Political and Economic Review

Market resolute amidst headwinds

Local financial markets continued their first quarter gains to close the quarter strong. Interest rates inched lower, the Kenya Shilling strengthened against the US Dollar while inflation edged up on the back of rising food and fuel prices. Business conditions continued to improve as signaled by the latest Stanbic PMI readings but risks to economic growth remain, mainly centered on the new variants of the virus, potential restrictions, vaccination roll-out delays, fiscal pressures and rising debt service.

Second phase of vaccination in progress

The second mass COVID-19 vaccination drive began during the quarter despite a slow down in the wake of the shortages occasioned by delays in delivery from Covax. The Ministry of Health has set aside funds to acquire 30m doses of the Johnson and Johnson COVID-19 vaccine, with approximately 10m doses expected in 3Q21. There is still a long way to go with the vaccination effort but current progress will gradually renew optimism boosting overall business and consumer demand.

The 3.6trn budget…

The FY2021/22 budget estimates total expenditure and net lending of KES 3.1trn, representing a 5.6% year-on-year increase from the FY2020/21 revised estimate of KES 2.9trn. Recurrent expenditure which continues to take the lion share accounting for 66.1% of total expenditure (16.2% of GDP) is majorly assigned to interest payments and on the public wage bill. Development expenditure received 33.9% of total expenditure (5.0% of GDP). The expenditure priority sectors for the government in FY2021/22 are; education (16.6% of total expenditure), national security (5.4% of expenditure), roads (6.1% of expenditure) and healthcare (4.0% of expenditure).

With an anticipated economic recovery, total revenue is forecast at KES 2.1trn, a 10.3% growth from the previous fiscal year (FY 2020/21) target of KES 1.9trn. The upward revision was majorly on the ordinary revenue target. Ordinary revenue is estimated at KES 1.8trn, an 11.4% year-on-year increase from FY2020/21 revised estimates.

… further widening the fiscal deficit

The fiscal deficit for the FY 2021/22 budget is projected at KES 952.9bn, equivalent to 7.7% of GDP (FY2020/21: 8.7% of GDP). To finance the deficit, the net domestic borrowing target is KES 661.6bn (70.9% of the deficit) while the net external borrowing target is KES 291.3bn (31.2% of the deficit).

Treasury is shifting to more domestic and concessional external funding. The external borrowing includes, KES 124.3bn from a Eurobond, KES 74.3bn from the World Bank, KES 57.6bn from the IMF and KES 14.3bn from AFDB. The Eurobond is targeting to refinance commercial short-term loans and increase debt duration in the medium term.

…increasing concerns on the public debt

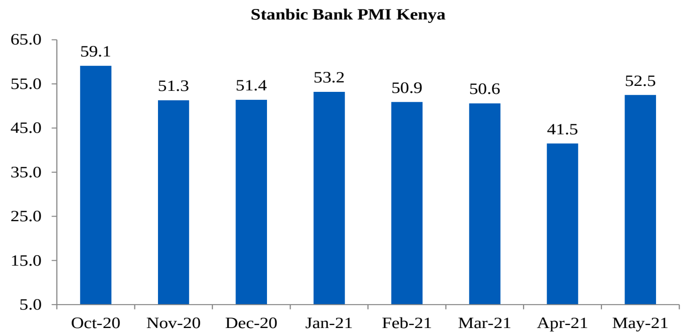
Kenya's gross public debt is estimated at KES 8.6trn in the FY2021/22 budget. This is equivalent to 69.5% of GDP, leaving minimal room before hitting the KES 9.0trn debt ceiling. The external debt is estimated at 49.1% of the gross debt while the remainder is the domestic debt. Treasury plans to engage Parliament on the debt ceiling adjustment. The significant increase in absolute fiscal deficit means a higher debt load and an increase of the debt ceiling from KES 9.0trn.

Fourth issue of Eurobond oversubscribed

Kenya's fourth Eurobond raised USD 1.0bn through issuance of a 12-year paper, priced at 6.3%. The bond achieved an oversubscription rate of 5x, as the government received bids worth over USD 5.4bn. The proceeds were earmarked to support general budgetary expenditure. Though international investors' appetite supports Kenya's issuance of Eurobonds, the mounting debt service costs and the risk of currency volatility are a growing concern.

