2020
INVESTMENT OUTLOOK

Contents

2020 Investment Outlook 1

Summary 1

- Growth outlook 1
- Macro indicators 1
- Monetary and fiscal policies 1
- Multi-asset strategy 1

SECTION 1: ECONOMIC GROWTH OUTLOOK 3

SECTION 2: FISCAL POLICY AND INTEREST RATE 5

SHORT TERM INTEREST RATE 6

LONG TERM INTEREST RATE 7

SECTION 3: MONETARY POLICY, CURRENCY AND PRICE OUTLOOK 9

MONETARY POLICY 9

CURRENCY OUTLOOK 10

SECTION 4: GLOBAL ECONOMIC OUTLOOK 11

SECTION 5: INVESTMENT ACTIONABLE IDEA 2020........ 12

Tactical views on selected asset 15

2020 INVESTMENT OUTLOOK

How will Ghana's 2020 election cycle weigh on the economy and the performance of asset classes? How will rising fiscal spending impact financial market? Is there going to be retribution for the billions of cedi spent on the financial sector clean up? Will the currency hold its own against major trading currencies? Which themes will shape asset allocation and investment outcome in 2020?

SUMMARY

As we begin the New Year, thought leaders from leading money management firms in Ghana share their views on these and other pressing questions.

• Growth outlook: Economic growth is expected to be robust in 2020, with our experts predicting a growth of between 5% and 7%. Economic outturn will be influenced largely by fiscal spending prior to the December 7th, 2020 election. Credit to the private and public institutions may see a rebound following the completion of the banking sector clean-up. Financial institutions especially banks are in a much better shape than the beginning of 2019 to spur economic growth through intermediation. There is fear that fiscal slippages in an election year, coupled with growing debt level and negative pressure on the Cedi, may impact growth negatively.

• Macro indicators: The Ghana Cedi has depreciated every single year over the last three decades. There is a strong consensus that the currency will lose value against the United State Dollar (USD) in 2020. Our expert money managers predict a depreciation of between 7% and 15% mainly on the back of fiscal slippages despite anticipated improvement in reserves from Eurobond and cocoa syndication issuances as well as positive commodities outlook. Overwhelmingly, inflation is expected to remain within the central bank's target of 8 (+/-2). Energy prices and currency depreciation are expected to weigh negatively whiles food prices will weigh down inflation. Price pressure is also expected from expansionary fiscal policy.

• Monetary and fiscal policies: There was no consensus on central bank's monetary policy, however majority of those surveyed tilted towards neutral to hawkish Bank of Ghana (BOG) interest rate policies. We believe the Monetary Policy Committee (MPC) will keep policy rates on hold during their first sitting in January. Yields on medium term (2-5 years) instruments are expected to increase, driven by the need to attract portfolio inflow given the waning of offshore portfolio interest. The need to fund government 2020 spending needs amidst an election cycle will contribute to increase in medium term yields. Short term interest rate will also see marginal increase as supply is expected to increase in order to reduce government cost of borrowing given the current high secondary markets yield on longer dated securities.

• Multi-asset strategy: Tail risks is expected to continue, fiscal policy is expected to be expansive, whiles monetary policy is expected to swing between mute to hawkish. The outlook of equities remains dim due to weak sentiments and increased political risk. The outlook suggests investors consider more defensive positioning, including:

- Government bonds over equity
  - ✓ Within government bond, Medium term maturities over long term maturities
  - ✓ Within equities, banking and financial services industry over manufacturing.

- Government sector over private sector credit.
- USD asset class exposure through ABSA New Gold ETF

SECTION 1
ECONOMIC GROWTH OUTLOOK

Overall, 2019 saw a robust economic growth albeit below 2018 and 2017 growth outturns. Third quarter economic print was 5.6% compared to 6.7% and 5.7% in the first quarter and second quarter respectively. We expect quarter four GDP figures to come in stronger due to stronger holiday demand and boost from the Tourism Authority's Year of Return Initiative.

Money managers surveyed are predicting solid economic growth for 2020. Our experts predict a growth rate of 5% and 7%. Economic Intelligent Unit (EIU) predicts a growth rate of 5.5%. The Ministry of Finance (MOF) and the International Monetary Fund (IMF) predicts economic growth of 6.8% and 7.5% respectively. Economic growth is expected on the back of both oil and non- oil growth. Consumption is expected to benefit from a jump in public spending and healthy consumer demand emanating from increased infrastructural developments ahead of the Presidential and Parliamentary elections.

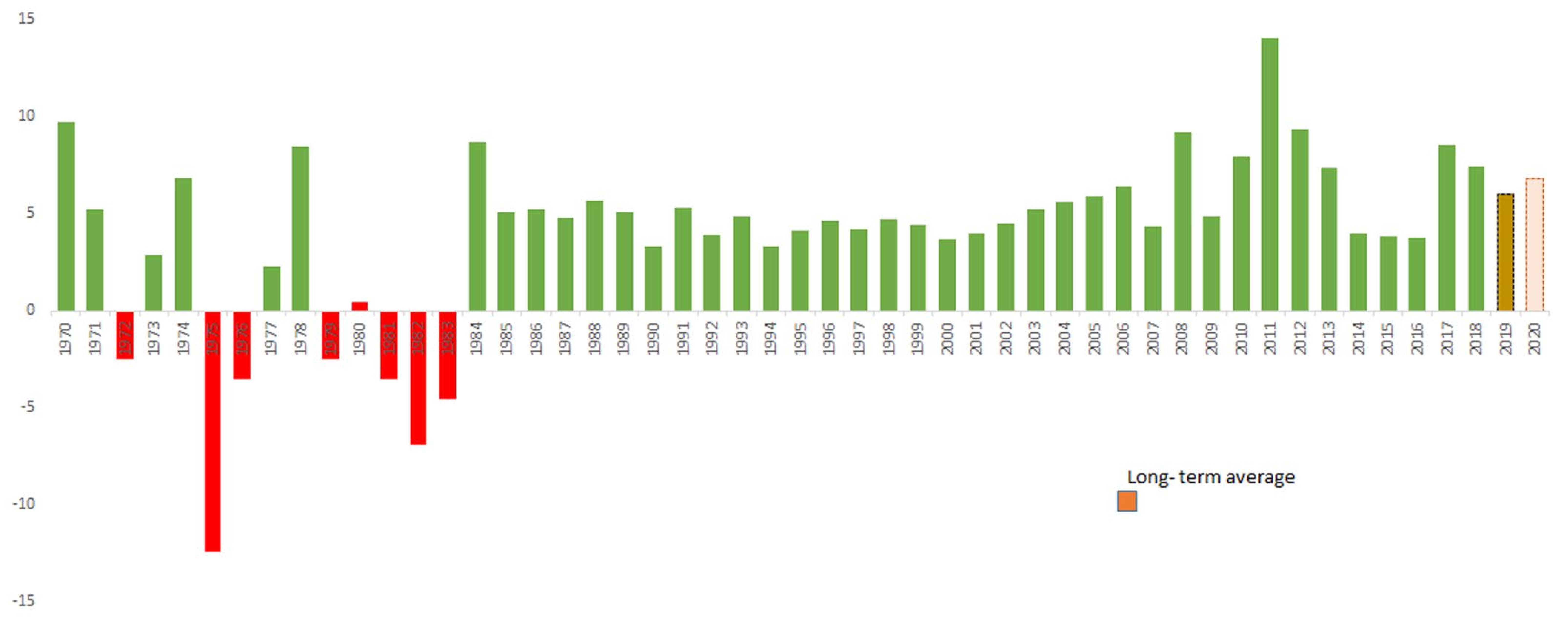
The following will present key tail winds to economic growth;

