Investment themes shaping markets next year

# OUR WILDCARDS FOR 2024

December 2023

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# 2024 POLLS

# ELECTION SPENDING RISKS LOW

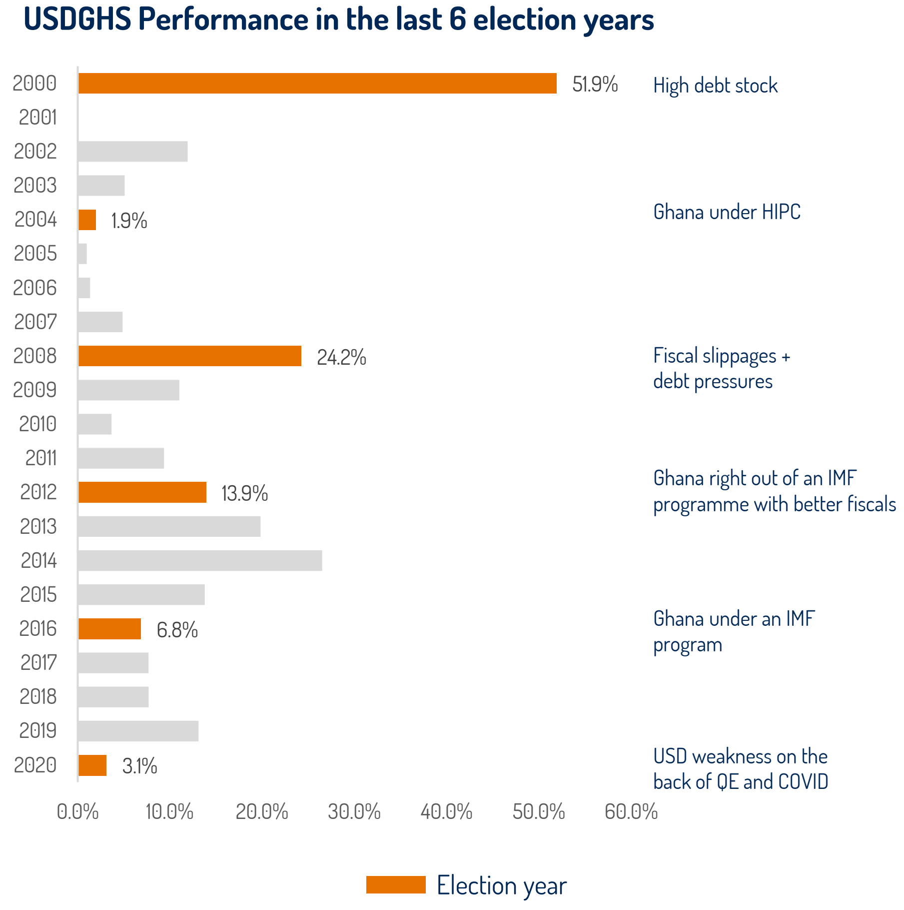
Historically, election years have proven to be characterised by huge increases in government spending without a commensurate growth in revenue

The Ghana Cedi as a result is negatively impacted as foreign investors repatriate capital out of the economy on fears of fiscal indiscipline and its macro-related consequences

The chart on the right however tells an interesting story – currency depreciation in election periods has been tied to idiosyncratic macro developments that reflect the fundamental strength of the broader economy

**Our view** – Ghana's IMF program will provide the necessary leash on government's expenditure plans and keep the currency relatively stable throughout the year with mild bouts of volatility

**Action – Continue to implement our issuer & currency diversification strategy in 2024 to build resilience in our portfolios post-elections**



# THE TRIPLE ACE

# Alternatives

There has been a paradigm shift in asset allocation across the global pension industry as returns in developed bond markets have trailed that of alternatives in the last decade

However, Ghana's alternative market is currently in its budding phase. Nonetheless, we forecast significant growth in the coming years as macroeconomic conditions improve. In 2024, we expect private sector credit to remain subdued as most local banks battle with higher cash reserve ratios, capital requirement gaps and trading losses from the domestic debt exchange programme – there lies the opportunity in our opinion as capital flow in the real sector remains stifled

**Our view** – Local Investors have the opportunity of using patient capital to fund quality long-term projects across critical sectors of the economy. Being picky in selecting opportunities will serve us well considering the fragile macro landscape that could impact real sectors across the economy

**Action – Leverage industry expertise by engaging private asset managers and banks on potential co-investment deals as we seek direct investment opportunities in our sectors of preference**

**10-Year Annualised on Return Real Assets vs Sovereign Bonds***

**3.6%**

**S&P Real Asset Index****

**0.9%**

**S&P Developed Market Bond Index**

* Sovereign bonds of developed markets
**The S&P Real Assets Index is the first index of its kind designed to measure global property, infrastructure, commodities, and inflation-linked bonds using liquid and investable component indices that track public equities, fixed income, and futures.

