unchanged from April and retreating from 10.1% in March, as wholesale energy prices and price of imported goods moderated. Nonetheless, price pressures stem largely from services prices, such as restaurants and hotels, whose wage costs remain elevated.

The BoE's MPC, in the second quarter of the year, lifted bank rates by 0.25% in May and 0.5% in June. Prior adjustments this year included a 0.5% increase in February and 0.25% in March. Keeping their word on a restrictive stance, the BoE is expected to keep raising rates by 25bps during the next meetings and a further 50bps before year end, only turning to cuts towards the end of next year.

EQUITIES

European indices closed the second quarter mixed, with the broader STOXX 600 gaining 0.89% compared to a 1.31% slump from FTSE 100. On a year-to-date basis, the numbers fared better, posting a 7.69% gain for the STOXX and -0.30% for FTSE. The underwhelming performance in the second quarter could be partly attributed to China's weak economic recovery and stunted Euro area growth. The restrictive policy measures put a strain on finances, eventually depressing manufacturing activity.



Technology sector sustained strong year-to-date gains amid AI's intervention. Consumer discretionary stocks boasted strong earnings, while financial services reaped benefits amid rising rates, driving profitability and attractive valuations.

CHINA'S MARKET PERFORMANCE

MACROECONOMIC REVIEW

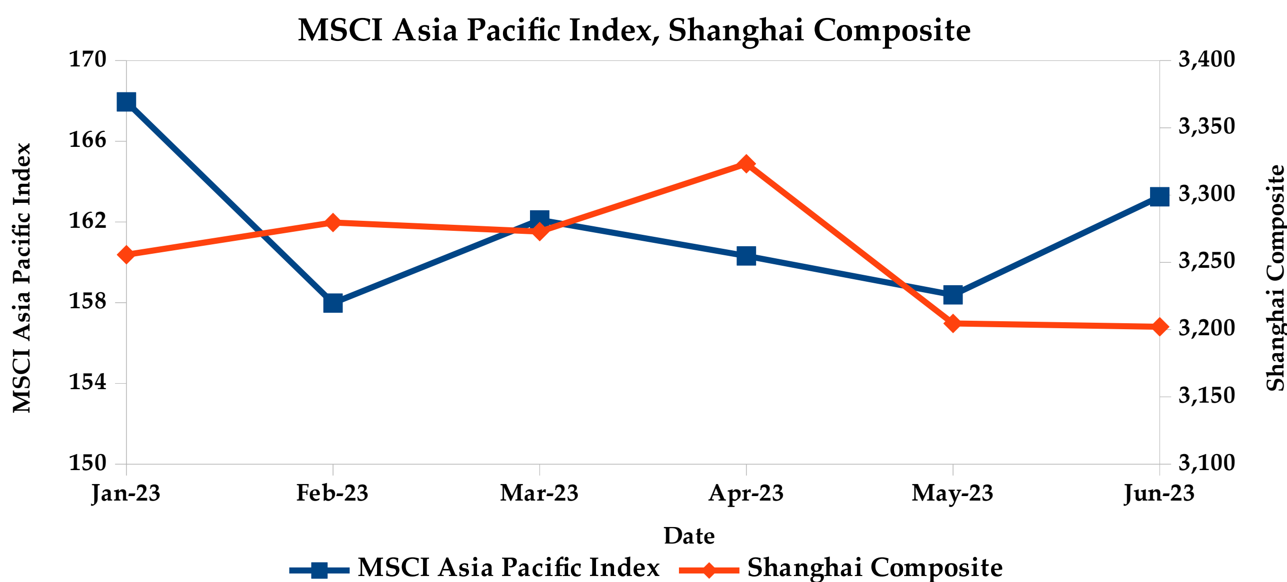
China's anticipated recovery has been patchy, as the economy faces hurdles including property distress, weighing on private sector confidence, softer global demand, domestic credit growth and high youth unemployment rates. Q1 2023 GDP stood at 4.5%, beating market expectations, and supported by a rebound in domestic consumption amid resumption of consumer confidence post pandemic restrictions. The region has stepped up measures to boost its export structure, by bringing more markets under its fold, moving away from and reducing reliance on the US and Europe.

Headwinds to growth in the second half of the year include global macroeconomic setbacks that could impact exports, geopolitical tensions and the real estate market. After recording promising numbers in the first quarter, economic data fell short of investors' expectations in the second quarter as the region's recovery was a chief driver for the broader emerging market's performance. As the services sector awakens, the manufacturing sector lags behind, weighed by contracting factory activity. The National Bureau of Statistics' manufacturing PMI fell to 49.0 in June, compared to 48.8 in May and 49.2 in April.

Expectations for the better part of the year are that policymakers will likely stay on course with monetary and fiscal stimuli in the form of consumption vouchers and tax breaks among others, with steps to revive housing demand, bolster youth employment and promote the country's drive towards self-sufficiency in technology. People's Bank of China cut rates in June, the first in nine months, rolling out measures in support of home ownership and the property market. These measures are likely to soothe investor sentiment and corporate profitability.

EQUITIES

Asian stock indices performed dismally in the second quarter. MCSI's broadest index of Asia Pacific shares outside Japan posted a 1.90% decline quarter-on-quarter, while Shanghai Composite and Shenzhen recorded 2.16% and 5.15% declines respectively. Hong Kong's Hang Seng index led market losses, dropping by 7.27% during the second quarter. The performance was ascribed to weak economic data, overshadowing geopolitical risks, US-China tensions and the looming recession in major economies.



As the Government ramps up monetary and fiscal stimulus packages, industrial companies could benefit from the substantial infrastructure investment. This, coupled with under-representation in investor portfolios and potential earnings upgrades, have investors sold on Chinese markets. In the third quarter, investors are seen leaning towards communication services and consumer discretionary sectors, on the back of strong earnings, policy direction and an uptick in consumer spending.

DISCLAIMER

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