• Resilient domestic demand on the back of increased activities ahead of the elections.
• Stronger commodity price outlook. Although crude oil is expected to decline to around USD 60 per barrel on higher global inventory, we anticipate Sino-US political tensions to sustain the gold rally while increase in global demand for cocoa is expected to push the price on the commodity.
• Re-commencing of the Sinohydro deal and success in 'Asaase' Royalty floatation.
• Renewed confidence in the financial services sector as a result of the recapitalization and introduction of the deposit insurance scheme.
• Improved credit environment for business and Bank of Ghana's (BOG) initiative to drive lending rates down.
• Execution of 1D1F and continuous support for planting for food and job initiative will increase agric's contribution to GDP.

New initiatives such as the planting for rural development and export, if well executed, will improve long term growth prospects.

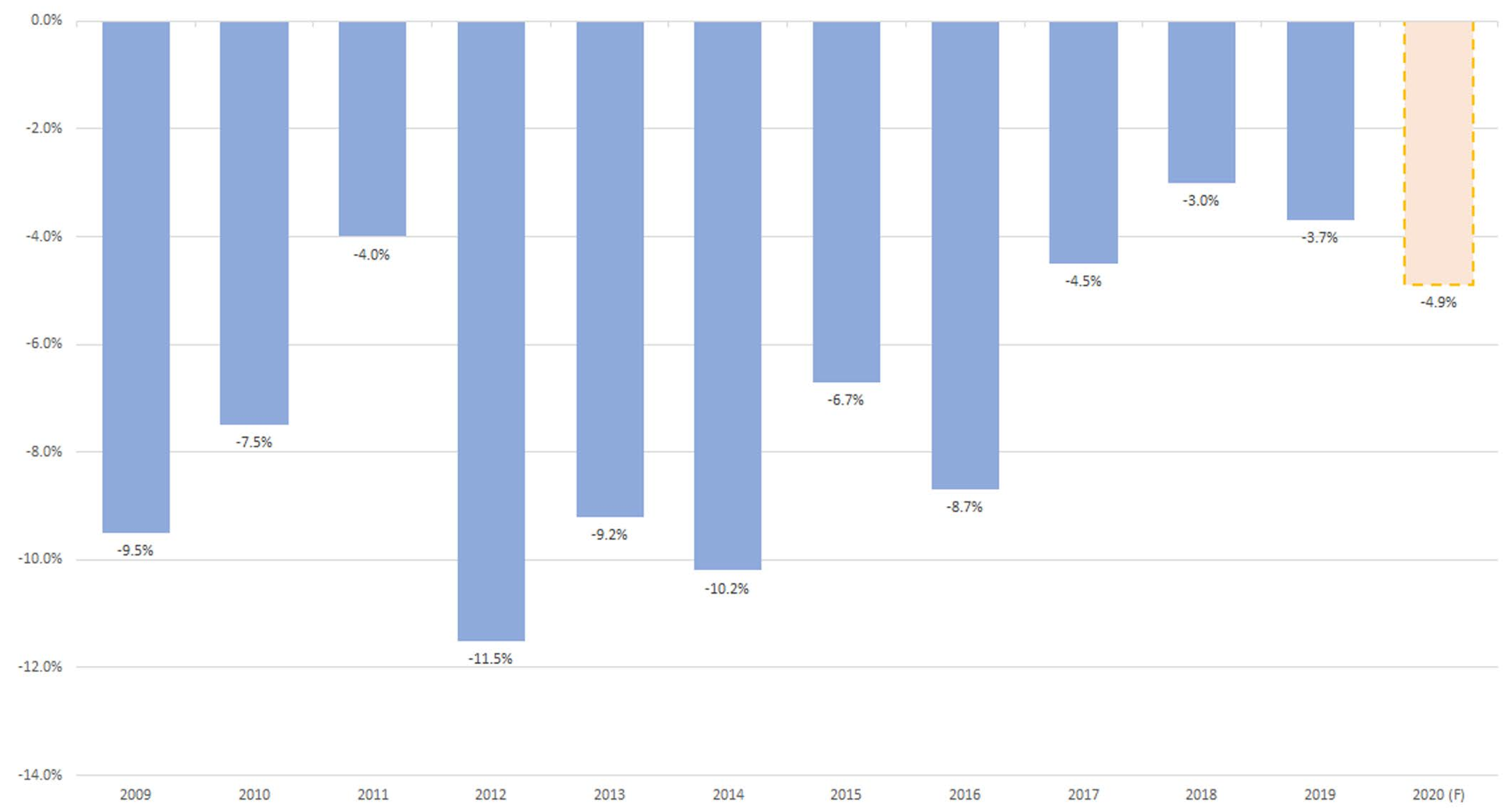
The following factors are expected to serve as a drag to economic growth.
• Perennial currency blips, utility price and gasoline upward adjustments and their resulting inflationary pressures may weaken consumer demand;
• Election related sentiments such as budget overruns may result in increased government borrowings and high cost of capital, thereby crowding out private sector credit.
• Relatively high GoG issuances and rates.
• Commodity prices (gold, cocoa, oil); sustained higher prices of locally refined petroleum products, external market conditions (influencing the Eurobond floatation in Q1-2020), funding the financial sector clean-up.

