

## Key Features

Fund Manager	CIC Asset Management Ltd
Launch Date	June - 11
Risk Profile	Moderate
Trustee	Kenya Commercial Bank
Custodian	Co-op Custodial Services
Auditors	PWC
Minimum Investment:	Ksh 5,000.00
Minimum Additional Investment	Ksh 1,000.00
Initial Fee	2.25%
Annual Management Fee:	2.00%
Distribution	Quarterly

## Market Commentary

**GDP:** The economy grew by 4.7% in Q3'22; down from 9.9% in Q3'21. Services sector continued to perform strongly; particularly trade (+9.1%), accommodation & food services (+22.9%) and professional, administrative & support services (+8.7%). Agriculture, a key growth sector, continued to underperform (-0.6%) as unfavourable weather conditions and higher input costs weighed in on low production. Presently, developed nations i.e US, China, UK and EU macro indicators hang in the balance with projections of a slip into a recession by some economies. This could resultantly have a negative ripple effect to Kenya as we have several trading relations with the big nations aside from our external debt in foreign currency. World Bank projects our GDP to average 5% in 2023-24 largely boosted by private investments; we are less optimistic due to the recession fears globally.

**Exchange rates:** The shilling has lost substantial value against the USD year to date (-9.04%). It exchanged at Ksh 123.37 per USD on 31 Dec, losing a further 2% in Q4. Lower foreign funding amid a faster growth in imports and slowdown of remittances weakened the Kes. The fed rate hikes coupled with increased demand for hard currency also led to wider forex spreads in 2022. Kenya's reserves remained adequate at USD 7,439 million (4.17 months of import cover) as at Dec 29, but this was largely tied to a boost of IMF funding. Globally, signs are clear that currency weakness will overwhelm many policymakers across markets. A weaker shilling is detrimental to Kenya as it increases the cost of financing foreign debt which is currently at levels deemed as unsustainable.

**Inflation:** Headline inflation increased by an average of 9.4% in Q4'22 from 8.7% in Q3'22. This was largely driven by supply side factors that exerted upward pressure on food and energy prices. The uptick in the cost of living reduces the purchasing power of households and subsequently lower savings and investments to the economy. We anticipate inflation will remain above CBK's upper band target of 7.50 % in Q1'23. Domestic price pressures will remain elevated although inflation will ease back from the highs of 2022 and ebb slowly into being transitory in 2H'23

**Interest rates:** The Monetary Policy Committee (MPC) raised the central bank rate (CBR) from 8.25% to 8.75 % in Nov'22; a cumulative rise of 1.75% in 2022. The CBR hikes' intention have largely been to taper inflation, which averaged 9.4% in Q4 from 8.7% in Q3, and to manage the KES depreciation (-2% in Q4) against major currencies. Short term rates maintained an upward trajectory in Q4 with the 91,182 and 364 papers closing at 9.4%, 9.8% and 10.3%. Inflationary pressures will be the main driver of monetary policy actions in 2023. Barring any further rate hikes, we expect interest rates to edge upwards in Q1'23 and remain sticky for the remainder of the year.

**Equities:** : Despite improved corporate performance in 2022, prices of listed stocks have had muted movements due to prevailing tough macro conditions and the unabating foreign investor sell-offs. Rate hikes

in the advanced markets, global inflation pressures and a rationing of hard currency in Kenya have not helped the cause. Q4'22 saw the downward trend resume with NASI and NSE-20 declining by 0.7% and 2.4% respectively. Significant local investor support helped hold the market from slipping further. We expect the market to continue exhibiting weakness as foreign outflows persist with some global economies anticipated to slip into recession. Lower valuations however provide opportune entry points in to select stocks with strong fundamentals.

### Who should invest?

- Investors who;
- Typically ready to invest over the medium to long-term.
  - Need extra returns at moderate risk.
  - Seek to benefit from a well-diversified portfolio of market instruments.

