MARKET INSIGHTS

2023 | Q2

KGORI CAPITAL

INVEST WITH PRIDE

BOTSWANA FINANCIAL MARKETS AND MACROECONOMICS

Kgori Capital Investment Team

- We continue to believe that the risk-reward prospects for local investments opportunities heavily favour local equities.
- We maintain our GDP growth forecast of 3.8% to 4.0% for the year 2023.
- We forecast inflation to fall below the BoB's 3% lower bound in 3Q23 due to a combination of favourable base effects and the downward adjustment of fuel prices that took place in June 2023.

MARKET REVIEW

The second quarter of 2023 was a strong one for domestic investments. Local equities (DCITR) continued to outperform other domestic asset classes, advancing 5.2%. Local bonds (FABI) and cash (Average MM) were up 1.7% and 1.9% respectively for the quarter.

Globally, equity markets continued to rally, led by large-cap U.S. technology companies as the perceived beneficiaries of an anticipated boom in artificial intelligence (AI). The bulk of US equity gains were made in June, amid moderating inflation and signs that the US economy remains resilient despite higher interest rates. The Federal Reserve (Fed) raised interest rates by 25 basis points (bps) in May. However, the Fed did not hike rates in June, adopting what economists have termed a "hawkish pause".

In Japan, the market hit the highest level in 33 years with the Nikkei Index rising 18.5% for the quarter. Eurozone shares posted gains in 2Q23 with the advance led by the financials and IT sectors. Emerging markets (EM) gained 1.0% over the quarter, trailing developed markets (DM) quite substantially, which gained 7.0% over the same period.

Riskier global fixed income sectors, such as leveraged loans, added to year-to-date gains, but more interest-rate sensitive ones, such as government bonds, posted losses. The FTSE World Government Bond index declined 1.8% for the quarter in local currency terms.

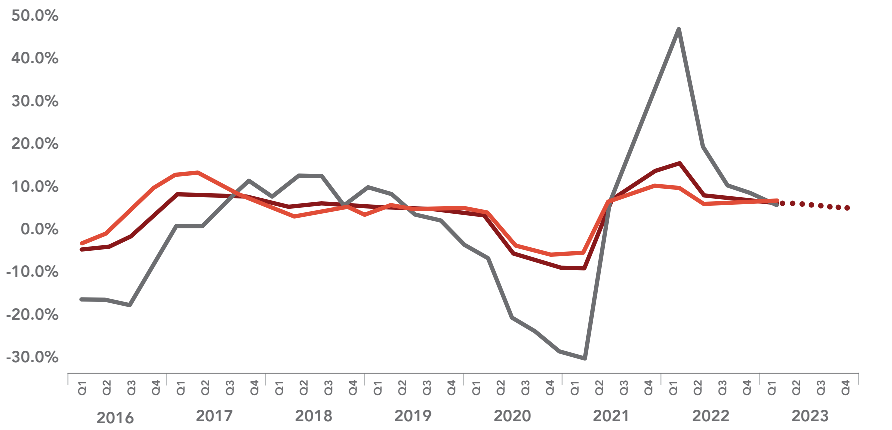
The Pula depreciated significantly against most major currencies, which boosted global returns on translation back to Pula. The Pula was dragged down by the significantly weaker Rand which was hit hard in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine.

OUTLOOK - BOTSWANA MACRO

GROWTH

We expect GDP growth to cool down and still maintain our GDP forecast of 3.8% to 4.0% for the year 2023. The projected slowdown (compared to 2022) is mainly attributable to the Mining Sector, which is expected to experience a reduction in diamond production and a decline in average prices for diamonds, due mainly to recession fears affecting consumer demand. However, this will be partially offset by an improved performance in the Non-Mining Private Sector (NMPS) during the year, driven by government's less stringent fiscal policy stance.

