MARKET INSIGHTS

2023 | Q1

KGORI CAPITAL

INVEST WITH PRIDE

BOTSWANA FINANCIAL MARKETS AND MACROECONOMICS

Kgori Capital Investment Team

- **Positive momentum continues for local equities and bonds in first quarter 2023; We expect this trend to persist.**
- **We expect GDP growth to cool down in 2023, with diamond exports expected to be softer, given fears of a global recession and elevated inflation.**
- **Inflation is expected to trend downwards for the year, even dipping temporarily within the BoB's objective range.**

MARKET REVIEW

For the first quarter of 2023, local equities (DCITR) advanced 4.0%, continuing the positive momentum of last year. Bonds (FABI) and cash (Average MM) were up 1.9% and 1.8% respectively for the quarter.

Real Gross Domestic Product (GDP) growth for 2022 printed at 5.8%, down from 11.9% in 2021, mainly attributable to the waning of base effects experienced in 2021. Debswana's production significantly benefitted from the international sanctions against Russian exports that were due to the ongoing conflict with Ukraine. Consequently, the Mining sector expanded by 7.5% during the year, positively contributing to a GDP print that exceeded expectations, albeit being lower year-on-year (y/y) compared to the prior year. The fastest growing sectors in 2022 were Diamond Traders, Manufacturing, Mining and Wholesale & Retail which recorded y/y growth of 17.6%, 8.2%, 7.5% and 5.6% respectively.

Globally, it was a good quarter from a macroeconomic standpoint. The main positives included the performance of the labour market and consumer spending in the US, China's reopening, and Europe's economic resilience in the face of an energy shock and marginally easier financial conditions. For the quarter, the key global equity and global bond indices, MSCI World and FTSE World Government Bond Index increased by 7.4% and 3.5% respectively in local currency terms.

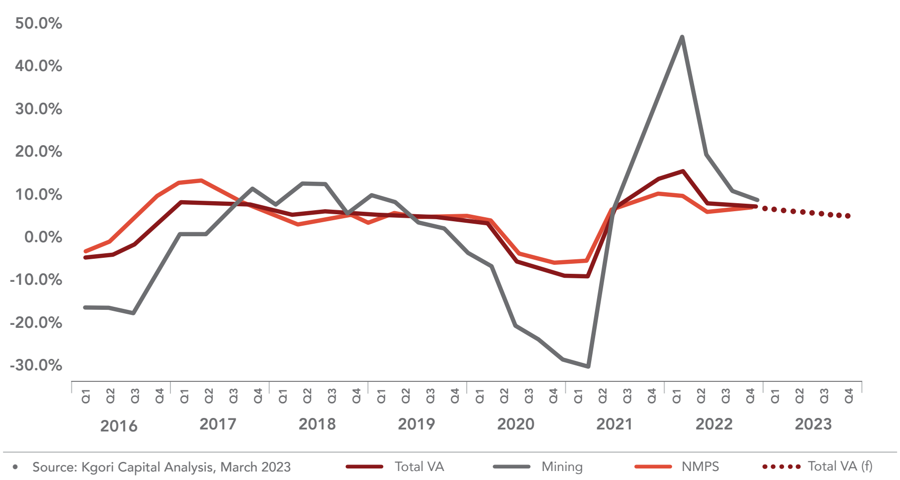
OUTLOOK - BOTSWANA MACRO

GROWTH

We expect GDP growth to cool down to a range of 3.8%-4.0% during 2023. The diamond market is projected to be softer in 2023 amid fears of a global recession, rising interest rates, elevated inflation, and a fragile banking sector.

The IMF revised growth projections for the year downwards to 3.7%.

CHART 1: BOTSWANA GDP: GROWTH COMPOSITION



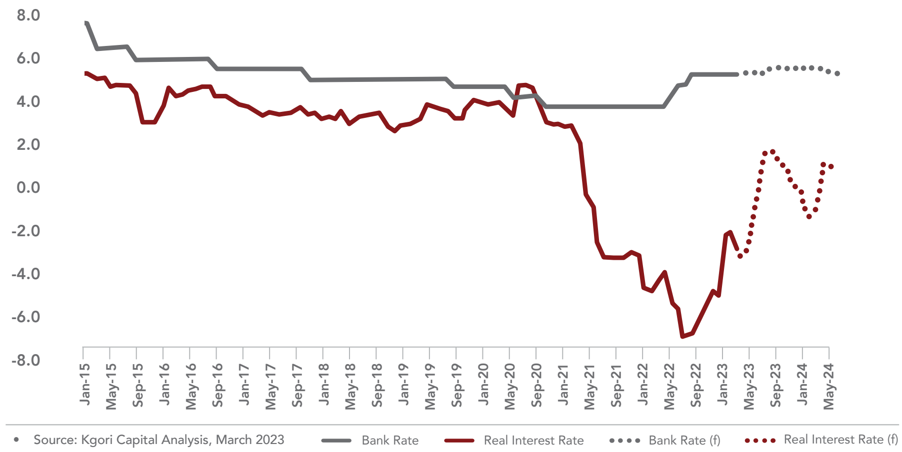
Source: Kgori Capital Analysis, March 2023