PMI indicates improved business environment in 2Q21

The business activity rebounded in May 2021 as restrictions eased following tighter measures on travel and curfew which saw steep contraction in April 2021. Stanbic Kenya's Purchasing Managers Index (PMI) rose to 52.5 in May 2021 from 41.5 in April 2021. The PMI measures growth of output in the private sector and the improved performance was attributed to favourable economic conditions, greater inflows of new orders, high customer turnout and improved demand. The survey also reported a rise in new export orders.



Source: Stanbic Bank

Economic outlook

Based on the recent Purchasing Managers' Index (PMI), the overall reading signals a moderate improvement in operating environment. Economic growth in 2021 is expected to recover largely from the low base in 2020 given the impact of the pandemic. The recovery will be supported by relatively stable macroeconomic environment and favorable weather conditions. Additionally, the ongoing vaccine rollout and focus on herd immunity in the short term may improve domestic consumption as the economy gradually reopens. The IMF projects Kenya's GDP growth at 4.5 % for 2021.

Currency, Inflation and Fixed Income Markets Review

Mixed performance for currency

The Kenya Shilling strengthened against the US Dollar (+1.8%) in 2Q21, closing at KES 107.5. This was on account of adequate foreign exchange reserves which were as a result of loan disbursements from the IMF and World bank. The Central Bank of Kenya foreign exchange reserves increased to USD 8.1bn (5.0 months of import cover) at the end of June 2021 from USD 7.3bn (4.5 months of import cover) as at the end of the first quarter of 2021. Additionally, low import activity, higher remittances and relatively soft corporate demand supported the shilling.

	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	Q-on-Q	YTD
USD/KES	106.52	108.50	109.17	109.51	107.50	1.8%	1.5%
GBP/KES	131.17	139.51	148.36	150.69	149.20	1.0%	-0.6%
EUR/KES	120.14	126.89	133.90	128.60	128.23	0.3%	4.2%
ZAR/KES	6.18	6.39	7.46	7.31	7.51	-2.7%	-0.7%
KES/UGX	35.02	34.29	33.38	33.47	32.96	-1.5%	-1.3%
KES/TZS	21.74	21.38	21.24	21.18	21.50	1.5%	1.2%

Source: Central Bank of Kenya

The Kenya shilling registered mixed performance against major world currencies during the quarter. It recorded a 1.0% gain against the Sterling Pound and 0.3% gain on the Euro. The KES shed 2.7% against the South African Rand.

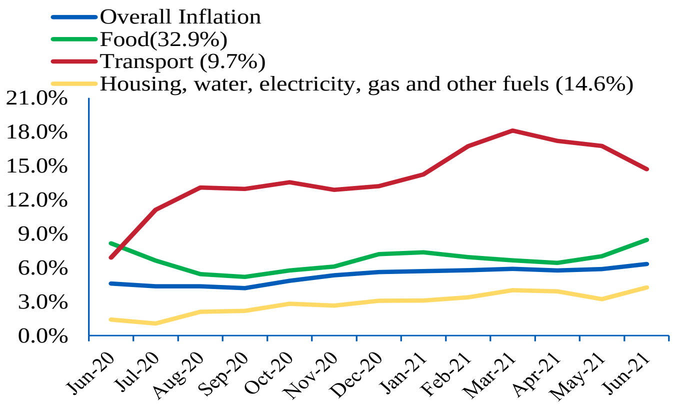
Regionally, during the quarter, the KES depreciated by 1.5% against the Uganda shilling and appreciated by 1.5% against the Tanzania shilling.

Currency outlook

The shilling is expected to remain relatively stable mainly supported by improving diaspora remittance, a stable current account position and forex reserves. The gradual increase in import demand is likely to continue exerting pressure on the currency towards the end of the year due to seasonal demand.

Overall inflation continues to rise

Inflation for 2Q21 averaged 6.0% up from 5.8% in 1Q21. Rising food and fuel prices exerted upward pressure on inflation numbers for the second quarter.



