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FOR IMMEDIATE RELEASE

"THE 364-DAY T-BILL PAPER OUTPERFORMED OTHER ASSET CLASSES IN 2023 WHILE THE ANNUAL GDP IS PROJECTED TO GROW AT 5.3% FOR THE YEAR 2023"

NAIROBI, KENYA, JANUARY 2nd 2024

KENYA MACRO ECONOMIC ENVIRONMENT

The Kenyan economy recorded an average growth of 5.5% in the period between January to September 2023, with Q3'2023 GDP coming in at 5.9%, adding to the 5.4% growth recorded in Q2'2023. The average GDP growth of 5.5% marked a slight decline from the 5.6% average growth recorded in a similar period in 2022. The performance in Q3'2023 was mainly driven by the 6.7% growth in the agricultural sector due to the favourable weather conditions, which led to more agricultural output as evidenced by the 28.0% increase in tea output to 138.8 thousand metric tonnes coupled with the 84.3% growth in fruit exports to 59.6 thousand metric tonnes in the quarter under review. All sectors in Q3'2023 recorded positive growths, with varying magnitudes across activities. Most sectors recorded improved growth compared to Q3'2022 with Accommodation and Food Services, Agriculture, Forestry and Fishing, and Mining and Quarrying Sectors recording the highest growth improvements of 9.1% points, 8.0% points, and 5.6% points, respectively. Other sectors that recorded expansion in growth rate, from what was recorded in Q3'2022 were Financial and Insurance Services, Information and Communication, and Real Estate sectors, of 5.1%, 2.7%, and 2.2% points respectively.

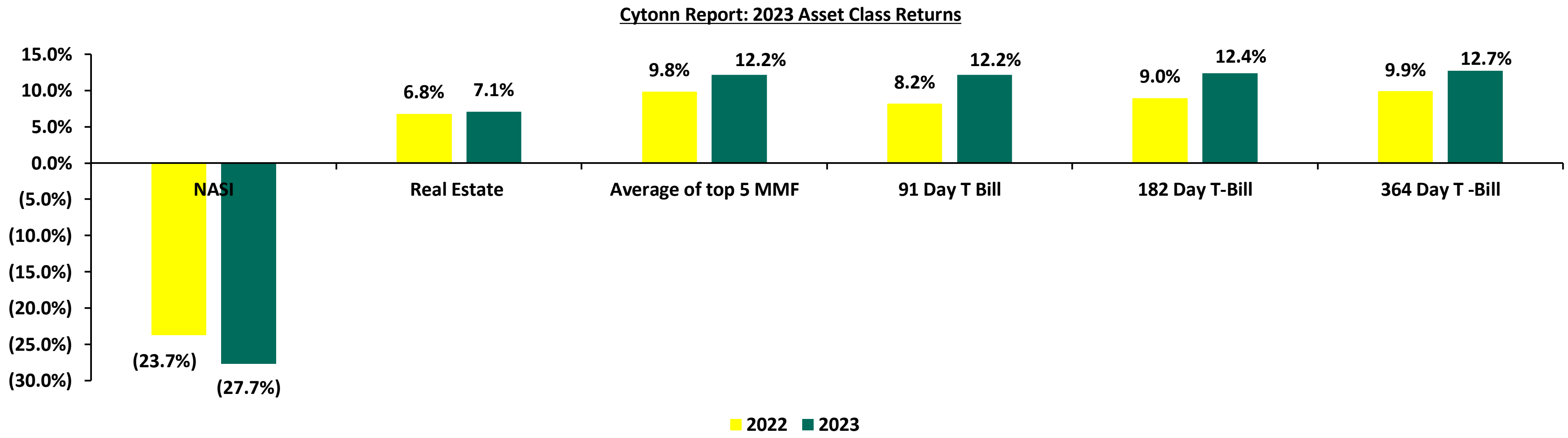
The average GDP growth for 2023 is forecasted to be 5.3%, higher than the 4.8% growth observed in 2022, with Cytonn Investments projecting Kenya's economy to grow by 5.1% in 2023. "We believe that growth will be supported by the rebound in the agricultural sector following the sufficient long rains that have been experienced in the country, coupled with the recent fiscal policies such as subsidising the costs of crucial farm inputs such as fertilizers that have enhanced agricultural output, said Duncan Muema, an Investment Analyst at Cytonn Investments PLC. "However, the growth will be slowed down by the high fuel prices in the country, the supply chain bottlenecks worsened by the Russian- Ukrainian war as well as the sustained depreciation of the Kenyan shilling," added Muema.

No.	Organization	2022 Projections
1	International Monetary Fund	5.1%
2	National Treasury	6.1%
3	World Bank	5.0%
4	Fitch Solutions	5.1%
5	Cytonn Investments Management PLC	5.1%
Average		**5.3%**

Source: Cytonn Research, 2023

ASSET CLASSES REVIEW

The returns by the various asset classes improved in 2023, with the average of the top five money market funds (MMFs), Real Estate yield and government papers being on upward trajectories. The average of top 5 MMFs recorded a yield of 12.2%, 2.3% points higher than the 9.8% average recorded in 2022 as the average Real Estate yield also increased by 0.3% points to 7.1% in 2023, from 6.8% recorded in 2022. Similarly, the 364-day, 182-day and 91-day Government papers recorded average yields of 12.7%, 12.4% and 12.2%, respectively. However, for the equities class, NASI registered a 27.7% loss in 2023, a deterioration from the 23.7% loss recorded in 2022.