FIGURE 1
Real GDP growth, 1970-2020. Long term average growth since 1970 is 4.02%



Source: Axis Pension Trust, with data from the World Bank Notes: Projection for 2020 is based on Ministry of Finance numbers as was available in the 2020 budget statement. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

FIGURE 2
Government fiscal deficit, 2009- 2020 (F)



Source: Axis Pension Trust, with data from the Bank of Ghana.

Note: Ghana's fiscal deficit has been below 5% over the last three years. The newly passed fiscal responsibility act capping the budget deficit at 5% for a fiscal year is expected to rein in fiscal indiscipline during election year. 2020 will be a test case for the efficacy of the act. Our experts predicts fiscal deficit will not exceed 5%.

SECTION 2
FISCAL POLICY AND INTEREST RATE

SUMMARY

Revenue mobilization remains a challenge, commodity price forecast does not look favorable and the perennial election year spending is likely to kick in for the 2020 election. These factors are likely to cause fiscals to move closer to the target of 5%. However, fiscal reforms such as the strict enforcement of the Public Financial Management Act, 2016 (ACT 921), the passage and implementation of the Fiscal Responsibility Act, 2018 (Act 982) and the operationalization of the Fiscal Responsibility Council and the Financial Stability Advisory Council are likely to cap the upside risk.

KEY POINTS

• With election 2020 in sight with all its stakes, we expect that government will increase fiscal support for flagship programs such as 1D1F and free SHS as well as investment in road infrastructure.

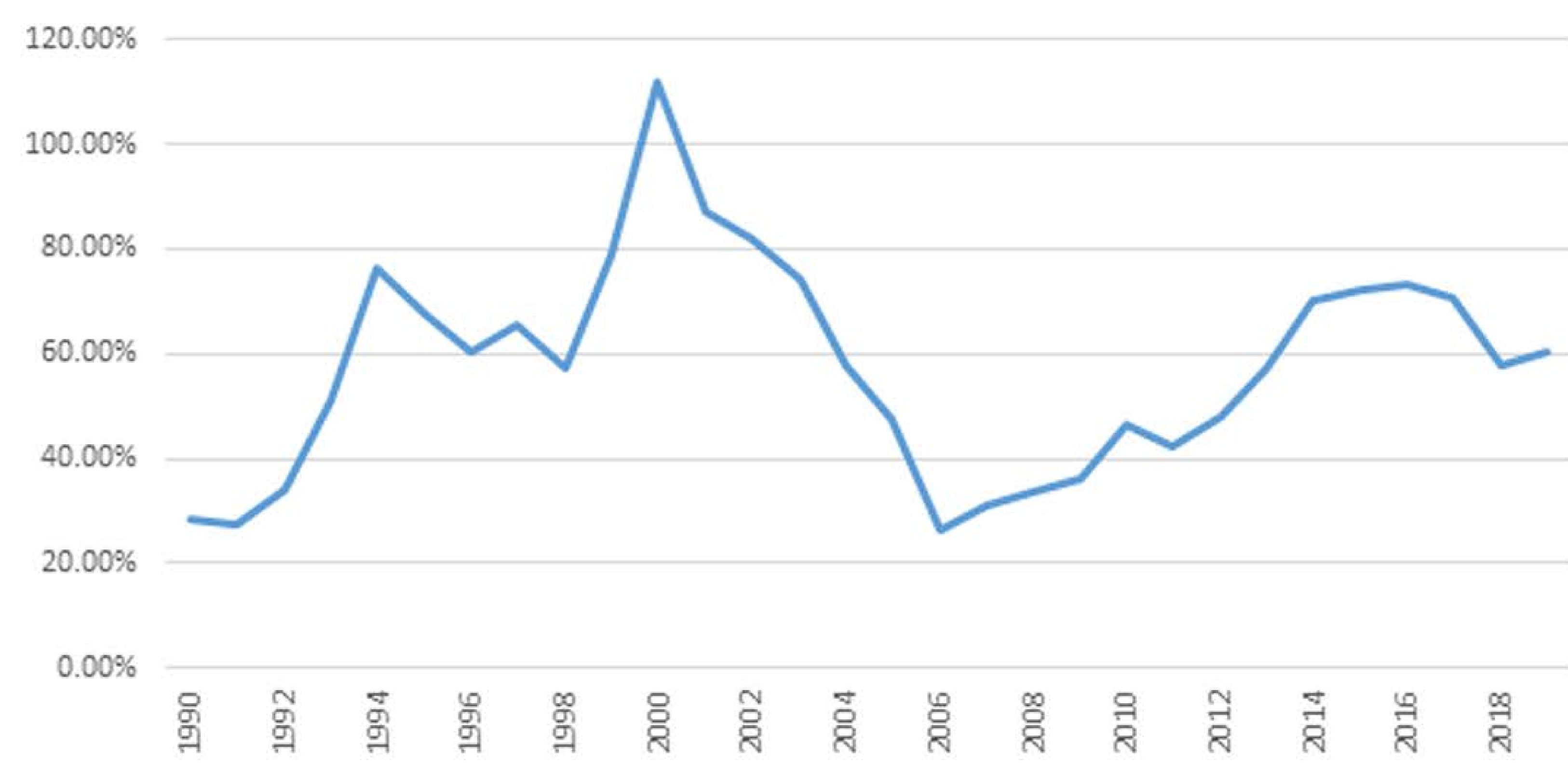
• The current government has missed revenue targets for three consecutive years and there is no assurance they will meet revenue target of GH¢67billion in 2020. The revenue shortfall is expected to be filled with increased debt issuances both from local and external sources.