Source: KNBS

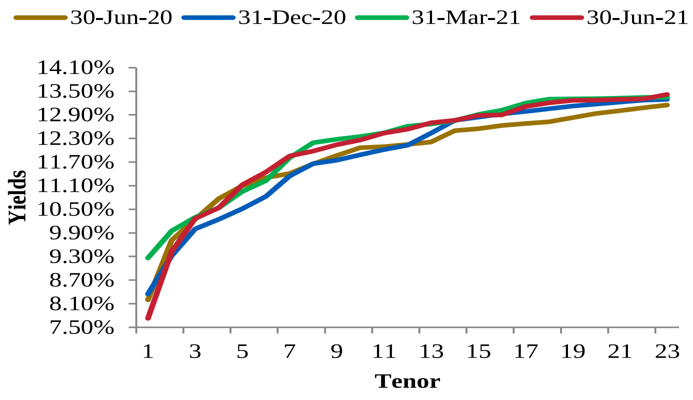
Food inflation was reported at 7.3% in 2Q21 compared to 7.0% in the previous quarter. The housing, water, electricity, gas and other fuels index egded up averaging 3.8% in 2Q21 compared to 3.5% in 1Q21. The transport index on the other hand eased averaging 16.2% compared to 16.4% in the previous quarter. The marginal increase was indicative of a rise in global oil prices as well as reduced foreign exchange pressures.

Inflation outlook

Inflationary pressures are expected to hold in the next few months on account of a gradual increase in oil prices, volatile food prices and low base effects. Core inflation is expected to remain contained due to subdued private sector credit growth. In view of the above, inflation is likely to remain within the CBK target range of 2.5%-7.5%.

Yields decline on the short end of the curve

The yield curve shifted slightly lower by 11 basis points on average during the quarter. The shift was more pronounced in the short end of the curve (bonds below 4 years) with an average decline of 52 basis points. This was an indication of investor demand arising from high liquidity in the market and the government move to reject expensive bids. Yields on the long end of the curve remained relatively stable as investor appetite for long term issues was low.



Source: NSE

Short term rates dropped towards the end of June 2021. The 91 day T-bill closed at 6.9% (-23 basis points), the 182-day T-Bill closed at 7.3% (-57 basis points) while the 364-day T-Bill declined by 153 basis points to close at 7.7%.

Quarterly averages were 7.1% 7.8% and 9.1% for the 91-day T-Bill, 182-day T-Bill and the 364-day T-Bill, respectively.

Treasury Bill Quarterly Average Rates	2Q20	3Q20	4Q20	1Q21	2Q21
91 Day	7.20%	6.24%	6.69%	6.95%	7.10%
182 Day	8.06%	6.64%	7.13%	7.65%	7.84%
364 Day	9.01%	7.54%	8.03%	8.80%	9.05%

Source: Averages computed from actual CBK weekly data

The interbank remained relatively liquid with the average interbank rate declining marginally to 4.8% from 5.0% in the previous quarter. The Monetary Policy Committee maintained the Central Bank Rate (CBR) at 7.0% in its May 2021 meeting.

Interest rate outlook

Interest rates are expected to remain stable in the short term with marginal increases off primary auctions. We expect the short to mid end of the curve to slightly adjust upwards and the long end to remain stable. The high liquidity is likely to support stable rates in the short term.

Equity Market Review

Market resilient in the second quarter

The ***Nairobi All Share Index*** gained ***9.4%*** while the ***NSE 20 Index*** gained ***4.4%*** during the quarter bringing the year to date performance of both indices to ***14.1%*** and ***3.2%*** respectively. The performance was spurred by improved financial results released during the quarter, most notably the first quarter bank results. Positive investor sentiment backed by economic recovery prospects also boosted the performance of the bourse.