Money Market Funds continued to register high returns with average yields of 12.2% in 2023. Money Market Funds offer a good safe haven for investors who wish to switch from a higher risk portfolio to a low risk portfolio, especially in times of uncertainty. In 2023, the Cytonn Money Market Fund (CMMF) closed the year with an effective annual yield of 15.5%, a great improvement from the 10.9% recorded at the end of 2022. Notably the equities asset class recorded declining performance in 2023 with NASI declining by 27.7% a deterioration from 23.7% loss recorded in 2022. The decline in equities return can be attributable to the tough macro-economic environment, coupled with interest rates hikes in developed countries such as the United States resulting in huge capital outflows from the Kenyan market, as investors sought to profit from the high interest rates abroad. Additionally, the high inflation rates experienced throughout the year resulted in negative investor sentiments contributing to the low performance.

FIXED INCOME REVIEW: In 2023, there was an increase in demand for Treasury-bills as the average subscription rate came in at 120.0%, up from the 94.9% subscription rate recorded in 2022. The increased subscription rate was partly supported by investors' preference for the shorter-dated government papers in a bid to hedge over duration risks. On the other hand, primary Treasury-bond subscription averaged 117.8%, which was higher than the 98.8% average subscription rate recorded in 2022. Key to note, both the Treasury bills and bonds auctions were oversubscribed despite the tightened liquidity in the money market with the average interbank rate increasing to 9.8% in 2023 from 4.9% in 2022.

"We expect a slight recovery in 2024 supported by the improving economic conditions in the country evidenced by momentum in GDP growth and declining inflation with the rate remaining within target range of 2.5% to 7.5% for the sixth consecutive month. However, improvement of the business conditions in the country depends on the decline in inflation rates and stabilization of the Kenyan currency," said Patriciah Mutua, an Investment Analyst at Cytonn Investments.

EQUITIES REVIEW: In 2023, the Kenyan equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 down by 27.7%, 10.4% and 24.2% respectively. The equities market performance was driven by losses recorded by large-cap stocks such as KCB Group, Safaricom, EABL, Equity Group, Diamond Trust Bank Kenya, Absa Bank, and Co-operative Bank Kenya of 42.9%, 42.2%, 32.9%, 25.3%, 9.6%, 6.1%, and 5.8% respectively. The performance was, however, supported by gains by large-cap stocks such as Bamburi Cement, Standard Chartered Bank, and Stanbic Bank of 14.0%, 11.7%, and 6.6%.

"We are 'Neutral' on the Equities market in the short term due to the current adverse economic conditions, which has led to a tumble in the equities market in emerging markets such as Kenya, as foreign investors shift their capital to more developed economies, in search of lower risk investments. However, with the market currently trading at a discount to its future growth (PEG Ratio at 0.7) and a price to Earnings (P/E) ratio of 5.1x, 57.7% lower than the 12-year historical average of 12.1x, we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value," said David Musau, an Investment Analyst at Cytonn Investments.

REAL ESTATE REVIEW: In 2023, the general Real Estate sector witnessed considerable growth in activity in terms of property transactions and development activities. Consequently, the sector's activity contribution to GDP grew by 5.4% to Kshs 785.9 bn in Q3'2023, from Kshs 743.4 bn recorded during the same period in 2022. In addition, the sector contributed 10.5% to the country's GDP, a 0.5% increase from 10.0% recorded in Q2'2023. Cumulatively, the Real Estate and construction sectors contributed 16.6% to GDP, a 1.1% improvement from 15.5% in Q2'2023, evidencing their growing contribution to Kenya's economy. Additionally, the escalation of selling and rental prices persisted, propelled by ongoing inflationary pressures and a depreciated shilling against the United States dollar, leading to an increase in the costs of construction materials.

"We are 'Neutral' on the Real Estate sector performance whose market performance is supported by the increased and consistently growing demand for Real Estate developments facilitated by the country's positive demographic profile and government's focus to provide affordable housing coupled with efforts by the Kenya Mortgage Refinance Company (KMRC) to provide affordable loans to potential buyers. We believe that the increased visitor arrivals into the country will continue boosting the performance of hospitality sector," said Effie Zuma, a Real Estate Research Analyst Coordinator at Cytonn Investments. "However, rising construction costs, existing oversupply of physical space in the commercial office and retail sectors, slow delivery of affordable housing projects, recently issued travel advisories by multiple governments, impacting tourism, the deteriorating business environment and, low investor appetite for REITs is expected to hinder the optimum performance of the sector," added Zuma.

Source: Cytonn Research

Notes to the Editor:

Cytonn Investments is an independent investment management firm, with offices in Nairobi - Kenya and D.C. Metro - U.S. We are primarily focused on offering alternative investment solutions to Individual High-Net-Worth Investors, Global and Local Institutional Investors and Kenyans in the diaspora interested in the high-growth East-African region. We currently have over Kshs 82.0 billion of investments and projects under mandate, primarily in real estate.

Cytonn Real Estate is Cytonn's development affiliate, which is focused on developing institutional grade real estate targeted at specific institutional, high net-worth and Diaspora investors. Collective, Cytonn Investments, and Cytonn Real Estate manage over Kshs 82.0 billion of real estate projects.

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