• With rising concerns of debt unsustainability, we may see re-election motivated spending on some critical infrastructure constrained.

• Most of the current year's spending will go into workers compensation (31%), interest payments (26%), Grants to Other Government Units (19%) and followed by capital expenditure (11%).

• Our experts believe fiscal deficits on a cash by cash basis will top government forecast of 4.7% of GDP albeit below the 5% stipulated by the Fiscal Responsibility Act, 2018 (Act 982). Adding commitments, deficits is expected to exceed the 5% limits

FIGURE 3
Debt to GDP ratio, 1990-2019



Source: Axis Pension Trust, with data from the Bank of Ghana.

Note: Debt to GDP peaked at 111.90% in 2000 before HIPC reliefs and debt forgiveness brought it low to 26.20% in 2006. Since then, Debt to GDP peaked again at 73.4% in 2016. The rise in debt to GDP in 2019 is mainly due to the cost of the financial sector clean up.

SHORT TERM INTEREST RATE

Interest rates are currently on an upward trajectory. Current yields across the curve are above levels not seen since May 2017, eroding monetary authority's efforts to drive down yields. In today's economic cycle, the overwhelming expectation amongst money managers is that short term interest rates will increase between 10bps and 45bps.

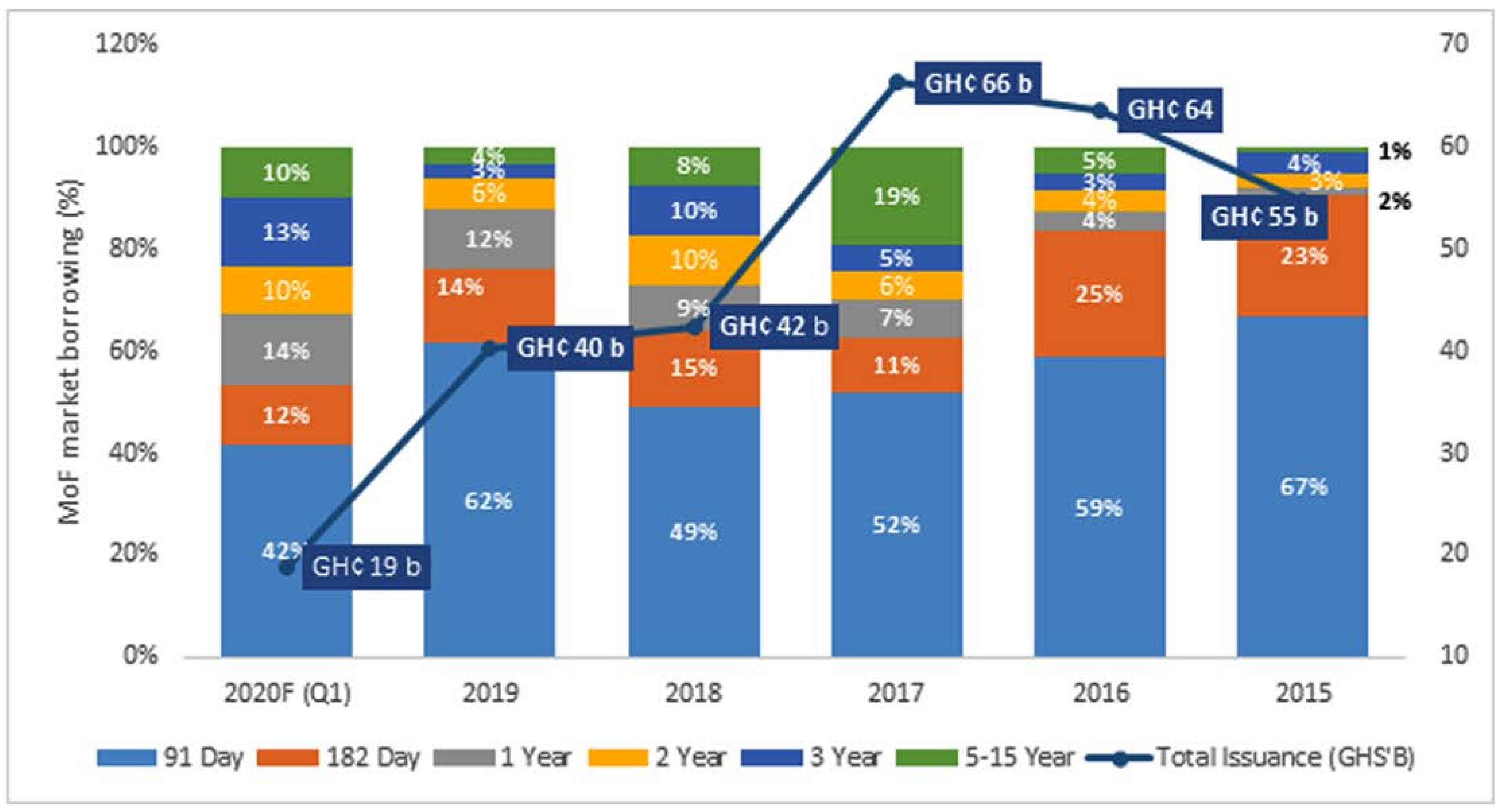
KEY POINTS

• Shortfall in domestic revenue coupled with high medium to long term government yields will increase the supply of short term bills in order to reduce borrowing cost, without a corresponding increase in demand by investors short term rate will slightly increase.

• Treasury bills yield increased about 10bps in 2019. We will continue to see the re-rating of yields at the short-end of the curve going into 2020.

• Risk-off sentiments is expected to be the key driver of the rising rates on Treasury bills as investors seek to keep duration of fixed income investment short and safe in an election year. It is however important to note that real return is likely to remain flat as we anticipate inflationary pressures in 2020.

FIGURE 3
Debt to GDP ratio, 1990-2019



Source: Axis Pension Trust, with data from the Central Securities Depository.