	30-Jun-20	31-Dec-20	31-Mar-21	30-Jun-21	Q-on-Q	YTD
NSE 20	1,942.1	1,868.4	1,846.4	1,927.5	4.4%	3.2%
NASI	137.7	152.1	158.6	173.5	9.4%	14.1%
NSE 25	3,217.1	3,415.2	3,531.6	3,772.2	6.8%	10.5%
FTSE NSE 15	171.8	178.2	184.8	204.1	10.5%	14.6%
FTSE NSE 25	182.7	197.6	207.0	228.9	10.6%	15.9%

Source: NSE

Safaricom was the most traded counter, accounting for 51.5% of total turnover, trailed by ***Equity Group*** at 13.4%, ***EABL*** at 10.1%. and ***KCB Group*** at 9.6%. Quarter-on-quarter, the top movers gained; ***Safaricom*** (+14.3%), ***Equity Group*** (+17.9%), ***EABL*** (+14.4%) and ***KCB Group*** (+3.3%).

Mixed bag of performance for banks in 1Q21

Banks released their 1Q21 results in the quarter. Across the banks, there was mixed performance on earnings growth. ***NCBA*** reported the highest earnings growth of ***73.8%*** while ***Co-operative Bank*** reported the weakest at ***-3.7%***.

Bank's 1Q21 Performance	ROE	Earnings growth	Loan growth	Deposit growth	NPL Ratio
Equity Group	25.1%	63.8%	28.6%	58.2%	12.1%
Stanbic Bank	17.3%	23.1%	-2.4%	11.8%	14.3%
Co-operative Bank	15.0%	-3.7%	8.0%	16.0%	15.8%
Stanchart Bank	18.1%	18.9%	-6.1%	8.9%	16.4%
KCB Bank	17.6%	1.8%	7.8%	1.2%	14.9%
I&M Holdings	10.9%	13.5%	5.6%	9.3%	11.9%
ABSA Bank	19.9%	23.7%	7.5%	7.7%	7.6%
Diamond Trust Bank	12.3%	0.5%	2.3%	10.6%	10.6%
NCBA Bank	15.2%	73.8%	-1.1%	11.2%	15.1%

Source: Company filings

Credit growth was sluggish for the first quarter. ***Equity Group*** reported the highest loan growth of ***28.6%*** followed by ***Co- operative Bank*** at ***+8.0%*** while ***Standard Chartered Bank (- 6.1%), Stanbic (-2.4%)*** and ***NCBA Bank (-1.1%***) had their loan books contract. ***Equity Group (+58.2%)*** and ***Co- operative Bank (+16%)*** reported the highest deposit growth in the first quarter of 2021. The listed banks' financial performance continues to be resilient in the face of current headwinds.

Safaricom earnings decline, Ethiopia entry underway

Safaricom released full year results posting a 6.8% decline in profit after tax to KES 68.7bn. This was mainly attributed to a 7.1% year-on-year rise in direct costs to KES 80.9bn. Service revenue marginally declined by 0.3% year-on-year to KES 250.4bn on the back of an 11.7% year-on-year decline in messaging revenue, 2.1% year-on-year drop in M-PESA revenue and a 4.6% year-on-year decline in voice revenue. Profit before tax declined by 11.5% year-on-year on higher net finance costs and losses from the associates and joint venture. The Board of Directors recommended a final DPS of KES 0.92, which in addition to the interim DPS of KES 0.45, brought FY21 DPS to KES 1.37.

Safaricom led consortium that includes, Vodacom (South Africa), Vodafone (U.K.), CDC Group (U.K), Sumitomo Corporation (Japan) and Development Finance Corporation (U.S) won the award after submitting a financial bid of USD 850m. The entry will be through a GSM license. Following the licensing award announcement, ***Safaricom*** disclosed that operations are set to begin in 2022.

Bamburi earnings surge 214.5% year-on-year

Bamburi Cement released FY20 earnings recording a 214.5% year-on-year jump in profit after tax largely attributed to lower operating costs. The operating profit was up by 77.5% year-on-year due to a 7% year-on-year decline in operating costs, a 130.9% increase in other gains and a 43.0% decline in impairment losses. Revenues declined by 5.2% year-on-year to KES 34.9bn as a result of poor product mix and pricing pressure due to the competitive landscape. The Board of Directors recommended the payment of a first and final dividend of KES 3.00.