# Currency

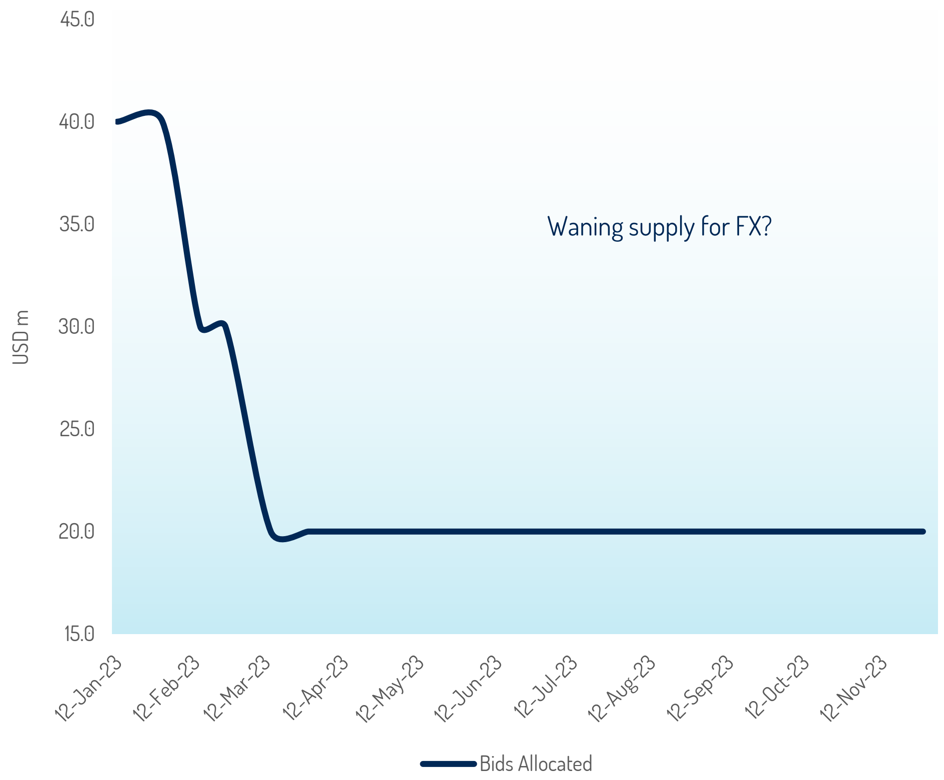
Since the conclusion of the domestic debt exchange in February 2023, the currency has strengthened against the dollar by **~6.67% YTD** as of 6-Dec-23 We attribute this performance to the currency management of Bank of Ghana through tighter monetary policy and enhanced supervision of the foreign exchange market

In our opinion, it is possible that there exists a backlog of FX demand that is not fully reflective of current retail rates which have consolidated tightly between the 11 and 12 handles

**Our view** – Expected IMF and World Bank inflows could provide some buffer to the local currency and support Ghana's reserve position in 2024 but we expect bouts of volatility as key fiscal metrics are yet to significantly improve

**Action – Closely monitor IMF developments whilst building positions in currency-hedged assets.**

FX Forward Auction Results - 2023



# TEAM MEMBERS' USDGHS FORECAST FOR YEAR END 2024:

| Herbert | Nana Yaw | Churchill | Courage | Obed | Clevert | Timothy | Isaac | Emmanuel | Saralyn | Michael |
|---|---|---|---|---|---|---|---|---|---|---|
| 11.7 | 12.8 | 13.1 | 13.2 | 13.3 | 13.5 | 13.6 | 13.7 | 13.8 | 14.2 | 14.5 |

Average USDGHS Forecast
for Year End 2024

**13.4**

AVERAGE

Disclaimer: The predictions represent the team members' sentiments and therefore they are subject to change.