Note: We see a shift in composition of Treasury debts with short term (less than 1 year) issuances falling from 82% of total issuance in 2015 to 70% in 2017. Percentage of short term issuance in 2019 was 88% exceeding the 2015 ratio.
We expect an increase in supply in short term treasury papers in 2020, leading to a rise in short term rates

LONG TERM INTEREST RATE

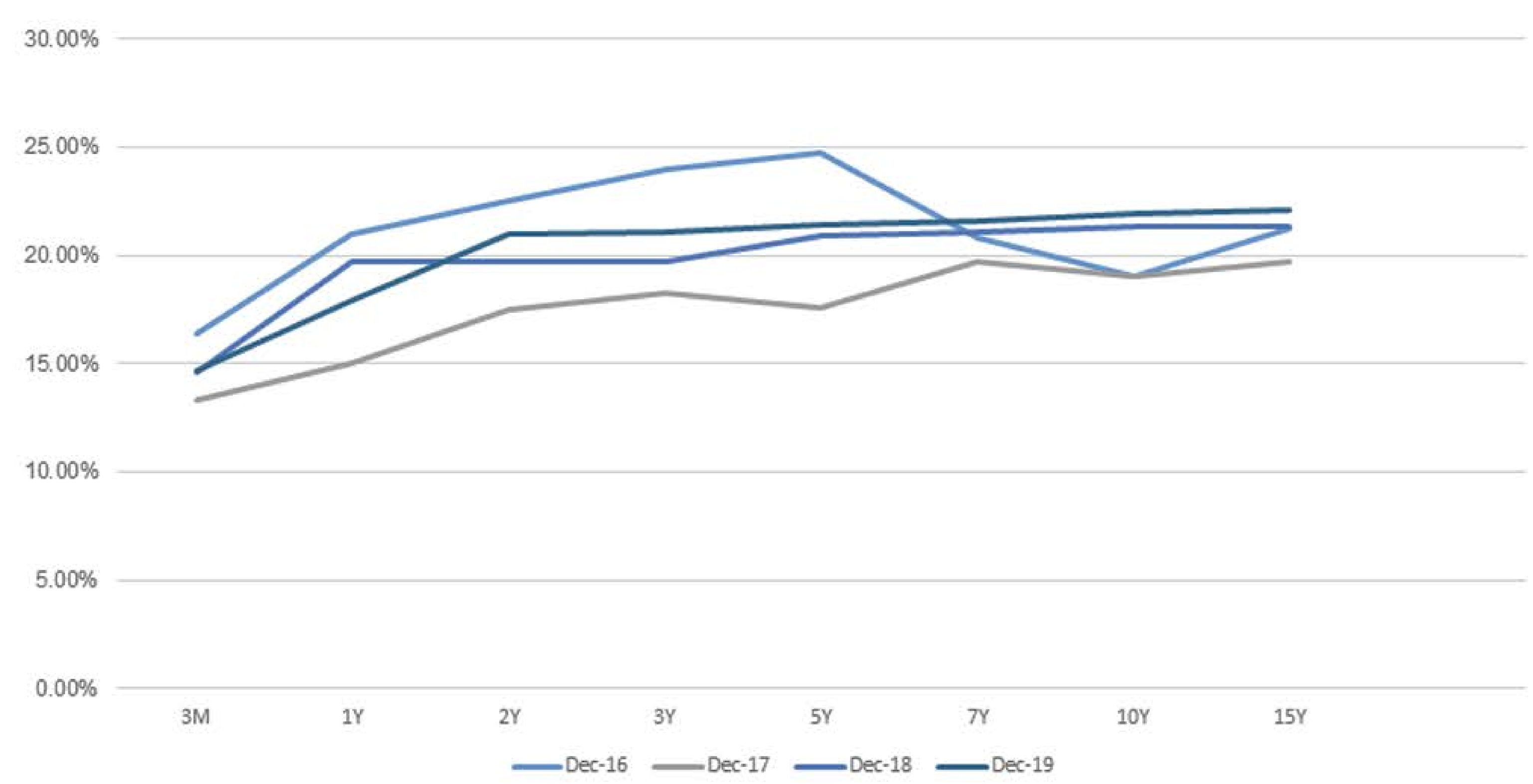
There was no consensus among our money managers on the direction of long term interest rate, however majority of survey participants see rates increasing in 2020, mainly as a result of the followings;

• Weak off-shore investor participation is likely to see yields on long-term government pick up on the secondary market. Political risk, weaker currency and a potentially wider deficit could see investors demand relatively higher rates at the primary level.

• Government has shown its interest in the longer end of the market. It will try to fund infrastructure projects with long term funds and will need to compensate investors with high yield. We therefore expect yield increase by at least 100bps within the 2 and 5 years tenors.

Contrary to suggestions that rates will increase on the back of increased borrowing emanating from revenue shortfalls and the need to spend due to the elections, inflows from the Eurobond issuance could be used as a stop gap measure to curtail rate increases. For instance, there are significant maturities in the first quarter to be refinanced, however it appears the government would want to do an early Eurobond in 2020.
If the issuance of the Eurobond of USD3B is successful, there is the likelihood for government to pay down some of the maturities which could send a signal of declining yields to the market. This may push yields below the 20s.

FIGURE4
Government Treasury Curve



Source: Axis Pension Trust, with data from the Bank of Ghana and average secondary market quotes by selected primary dealers. Long term rates have surpassed the levels seen in 2017 and 2018.

SECTION 3
MONETARY POLICY, CURRENCY AND PRICE OUTLOOK

MONETARY POLICY

It is difficult to see a dovish tilt in 2020. Monetary policy rate (MPR) will largely be influenced by inflation expectation and exchange rate outlook. We explain below factors that will influence the central bank's monetary decision.