NMG FY20 earnings down, Share buyback offer running

During the quarter, ***Nation Media Group's (NMG)*** released FY20 results marking a 94.4% year-on year decline in earnings to KES 47.9m. This was mainly attributed to a 24.7% year-on-year decline in turnover due to reduction in advertisement revenues. The Board of Directors did not recommend a dividend for FY20. In other news, ***NMG's*** shareholders approved the proposed Company's share buyback on 25th June 2021. The approval set the stage for NMG to purchase up to 10.0% of its issued ordinary shares (20,739,652 shares) at a maximum price of KES 25.0. The buyback will be implemented by way of open market purchases on the Nairobi Securities Exchange (NSE) with the initial open market purchase period running from 28th June 2021 to 28th September 2021.

MSCI revises the Frontier Market Index

Morgan Stanley Capital International (MSCI) made changes in the MSCI Frontier Market Index as part of the company's regular update cycle. This index captures large and mid-cap representation across 27 Frontier Markets (FM) countries with 81 constituents. In the latest May 2021 review, ***KCB Bank*** was deleted from the frontier market index and subsequently added into the small cap index. Similarly, ***Co-operative Bank*** and ***NCBA*** were deleted from the MSCI small-cap index. As at 30th June 2021, Kenya was fifth with a weighting of 7.1% in the MSCI FM 100 index. The Kenyan companies included in the MSCI FM 100 index are; ***Safaricom***, ***Equity Bank*** and ***EABL.***

EABL MTN redemption

EABL announced an early redemption of its KES 6bn Medium Term Note (MTN) issued on 3rd April 2017. This took effect on 28th June 2021. Following the early redemption, the Notes were delisted from the Fixed Income Securities Market Segment of the NSE. The management's decision to retire the MTN was driven by the need to lower cost of debt.

Stock market outlook

There is potential for better performance considering an improving macroeconomic environment both globally and locally. Corporate earnings have had a favourable impact on share prices, and this is likely to continue, driven by further recovery in earnings growth in 2021. However, uncertainty still persists in the face of the pandemic.

GenAfrica ASSET MANAGERS

Political and Economic Review

Recovery interrupted by pandemic woes, uncertainty ahead…

The economy began to gather steam according to first quarter figures, driven by the Industry and Services sectors. However, a second wave of COVID-19 has since hit the country hard, prompting a 42 day lockdown announced in June. Bank of Uganda maintained a dovish monetary policy stance by cutting the Central Bank Rate (CBR) to a record low of 6.5%, in a bid to support the economy. Average headline inflation remained subdued while equity markets had a fairly calm quarter. The Uganda Shilling (UGX) appreciated by 2.7% against the US Dollar (USD).

Uganda struck by 2nd wave of COVID-19, lockdown instituted

The second quarter of 2021 unfortunately saw Ugandans dealt a cruel hand by fate, with an intensified second wave of COVID-19. Medical facilities became overwhelmed and healthcare costs spiked as infections and deaths reached new highs. This prompted the President to announce a 42 day lockdown on 18th June. Among the restrictions instituted are a 7pm curfew; closure of schools, places of worship and other public spaces; suspension of public and private transportation; as well as physical presence of staff in Govermment offices being limited to 10%. However, Entebbe International airport remains open; tourism operators, cargo trucks and manufacturing are allowed to operate, among other guidelines. The President mentioned Uganda would be looking to procure more vaccines under the COVAX program, as well as exploring the possibilities in securing more supplies from Johnson & Johnson, China and Russia.

Economic growth rises by 6.2% in 1Q21

The economy grew by 6.2% for the quarter ended March 2021 compared to 0.7% growth registered for the same period of 2020. This was driven by some recovery in the Industry and Services sectors. The Agriculture sector contracted by 2.8% compared to a decline of 1.7% in 1Q20 attributed to a fall in food crop activities. The Industry sector expanded by 11.6% compared to 2.1% in the same quarter of 2020 attributed to strong performance of construction and manufacturing. The Services sector bounced back with a growth rate of 6.6% compared to a rate of 1.1% in the first quarter of the previous year. This was driven by Information & Communication activities as well as Public Administration activities.

