

MARKET INSIGHTS

2023 | Q3



KGORI CAPITAL
INVEST WITH PRIDE

BOTSWANA FINANCIAL MARKETS AND MACROECONOMICS

Kgori Capital Investment Team

- Local equities gained 9.8% on a total return basis.
- We maintain our GDP growth forecast of 3.8% to 4.0% for the year 2023.
- We forecast inflation to rise during Q4 as base effects dissipate, coupled with upside risks to international fuel prices on the back of escalating geopolitical tensions.

MARKET REVIEW

In the third quarter, local investments continued to perform well. Domestic stocks went up by 7.5% in price, and local bonds (FABI) and cash (Average MM) increased by 2.0% and 1.9%, respectively, for the quarter.

However, global stock markets were volatile in Q3 following a strong performance in the first half of the year. In the US, the rise in policy rates in July 2023 and a credit downgrade in August posed challenges for risk assets. The IT sector, which includes big names like Apple, Microsoft, Alphabet, Amazon, Tesla, Nvidia, and Meta, suffered losses.

Eurozone stocks also declined in Q3 due to concerns about the impact of rising interest rates on economic growth. The consumer discretionary sector saw significant declines, driven by worries about the effects of higher interest rates on disposable income. The European Central Bank (ECB) raised interest rates in July and September, signalling that these might be the final hikes as economic activity slowed down.

On the other hand, UK equities rose in the quarter, driven by energy and basic materials companies. The Bank of England increased the base rate to 5.25% in August and maintained rates in September.

In Japan, large growth stocks faced challenges due to a global stock market correction, resulting in a 4.0% decline in the Nikkei 225 index. Smaller stocks performed better, and value stocks saw gains, leading to a modestly positive return of 2.5% for the TOPIX Total Return index. The gap between growth and value stocks widened significantly, reflecting a major shift in market trends.

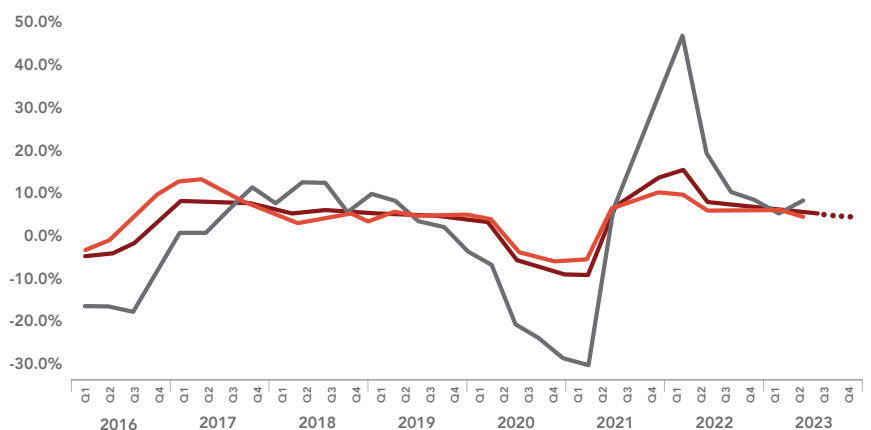
Emerging market equities slightly outperformed developed market equities in this quarter, primarily driven by China's efforts to boost domestic consumption. Concerns about the strength of the US economy keeping interest rates high for an extended period and ongoing weaknesses in the Chinese economy, especially in the property sector, also affected market sentiment.

OUTLOOK - BOTSWANA MACRO

GROWTH

We maintain our GDP growth forecast of 3.8% - 4.0% for the year 2023, leaning more towards the lower end of the range following the publication of the Q2 2023 GDP results. The projected slowdown (compared to 2022) is mainly attributable to the Mining Sector, with demand for diamonds expected to remain subdued over the course of the year due to challenging global macroeconomic conditions, along with a decline in average prices for both diamonds and coal. However, this will be partially offset by an improved performance in the NMPS during the year driven by government's less stringent fiscal policy stance.

CHART 1: BOTSWANA GDP: GROWTH COMPOSITION



• Source: Kgori Capital Analysis, Oct 2023

INFLATION

We forecast inflation to rise during Q4 2023 as the previously favorable base effects begin to dissipate, along with significant upside risks to international fuel prices as global geopolitical tensions continue to rise and OPEC members maintain their decision to cut oil production output. We tentatively forecast inflation to temporarily rise beyond the BoB's 6% upper bound in Q1 2024, reaching its peak for 1H24 in February, before declining back to within range.

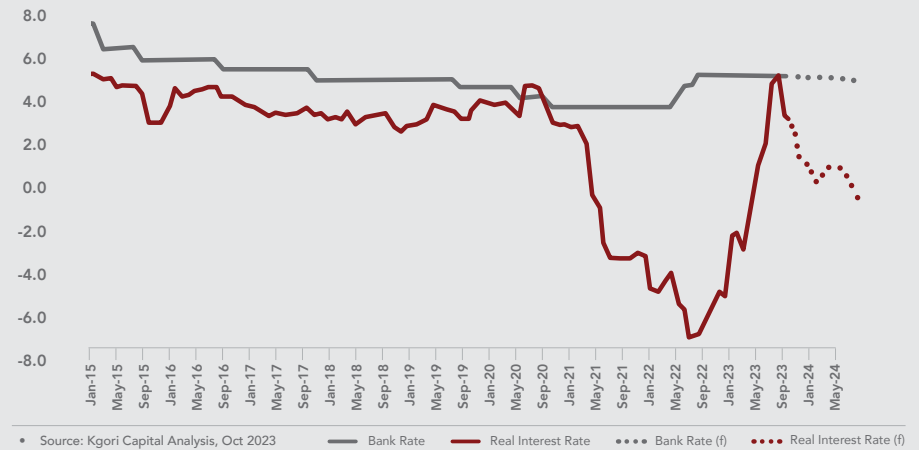
CHART 2: BOTSWANA INFLATION



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.

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 still favour bonds from investment-grade corporate issuers, although our confidence in

them has slightly decreased as spreads continue to narrow. Government bonds are becoming more appealing due to the recent increase in yields (higher yields result in lower bond prices). Cash returns continue to be attractive, especially as disruptions in the banking sector deposits offer opportunities to enhance yields.

GLOBAL MARKET VIEWS

EQUITIES

Despite the third-quarter volatility in 2023, global equities have consistently exceeded our expectations for this year. As the economy shows signs of slowing down, we anticipate that the global healthcare sector will stand out as it is likely to be the primary beneficiary of an aging population. Additionally, we anticipate robust performance in the Japanese banking sector, driven by the Bank of Japan's gradual reduction of yield control measures.

FIXED INCOME

Monetary Policy Easing in Brazil is expected to be the main benefactor for Brazil Short Duration Government Bonds. Asian high-yield credit presents an attractive opportunity due to its combination of substantial yield and limited duration risk. When compared to the high-yield market in the United States, Asian high yield offers more significant spreads and shows improving credit fundamentals. This makes it a compelling option for fixed-income investors looking to diversify their portfolios

with assets that have the potential for spread tightening and can complement their core developed market holdings.

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.



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