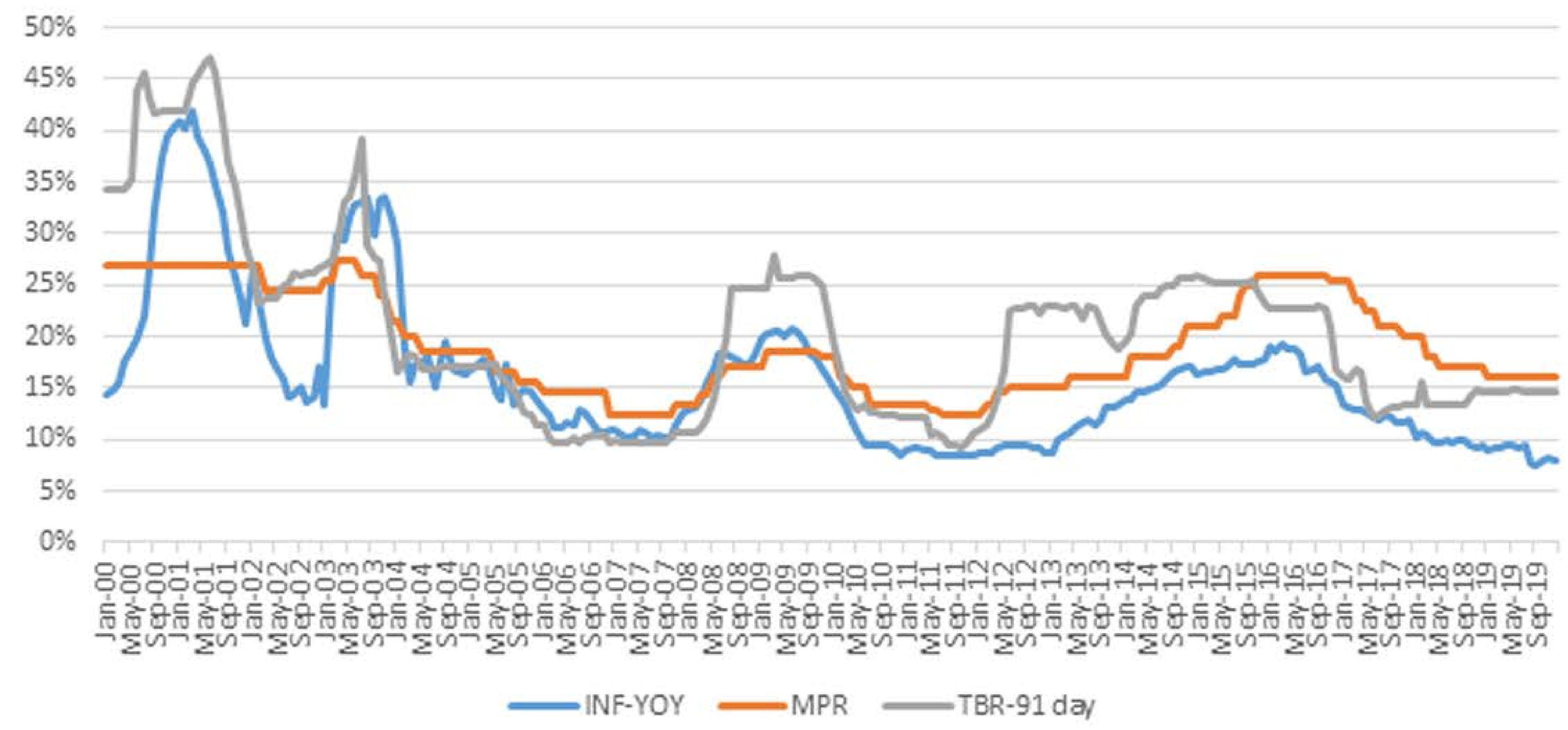
• Firstly, the seasonality in exchange rate behavior means that the first quarter might be too risky to cut the MPR. Lessons from the January 2019 unexpected cut and adverse market reactions may influence the MPC to be more conservative this time around in their Jan 2020 meeting. This view is amplified by the cedi's performance in the fourth quarter of 2019.

• Secondly, increased inflationary pressures since Q4-2019 has pushed inflation (even for the re-based CPI) to 7.6% in December-2019 from a low of 7.6% in Sep-2019. As it is, the recent FX pressures and potential lagged impact of the crude oil price increase and utility tariff hikes are still major upside risks to inflation.

• Thirdly, the Treasury challenges with revenue mobilization and implications for fiscal stability is another risk factor that the MPC could be watching keenly in its policy decisions for 2020.

• Finally, the usual election related pressures and investors safe haven decisions could add another layer of risk to the outlook and therefore central bank's dovish tilt.

FIGURE4
Government Treasury Curve



Source: Axis Pension Trust, with data from BOG and the Ghana Statistical Services

Notes: The chart shows the spread between central banks' prime rates, inflation and Treasury's 91-days bill. The two line shows a decelerating since mid-2016 a departure from the pre 2000 trends. Prime rate was reduced by 100bos in January, 2019 and remained on the same level for the entire 2020

CURRENCY OUTLOOK

There was overwhelming consensus that the GHS will weaken against the USD. Forecasted depreciation against the USD is expected within the band of 7% to 15%. Amongst the many factors that will drive the direction of the currency, government's ability to rein in fiscal indiscipline 2020 election year stands out.

• We see a more sublimed depreciation in 2020 base on dovish monetary policies in developed economies and the robust growth prospect of the Ghanaian economy attracting FDI and foreign currency inflow.

• Despite adequate reserves from Eurobond and Cocoa syndicated loan as well as good commodity price outlook, election cycle fiscal slippages will drive depreciation closer to the upper band of projection.

• Improving current account balance is expected to keep the GHS in check as well as some initiatives as planting for food and job. However, high external debt and election uncertainty however poses downside risk to investor confidence.

FIGURE 3
Debt to GDP ratio, 1990-2019

Source: Axis Pension Trust, with data from BOG

Notes: The GHS continued it losing streak against major currencies in 2019.

SECTION 4
GLOBAL ECONOMIC OUTLOOK

We see an inflection point in global economic growth over the first half of 2020. The unusual late-cycle, dovish pivot by central banks has led to a dramatic easing in financial conditions. The impact of such easing on the real economy typically comes with a lag — but has been particularly delayed this time due to the US-China trade war. We see a modest growth to push the global economy back to the late-cycle norm of trend-like expansion. Barclays forecasts that global growth will nudge up to 3.2% in 2020 from an estimated 3.1% in 2019. This is clearly slower than the 3.9% seen in 2018 and 20-year average of 4.1%,

AFRICA GROWTH OUTLOOK

According to the World Bank growth in the Africa region is expected to firm to 2.9 percent in 2020, and accelerate further to an average of 3.2 percent in 2021-22 The pickup assumes that investor confidence improves in some large economies, that energy bottlenecks ease, that a pickup in oil production contributes to a cyclical recovery among industrial commodity exporters, and that robust growth continues among exporters of agricultural commodities.