Economic outlook

The recent spike in COVID-19 cases and fatalities, as well as the 42 day lockdown are expected to cause even more pain to the already strained economy. It is expected to result in elevated non-performing loans, low private sector credit growth and a general slowdown in all sectors. Some respite may come in the form of an accelerated vaccination program if Government is able to quickly acquire and distribute the required doses efficiently. The Bank of Uganda projects growth for FY2021/22 between 4.0% and 4.5%.

Shilling appreciates by 2.7%

The Uganda Shilling appreciated against the US Dollar (USD) in the quarter ended June 2021 by 2.7% quarter-on-quarter. This was attributed to higher inflows from NGOs and offshore investors that offset corporate demand for hard currency.

Currency outlook

The UGX is likely to remain stable in the near term given sudued aggregate demand dampening imports, thus supporting the currency. In addition, the UGX may get a boost from foreign portfolio flows, particularly in the debt market. The currency may be further shored up by oil sector inflows as the Final Investment Decision (FID) starts to become a reality.

Inflation subdued at 2.0% in second quarter

Headline inflation remained muted in 2Q21 averaging 2.0% compared to 2.3% in the previous quarter. This was driven by lower average core inflation which declined to 2.9% from 3.4% in the first quarter. Food and EFU (Energy, Fuel & Utilities) inflation for the quarter also remained low at -3.3% and -2.0% respectively.

Inflation outlook

Inflation is likely to remain depressed on the back of lower food prices as well as weak domestic demand. However, the re-opening of the economy, in addition to rising global oil prices may pose some upward inflation pressure.

Yields fall, CBR cut to 6.5%

The Bank of Uganda (BoU) reduced the Central Bank Rate (CBR) to a record low of 6.5% during the quarter ended June 2021. The central bank cited continued need for accommodative monetary policy in the economy against the backdrop of low inflation. Yields on government paper declined across all tenors on a quarterly basis. The largest decline was recorded on the 10-year paper (-201 basis points) while the lowest was on 3-month paper (-24 basis points).

Interest rates outlook

Bank of Uganda is likely to maintain an expansionary monetary policy stance given subdued inflation and an economy weakened by lockdown restrictions. Government bond yields are likely to remain relatively low in the the second half of 2021 on the back of dovish central bank monetary policy.

Muted 2Q21 for local equities

Equities ended the second quarter of the year in the green, but on a less exciting note than in the previous quarter. The ***Local Share Index (LSI)*** gained ***0.7%*** on a quarterly basis on the back of ***Bank of Baroda (+20.0%), Uganda Clays (+2.5%)*** and ***CiplaQCIL (+5.3%). DFCU*** and ***Umeme*** lost ***4.8%*** and ***0.3%*** respectively while the remaining counters had no movement. On a quarterly basis however, the ***All Share Index (ALSI)*** gained ***10.6%*** dominated by cross-listed stocks especially ***Equity Bank (+20.3%), Nation Media Group (+49.4%)*** and ***Jubilee Holdings (+16.1%)***.

Stock market outlook

We anticipate sluggish activity at the bourse, reflective of the weak state of the economy in general as well as lower corporate earnings, which are likely to be exacerbated by the lockdown. The potential for major new listings later in the year may breathe new life into the Uganda Securities Exchange.

Rwanda

Government to spend RWF 3.8Trn for FY2021/22

Government plans to spend RWF 3.8trn (USD 3.9bn) in FY2021/22, a 9.8% increment from the FY2020/21 revised budget. This will prioritize spending aimed at achieving the National Strategy for Transformation (NST-1) goals and the COVID-19 economic recovery plan. Domestic resources will fund 52.5% of the budget and 47.5% will be funded through external sources. Recurrent expenditure will take up 63.2% of the total budget and the remaining proportion will be consumed by capital expenditure, inventory, equity investments and loans spending.

Economy on a gradual recovery path

Rwanda's economy recorded some recovery as GDP increased by 7.0% in 1Q21, though still lower than the 11.9% registered in the same period of 2020. Growth was driven by the Industrial sector which expanded 17.1% compared to 10.2% in 1Q20 supported by manufacturing and construction activities. Agriculture grew 10.6% compared to 21.4% in 1Q20, as production of food and export crops began to pick up. Services sector grew marginally by 2.8% compared to 9.0% in 1Q20. The International Monetary Fund (IMF) projects growth to rebound to 5.1% in 2021 from a 0.2% contraction in 2020, backed by supportive policy measures and the roll out of vaccines.