MONETARY POLICY

We expect Bank of Botswana (BoB) to implement a 50bp hike in interest rates during the second half of 2023 in a bid to help rein in inflation.

However, rising inflation may force the central bank to adjust the MoPR ahead of our projected schedule.

CHART 2: BOTSWANA INTEREST RATES



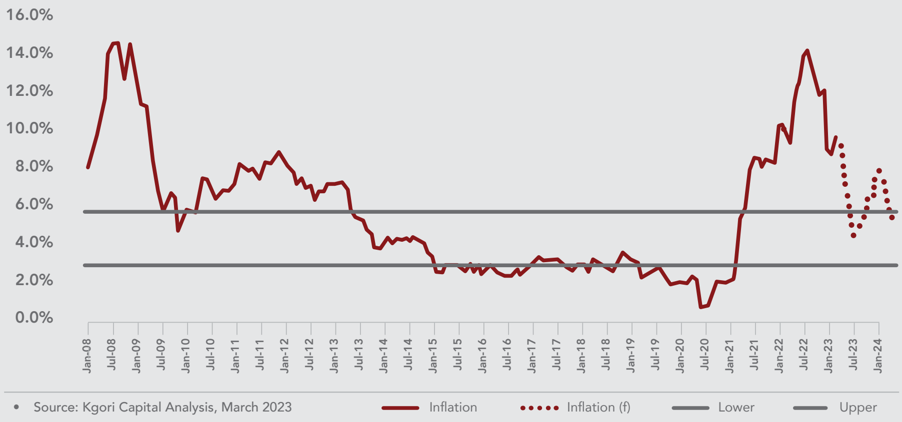
- Source: Kgori Capital Analysis, March 2023

INFLATION

Our forecasts have inflation rising in the short term due to the reversion of VAT back to 14% from 12%, rising global fuel prices and the planned wage increases to government employees.

However, inflation is expected to trend downwards for the year, temporarily dipping into the BoB's objective range in 3Q23 due to favourable base effects. However, inflation is only expected to sustainably trend between 3-6% by 2Q24.

CHART 3: BOTSWANA INFLATION



- Source: Kgori Capital Analysis, March 2023

BOTSWANA MARKET VIEWS

EQUITIES

We believe equities are poised for a good year in 2023. The local stock market is significantly undervalued, with positive earnings momentum and sentiment. Our bottom-up earnings growth estimates suggest record earnings growth this year underpinned by banking, tourism, and property sectors

FIXED INCOME

We continue to prefer bond opportunities with investment grade corporates albeit with lesser conviction as spreads continue to tighten. Government bonds are starting to offer good value with the recent rise in yields (higher yields mean lower prices). Cash returns remain attractive as liquidity dislocations for banking sector deposits present yield enhancement opportunities.

GLOBAL MARKET VIEWS

EQUITIES

We remain cautious on global equities. For developed market (DM) equities, our focus remains on higher-quality companies capable of preserving their margins. We adopt a more cautious stance on broader US stocks, given current overvaluation and upcoming tightening in credit and risk aversion by banks, as well as the Fed's balance sheet reversing its current rise and resuming a steady, long-lasting decline. We remain constructive on emerging market (EM) equities, especially Chinese equities.

FIXED INCOME

We believe Asia high yield is currently an attractive means to earning higher carry with very low duration. Relative to US high yield, Asia HY offers less breadth, yet more spread with declining, instead of rising, credit issues.

COMMODITIES

Commodities find themselves caught in conflicting cross currents, making their future trajectory uncertain. On one hand, the accelerating domestic growth in China offers a positive outlook. On the other hand, our concerns regarding a potential recession in the US and Europe dampen the prospects for broad commodities. As such, we see no strong catalyst for commodities to continue to rise.

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