Cytonn H1’2023 Markets Review

Global Markets Review

Global Economic Growth:

According to the World Bank’s June 2023 Global Economic Prospects, the global economy is projected to grow at a rate of 2.1% in 2023, 1.0% points slower than the estimated growth of 3.1% recorded in 2022. The latest projection is 0.8% points lower than the IMF’s earlier projection of 2.9% growth, with the downward revision being on the back of the continued tightening of monetary policies by the Central Banks around the world aimed at curbing the elevated inflationary pressures. Notably, advanced economies are expected to record a 0.7% growth in 2023, which is a significant decline from the 2.6% expansion recorded in 2022. However, the emerging markets and developing economies are projected to expand by 4.0% in 2023, marginally upwards from an estimated growth of 3.7% in 2022.

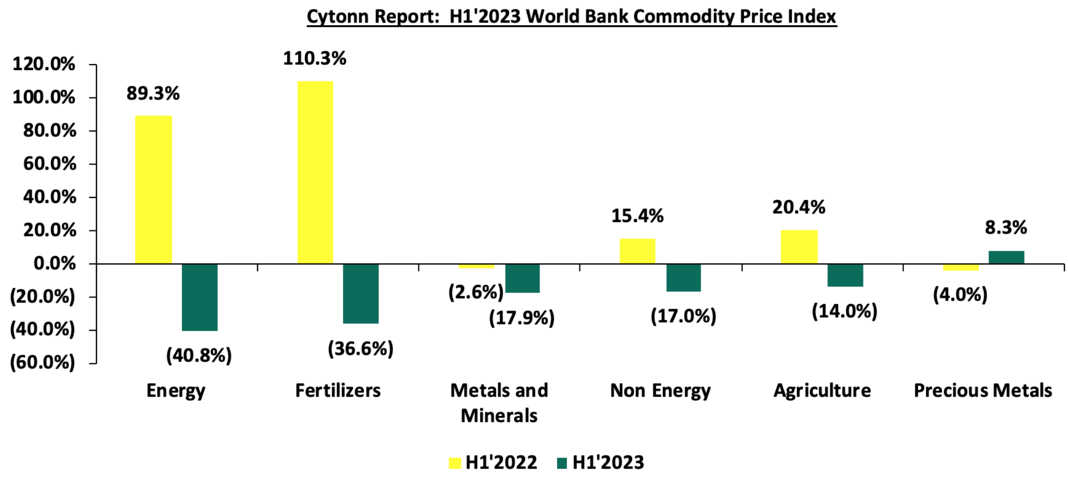
The expected slowdown in global economic growth in 2023 as compared to 2022 is majorly attributable to;

i. The headline inflation remains elevated despite a recent deceleration due to falling energy prices, necessitating the hiking of interest rates by central banks around the world with the aim of anchoring inflation. As such, the global inflation is forecasted to gradually ease to 5.5% in 2023 from 7.3% in 2022, and,
ii. Tight global financial conditions occasioned by high cost of borrowing which have increased the risk of debt distress in emerging economies as most advanced economies continue to tighten their monetary policies.

The global economy is expected to remain subdued in the short term, mainly as a result of persistent inflationary pressures as well as tight monetary policies, which are expected to curtail economic growth.

Global Commodities Market Performance:

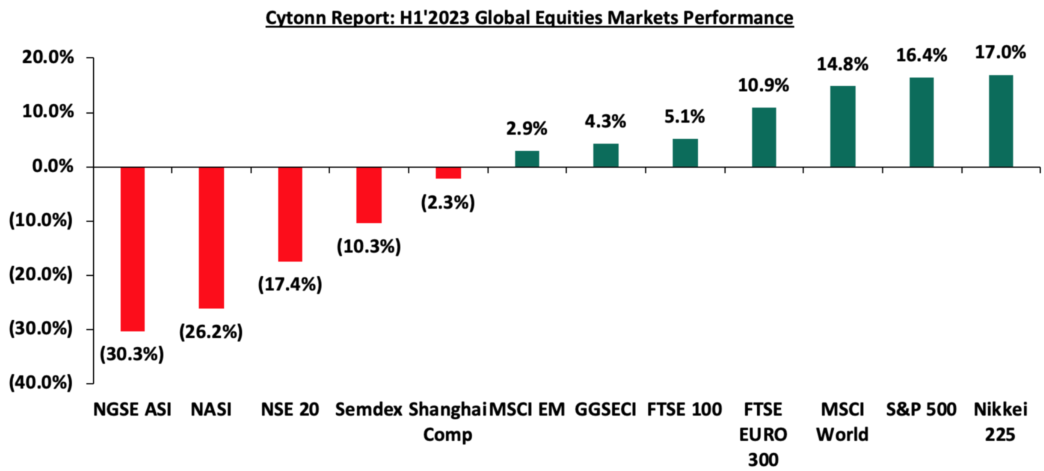
Global commodity prices registered mixed performance in H1’2023, with prices of energy declining the most by 40.8% compared to the 89.3% increase recorded in H1’2022, mainly as a result of weaker global demand. Similarly, prices of fertilizers, Metals and Minerals, Non-energy and Agriculture declined by 36.6%, 17.9%, 17.0% and 14.0%, respectively, on the back of reduced global demand coupled with easing supply chain constraints. On the other hand, Precious Metal prices recorded an increase of 8.3% in H1’2023 compared to a decline of 4.0% in H1’2022, mainly attributable to mismatch between demand and supply. Below is a summary performance of various commodities;



Source: World Bank

Global Equities market performance:

Global stock market recorded mixed performance in H1'2023, with most indices in developing economies declining attributable to capital flights following interest rate hikes in advanced economies aimed at curbing the inflationary pressures. Consequently, investors have resorted to place their investments in less risky markets, such as government papers and other investments alternatives. On the other hand, most indices in the developed countries recorded gains during the period, largely attributable to increased investor sentiments as a result of continued economic recovery following the full reopening of the economies coupled with investor preference for the stock markets in the developed countries. Notably, Nikkei 225 recorded the largest gain at 17.0% in H1'2023 driven by gains recorded by companies in automotive industry as a result of easing supply chain constraints which has increased investor sentiments on the industry's stocks. NGSE ASI was the largest decliner, recording losses of 30.3% with the performance being skewed by the weakened Nigerian Naira following recent decision by the Central Bank of Nigeria to adopt floating exchange rate regime. NASI was the second largest decliner, recording losses of 26.2%, mainly due to capital flight as foreign investors sold off their investments in the Kenyan equities market. Additionally, investors have continued to attach a higher risk premium to the country as a result of deteriorated business environment as evidenced by the average Purchasing Managers Index (PMI) of 48.9 in the first five months of 2023, mainly attributable to the high inflation rate which has remained above the government's target of 2.5%-7.5% for the past one year as well as the continued weakening of the Kenyan Shilling which has depreciated by 13.9% on a year to date basis in 2023. Below is a summary of the performance of key indices:



**Dollarized performance*