Inflation declines, CBR maintained at 4.5%

Annual inflation was recorded at -0.1% in May 2021, from 2.4% in April 2021 mainly due to the decrease in food and transport prices. The Central Bank Rate was maintained at 4.5% as the Monetary Policy Committee monitors the impact of previous policy interventions.

RWF loses against the USD

The Rwandan Franc (RWF) depreciated by 0.8% against the USD in 2Q21.

Inflation, interest rates and currency outlook

Inflation is likely to increase to the 5% benchmark in the near term as domestic and global demand recovers. Monetary policy will remain accommodative to continue supporting the economy. The RWF is expected to remain stable with adequate foreign exchange reserves of more than 4-months import cover.

RSE gains in 2Q21, MTN Rwanda lists

The Rwanda Stock Exchange gained ***2.3%*** on the ***Local Index*** while the ***All Share Index*** was down ***0.1%***. ***Bralirwa*** saw gains ***(+14.0%)*** together with ***I&M (+2.3%)*** and ***BK Group (+3.0%)***. The highlight was the official listing of MTN Rwandacell Plc (MTNR), opening at a share price of RWF 269, following the delisting of Crystal Telecom (CTL) from the trading boards. CTL company shareholders became direct owners in MTN Rwanda.

Stock market outlook

The market is likely to experience marginal gains as the economy gradually recovers.

Tanzania

Budget up by 3.2% for FY2021/22

Tanzania intends to spend TZS 36.3trn (USD 15.7bn) in FY2021/22, a 3.2% increment from the previous fiscal year's budget. Domestic revenue will finance 72% of the budget. The remaining resources will come from borrowing which comprises domestic loans, grants and conditional external commercial loans. In terms of spending, approximately 63% of the budget is projected to be dedicated to recurrent expenditure mainly servicing government debt, wages and salaries with the remainder allotted to development expenditure.

Economic growth at 4.9% in 4Q20

In the fourth quarter of 2020, Tanzania's economy grew by 4.9% compared to 6.2% in 4Q19. Activities that contributed strongly to growth were construction, agriculture, transport, and manufacturing. According to the Monetary Policy Committee, 2021 growth is projected at 5.6%, mainly driven by agriculture and public infrastructure investment.

Inflation remained subdued

Annual headline inflation rate for the month of May 2021 was 3.3%, slightly higher than the 3.2% in April 2021. The stable inflation is supported by adequate domestic food supply, and the loose monetary policy.

TZS down 0.5% against the USD

The Tanzania Shilling (TZS) depreciated by 0.5% against the USD in 2Q21. The current account deficit in April 2021 widened marginally due to a decrease in tourism receipts.

Inflation, interest rates and currency outlook

The TZS is likely to remain relatively stable in the near term supported by the adequate reserve position (5.8 months import cover). Inflation is projected within the targeted range of 3-5% supported by adequate food supply. The Bank of Tanzania is expected to maintain an accommodative monetary policy to support recovery in private sector credit growth.

DSE posts gains in 2Q21

The Dar-es-Salaam Stock Exchange (DSE) gained ***3.8%*** on the ***Local Index*** while the ***All Share Index*** rose ***7.4%*** in 2Q21. ***CRDB Bank***, ***Tanzania Portland Cement Company***, ***DSE*** and ***National Investment Company*** gained ***28.3%, 44.0%, 18.2%*** and ***18.4%,*** respectively. ***TOL Gases*** and ***DCB Commercial Bank*** were the bottom performers at ***(-9.1%) and (-9.4%)*** during the quarter.

Stock market outlook

Market performance is expected to gradually improve as the economic growth trend holds.

Global markets close on a high for first half of year

Offshore markets closed out 2Q21 at record highs, posting positive performance as countries made headway with vaccination. Investor optimism on economies reopening endured against inflation and interest rate concerns. The MSCI World Index rose 7.3% during the quarter, supported by developed markets. The S&P 500 gained 8.2% driven by the Energy and Industrial sectors. The MSCI Euro rose by 5.5%, the MSCI Emerging Markets index gained 4.4% and the Chinese markets registered positive performance as the Shanghai Composite gained 4.3%.