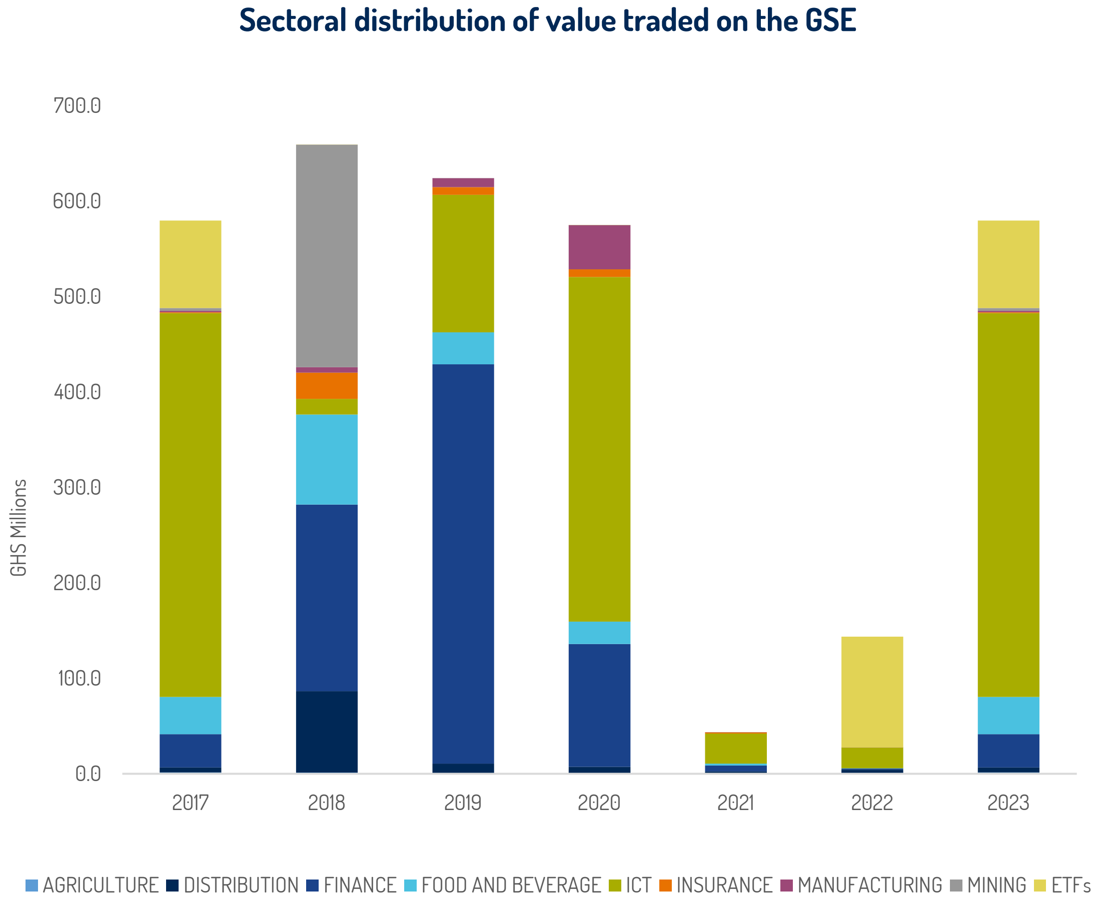
# Equities

Banks and Telcos have been the most domineering sectors on the GSE since MTN's IPO in 2017

However, appetite for banking stocks has waned since COVID; valuations remain unattractive across board especially with the conclusion of the DDE that has heightened capital adequacy and liquidity risks

**Our view** – We expect this domineering theme to continue for Telcos (MTNGH) with a handful of banks posting attractive returns. Consumer stocks are our wildcards for 2024 as inflationary pressures ease amid ongoing stringent cost controls from these companies

**Action – Reduce exposure to overvalued banks; take a position in select consumer stocks**



# GLOBAL MARKETS

# FED PIVOT; MORE GEOPOLITICS

After much dilemma about how high inflation in the US could go, core and headline numbers have trended downwards in the latter part of 2023; good news for some investors. The FED has cumulatively hiked rates consequently this year by **100bps** to the point of risking a potential banking crisis