SECTION 5:
INVESTMENT ACTIONABLE IDEA 2020

Below we condense the views of our money managers into an investment actionable idea cutting across key asset classes:

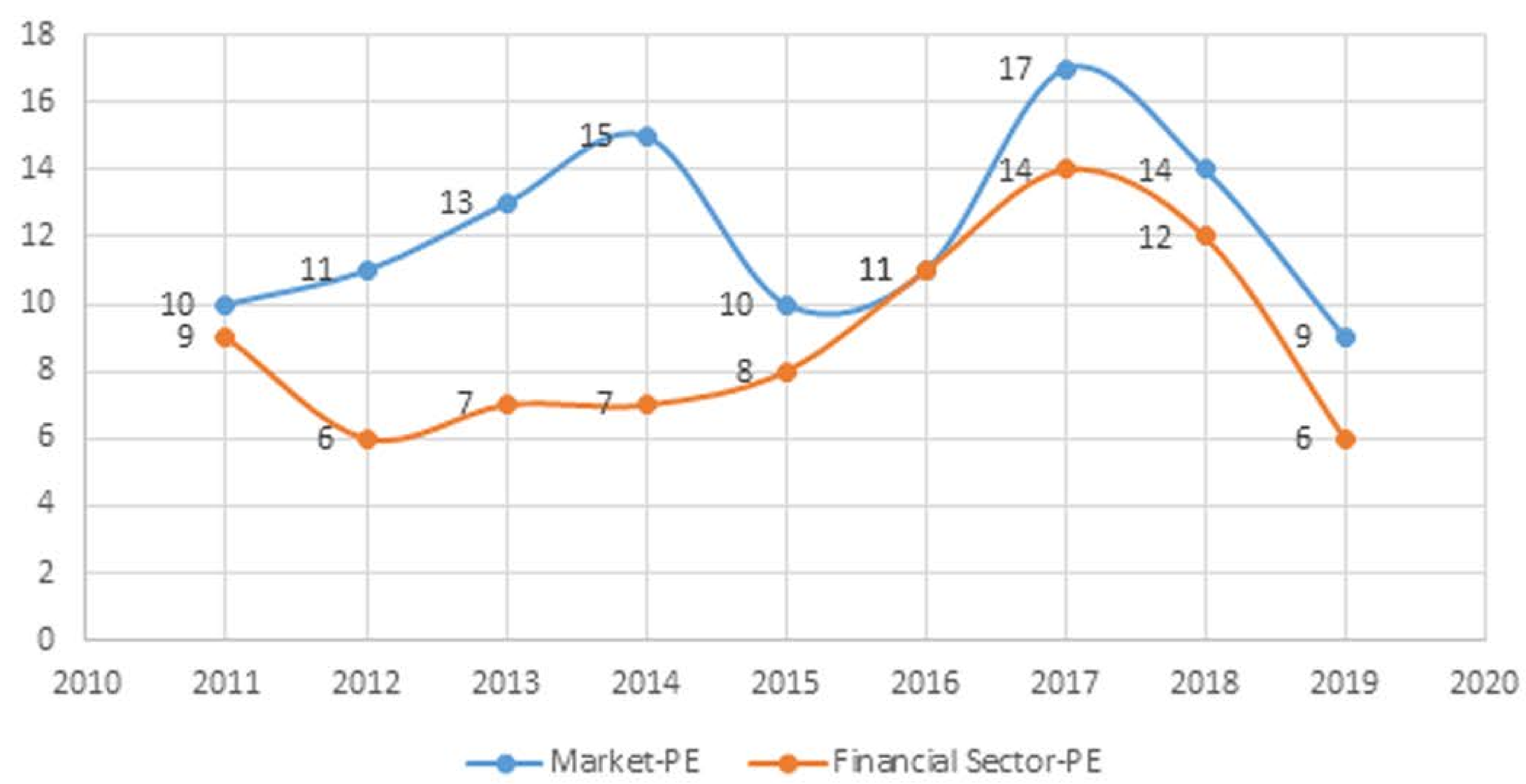
• Government Bonds – Weak performance in 2019 across government maturities (2% on the USD) according to the S&P Ghana Sovereign Bond Index means the government maturities start 2020 with a higher yield and less expensive valuations than a year ago. With yield at a 30 months high, a rally is plausible. However Ghana's record of over spending in election years gives indication of lower but positive total returns in 2020. We prefer two and three year's maturities over maturities above 3 years.

FIGURE 5
S&P Ghana Sovereign Bond Index USD, 2011-2019

Source: S&P Dow Jones Indices LLC.

• Equity – The backdrop for equities in 2020 remains moderately positive after equities shed 12% value in 2019. Political risk in Ghana coupled with positive outlook for developed market equities will reduce offshore interest although equities are trading at 8 years low. Banking and financial equities are the most preferred owing to strong earnings growth after sector wide clean-up and record low valuation multiple.