Index	30-Jun-20	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	Q-on-Q	YTD
S&P 500	3,100.3	3,363.0	3,756.1	3,972.9	4,297.5	8.2%	14.4%
MSCI World	2,201.8	2,367.3	2,690.0	2,811.7	3,017.2	7.3%	12.2%
MSCI World ex USA	1,776.4	1,853.1	2,140.7	2,213.4	2,321.3	4.9%	8.4%
MSCI Euro	1,025.5	1,065.0	1,246.5	1,314.0	1,386.4	5.5%	11.2%
MSCI Emerging Markets	995.1	1,082.0	1,291.3	1,316.4	1,374.6	4.4%	6.5%
Shanghai Composite Index	2,984.7	3,218.1	3,473.1	3,441.9	3,591.2	4.3%	3.4%

Source: MSCI, S&P 500, Shanghai Composite

Emergence of the Delta Variant…

The World Health Organization identified the Delta variant of COVID-19 as the most transmissible variant identified so far, spreading to at least 85 countries since it was first identified in India in October 2020. By the first half of 2021, India had undergone a trial by fire, with acute oxygen and hospital bed shortages. Consequently, dozens of countries implemented new travel bans in an attempt to stop the spread of the virus.

…exacerbated by unequal distribution of vaccines

The biggest vaccination campaign in history is ongoing, with 3.2bn doses already administered. These would fully vaccinate 21.2% of the global population—but the distribution has been lopsided. Countries and regions with the highest incomes have vaccinated more than 30 times faster than low income nations, while the African continent braces for what is expected to be its worst wave of COVID-19.

US economy grows positively in 1Q21

The United States economy expanded 6.4% in 1Q21 (0.4% annually) predominately driven by stronger consumer spending and a relatively quick vaccine rollout that enhanced business confidence. Fiscal stimulus in the form of cash handouts provided a boost at the tail end of the quarter, following the approval of President Biden's COVID-19 relief package.

… as inflation rises, Fed stands pat

The US annual inflation rate accelerated to 5.0% in May 2021 from 4.2% in April. This was partly due to base effects and rising consumer demand as the economy reopens. The rapidly improving economy and the positivity of the medium-term outlook, raised fears in the US markets of a premature tightening of monetary policy. The Fed came out to say that they would not raise interest rates pre-emptively, solely due to fears of high inflation.

Crude recovery persists

Prices of crude oil continued on an upward trajectory in 2Q21, with Brent Crude up by 18.3%, closing at USD 75.1 per barrel. Oil prices have been on the rise due to output controls by oil producers as well as optimism around vaccines, pointing towards increased demand. The jump at the end of 2Q21 followed the Energy Information Administration report, that highlighted an inventory decline of 6.7m barrels.

Eurozone GDP falls 1.3% in 1Q21

The euro zone economy contracted in the first quarter of 2021 as countries implemented new lockdowns and restrictions amid a third wave of COVID-19. GDP in the region fell by 1.3% year-on-year in 1Q21. It marks the second consecutive quarter of contractions with most of the region's largest economies; Germany, Italy and Spain registering a decline in activity during the first three months of 2021. The sharpest fall in economic activity occurred in Portugal, as the country put in place its second lockdown.

China's economy grows at records

China registered its strongest quarterly growth on record as the world's second largest economy continued strong recovery from the coronavirus pandemic. GDP growth of 18.3% year-on-year in 1Q21 was the strongest since China began keeping records in 1992. This was driven by a surge in retail sales, industrial production and investment in fixed assets. The big leap demonstrates the effects the pandemic had on activity in early 2020, and puts China on track for higher than official target growth of 6.0% in 2021.

Outlook

The World Bank projects the global economy to expand 5.6% in 2021. This recovery is however, uneven and largely reflects sharp rebounds in some major economies. In many emerging markets and developing economies, obstacles to vaccination continue to weigh on activity. The downside risks include successive COVID-19 waves and gradual withdrawal of monetary and fiscal stimulus.