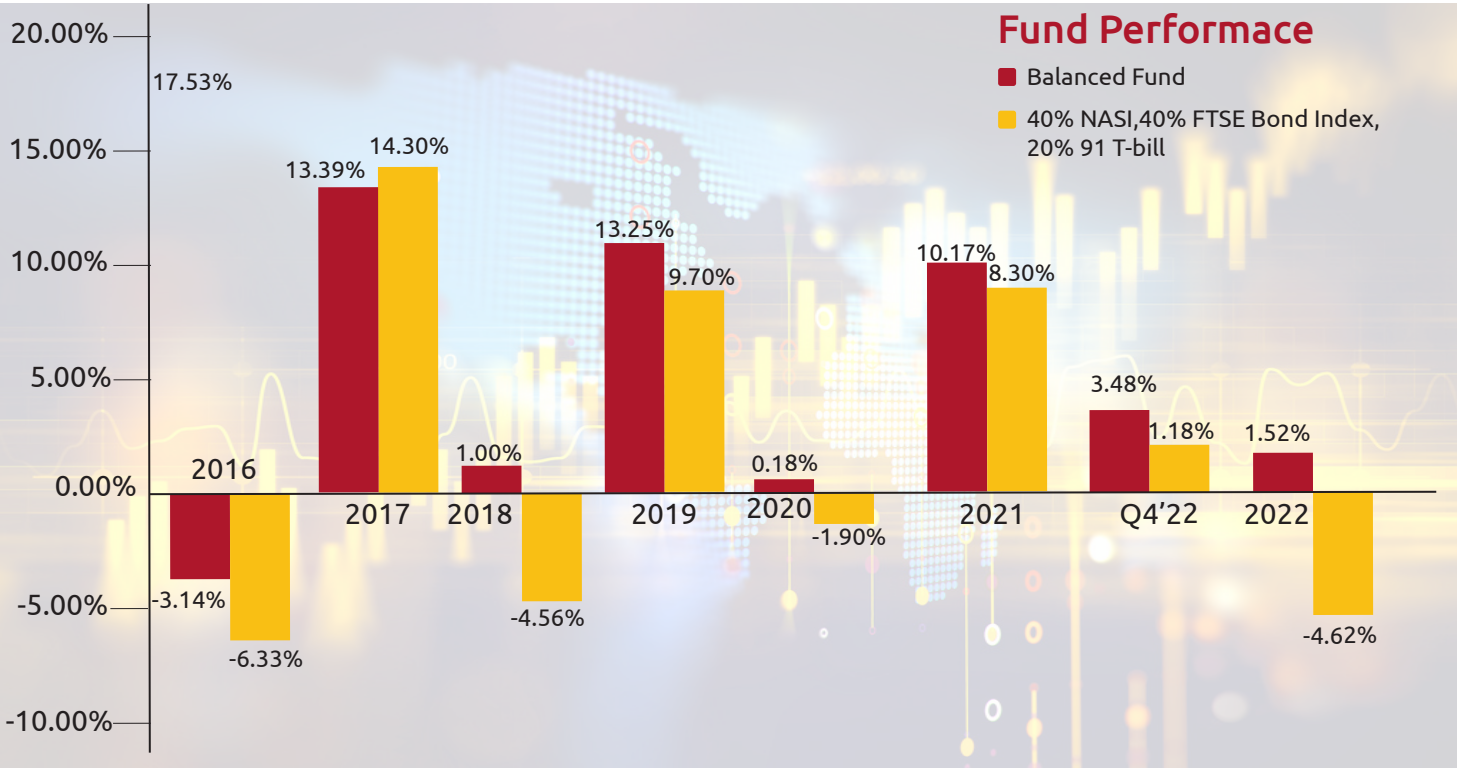
### Fund Outlook

The Russia-Ukraine war, recession fears and Covid-19 resurging in China have sustained the exit by foreign investors from our stock market. Our stock market is expected to remain depressed as long as the global risks persist.