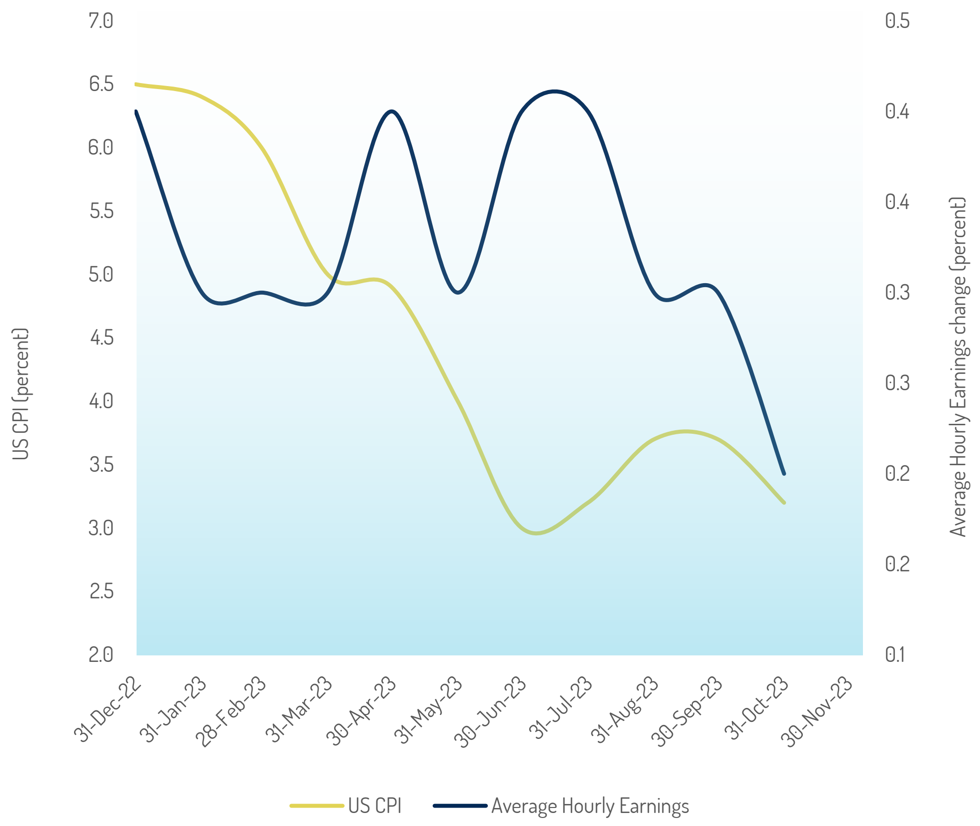
Labour costs and employment numbers are pointing towards a slowing inflation as global supply chains have been reset. Inflation is still above the FED's target but the ongoing disinflation and moderation in wage growth suggest that the FED's rate hiking cycle may be over

On geopolitics, we see a few risks abound as 57% of the world's GDP hold pivotal elections in 2024. Key among them will be the US elections with Biden and Trump as likely candidates for the Democrats and Republicans, respectively. Tensions in the Middle East may persist and escalate further but we view these risks as manageable

**Our view** – geopolitics will be a key driver of markets as most countries go to the polls; FED likely at the end of their hiking cycle and so we expect yields to come off on the US Treasury curve

**Action – Be more fluid in our external investment strategy**

## US CPI v US Average Hourly Earnings Monthly Change



# WHAT WOULD KEEP US AWAKE AT NIGHT

# EXCESS LIQUIDITY, FEWER OPTIONS

Our biggest headache since the conclusion of the DDE has been a twin dilemma of “excess cash” and finding good assets to buy

We anticipate a similar theme playing out in 2024 as a cascade of maturities flood the market in February and August when coupons on the New Bonds are paid

A subdued secondary bond market requires out-of-the-box thinking in finding assets that generate competitive returns commensurate with the broader risk profile of the economy. Our go-to strategy in 2023 has been largely in the repo market, but we fear that the ship has sailed as money market spreads tighten on the back of the increased cash reserve ratio for banks. However, this spread tightening will not last for long as the local market will be flushed with liquidity by 1Q 2024.

**Our view** – Despite the projected improvement in liquidity conditions, we expect interest rates on Treasury bills to remain elevated in Q1 and Q2 as the local market remains Ghana’s sole commercial financing outlet in 2024

**Action – Engage banks in exploring innovative structured fixed income products**

## ~ GHS 9.4bn

February maturities – includes treasury bills and coupons on the New Bonds

# IN SUMMARY…

The 2024 election risks are manageable and would not notoriously impact markets

We hold a long-term bearish view on currency. However, we expect relative stability with some bout of volatility amid tight control of the currency

Local investors can find value opportunities in alternatives; we prefer to be picky in our search for opportunities in the real sector

Interest rates will remain elevated on the primary market in Q1 and Q2 despite cooling inflation

FED hiking cycle likely to have come to an end; rates expected to come off on US Treasuries. Geopolitics will be a key driver in shaping global markets

**What to do with so much cash amid limited investment opportunities will require some out-of-the-box thinking from us – we are up to the challenge and ready to explore newer innovative opportunities**

# Season's Greetings

CLEVERT

HERBERT

ISAAC

OBED

SARALYN

TIMOTHY

Intelligent
Investing