CHART 1: BOTSWANA GDP: GROWTH COMPOSITION

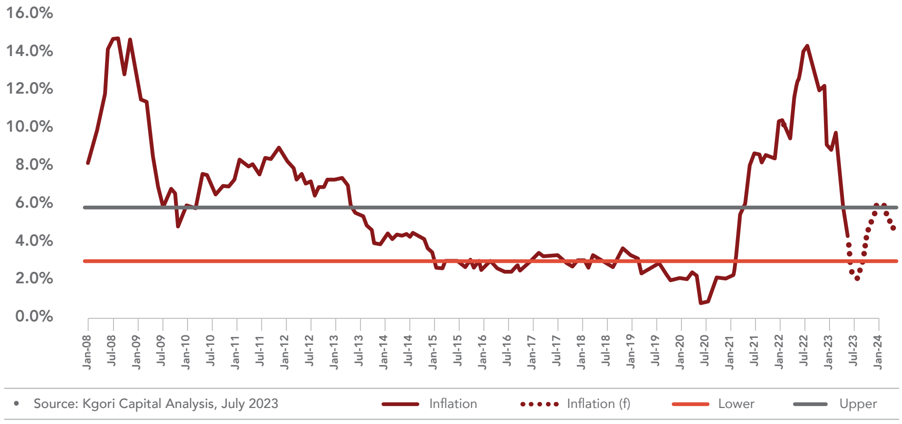


- Source: Kgori Capital Analysis, July 2023 — Total VA — Mining — NMPS •••• Total VA (f)

INFLATION

We forecast inflation to fall below the BoB's 3% lower bound in 3Q23 due to a combination of favourable base effects and the downward adjustment of fuel prices that took place in June 2023. Inflation is expected to rise towards the end of the year as the favourable base effects begin to dissipate. We forecast inflation to rise beyond the BoB's 6% upper bound in 1Q24, whilst the central bank project it to remain between 3-6% in the medium term.

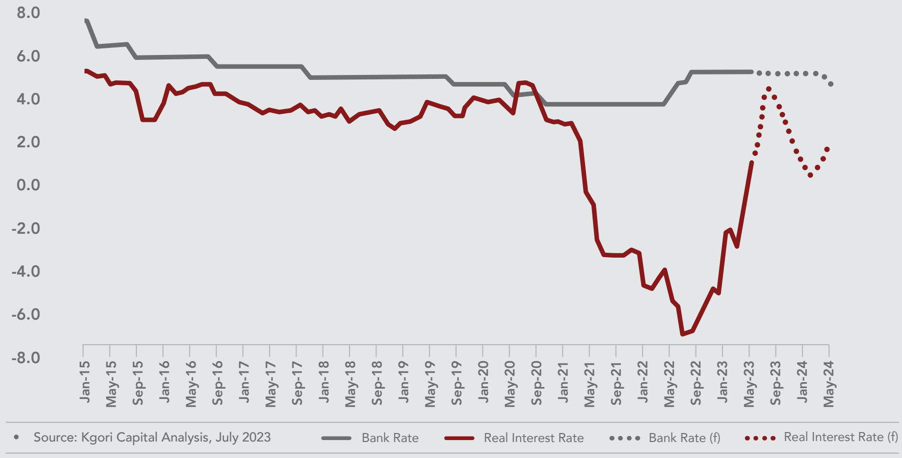
CHART 2: BOTSWANA INFLATION



MONETARY POLICY

With inflation projected to remain largely under control in the medium term, we do not expect BoB to implement any changes to the MoPR in 2023. We expect a 25-50bps cut in Q2 2024.

CHART 3: BOTSWANA INTEREST RATES



BOTSWANA MARKET VIEWS

EQUITIES

We continue to believe that the risk-reward prospects heavily favour local equities given their historically low valuations coupled with strong earnings growth expectations. 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

Globally, 2023 is turning out to be a better year for economies than we had envisaged, but we still believe a recession is more likely than not. Given the rally we've seen in stocks since the start of the year, we're even more inclined to be cautious be on global equities. For 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 EM equities, especially Chinese and Indian equities.

FIXED INCOME

The Fed aims to keep policy rates higher for longer and continue with Quantitative Tightening which may impact economic growth. Any yield overshoot is viewed as a chance to extend duration. Asia high yield is an appealing opportunity with high carry and low duration.

COMMODITIES

"Green commodities" show a wide range of expected returns. Aluminium looks attractive, whereas lithium seems unattractive. The divergence in supply growth is the key factor, with less-appealing markets experiencing a glut of supply from previous investments.

KGORI CAPITAL

INVEST WITH PRIDE

General Disclaimer

1st Floor Exponential,
Plot 54351, CBD, Gaborone

PO Box 1253 ABG,
Sebele, Gaborone

T +267 3915 990
F +267 3915 980
info@kgoricapital.com

www.kgoricapital.com

Directors KI Melamu, AM Ndzinge, S Noor,
MS Sibanda, AA Wellio-Moyo

Reg No BW000009888897

Kgori Capital (Pty) Ltd is an authorised financial services provider.