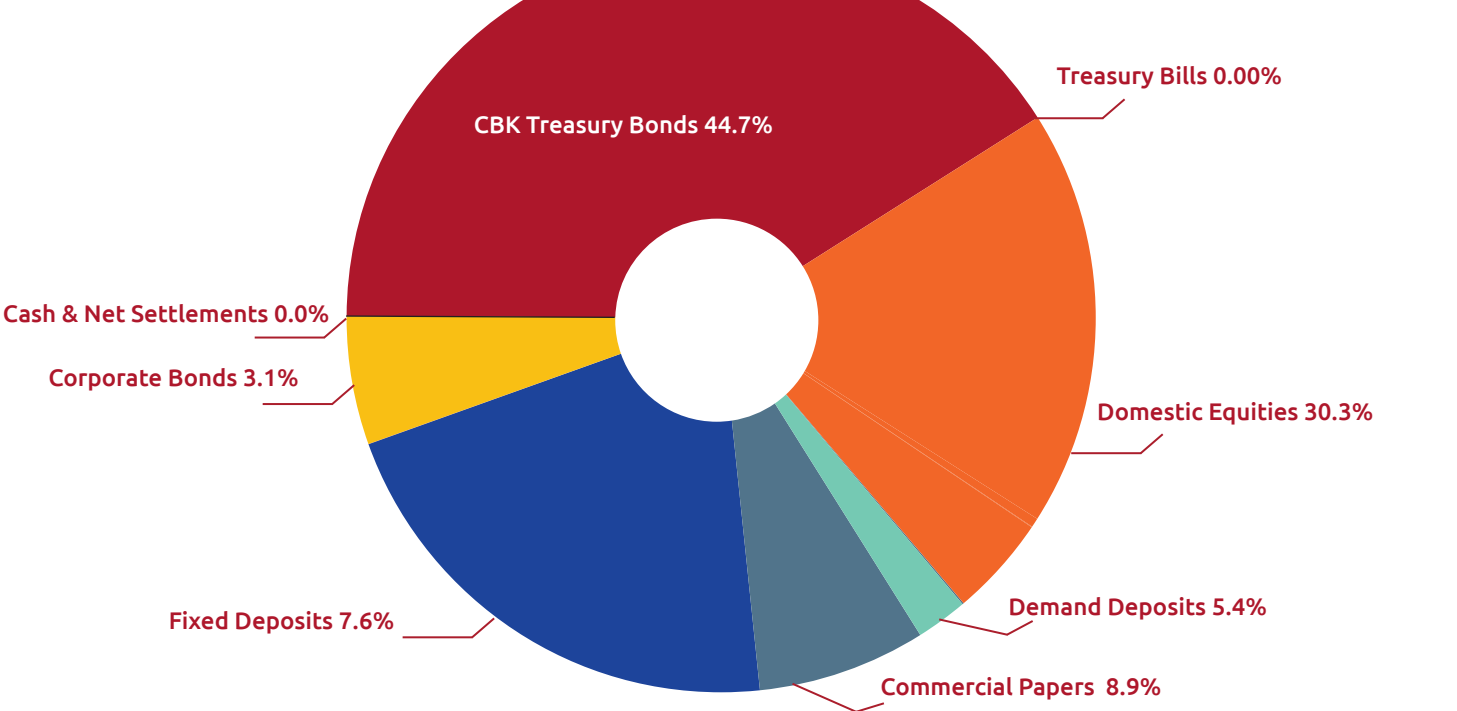
The low prices continue to provide attractive price points into stocks with strong fundamentals and perpetual dividend payouts thus locking in good yields.

Tight global financial conditions coupled with foreign debt being expensive (as a result of the KES depreciating) will see government continue relying on the domestic market and rates will carry on increasing.

We expect the fund to register moderate performance in Q1'23 due to a weak equity market, but this will be supported by the bond market activity.



## Asset Allocation



Statutory Disclaimer: The value of units may go down as well as up and past performance is not necessarily a guide to the future. There are no guarantees on the client's capital as the performance of units in the fund is determined by changes in the value of underlying investments hence value of your unit trust investment.