FIGURE 6
GSE market valuation based on PE ratio



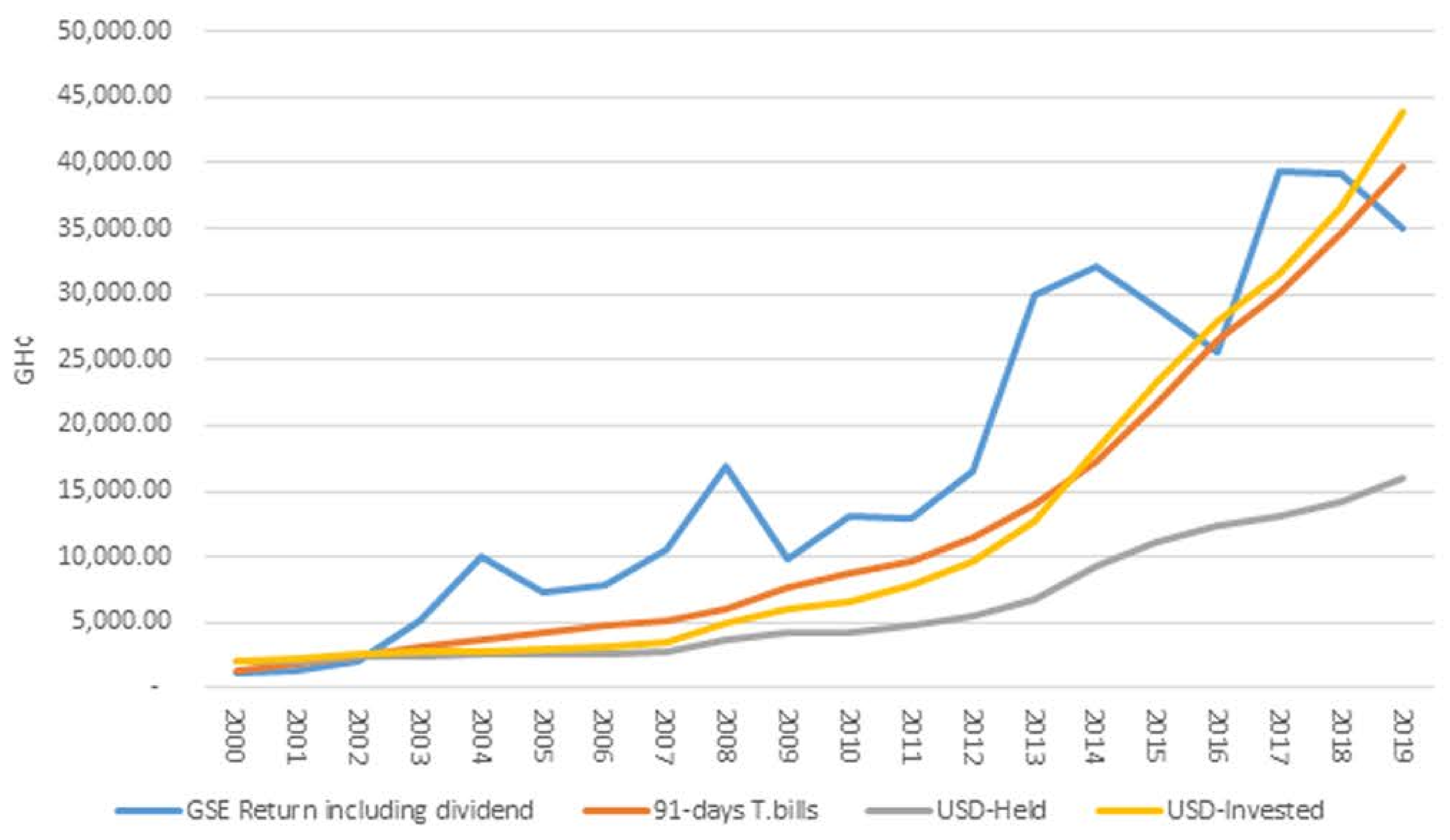
Source: Axis Pension Trust, with data from the Ghana Stock Exchange

Notes: Price to earnings multiples indicated equities at trading at 8 years low. We see an opportune time to accumulate equities notwithstanding current low sentiment.

SECTION 5:
INVESTMENT ACTIONABLE IDEA 2020

• FX – We believe the USD is will continue its winning streak against the GHS mainly due to heightened political risk, fiscal pressure and the usual seasonal demand. The US FED monetary policy dovish tilt will may provide some counter balance. The EUR and GBP are likely outperform the USD on the back of fading US economic decade of expansion, narrowing economic growth and interest rate differentials as well as political uncertainty shifting from Europe to the US Presidential election. We recommend some minimal exposure.

• Eurobond – We recommend strongly, the addition of Government of Ghana Eurobond to pension portfolio. We foresee a lot of pressure on the currency given the higher level of debt denominated in USD, the volume of interest payments on current Eurobond issues and the incessant dependence of government for Eurobond funding. Such exposure to Eurobond provides a hedge against currency losses and reasonable coupon compensation even for a buy and hold strategy.



Source: Axis Pension Trust, with data from the Ghana Stock Exchange

Notes: An investment USD equivalent of GH¢1000 in a money market deposit account paying 3% per annum from 2000 switching to an Eurobond investment paying 7.5% coupon in 2007 will outperform holding USD in cash, an investment in government 91-days T-bill and equity equities as measures by the GSE index.

• Multi-Asset – We add risk assets such as equity to government securities portfolio given current attractive yields. An exposure to FX as an asset class has become imperative given the history of depreciation of the local currency. We encourage holding Eurobonds and as part of overall FX strategy. Pension funds should consider the ABSA. New Gold commodity ETF since it gives an exposure to USD and volatility from swings in gold price.

SECTION 5:
INVESTMENT ACTIONABLE IDEA 2020

We summarise our multi-asset view in table below.

TACTICAL VIEWS ON SELECTED ASSET

▲ Overweight — Neutral ▼ Underweight

Asset class		View	Reasons for Recommendation
Equities	GSE-FI	▲	Third quarter average earnings growth amongst listed banks increased by an average 64%. Listed financial stocks are trading at an average PE and PB multiple of 6x and 1.08x respectively. Completion of the banking sector clean up and the recapitalization of banks implies full resumption of dividend payout. At current prices, projected dividend yield of 8% amongst listed financials is likely with potential to prices upward.
	GSE-CI	—	Solid corporate earnings, strong balance sheet and strong economic growth underpin our positive view in energy stocks. The outlook for consumer staple remains dim due to compressed margins as production costs increases amidst slowing growth in sales. Expected high dividend will sustain interest in the only telecommunication equity.
Fixed Income	Government local currency bond	▲	Higher government bond yield continue to provide opportunities for investors looking for income. Expected outlook of the direction of yields implies very little volatilities in the price of government bond. Longer term maturities remains an appeal.
	Treasury bills	▲	Government had signaled it is going to raise a lot of money via treasury bills issuance compared to bonds. We expect this to weigh positively on treasury bill rate as government will have to pay more to attract inflows. We recommend holding Treasury bills in place of cash.
	Eurobond	▲	This represent a very important asset class that can provide reasonable USD income for a held to maturity investor, potential FX risk hedge and the potential for upside price gain when economic outlook improves.
	Corporate bond	—	There is the dearth of new issuers within this asset class. We have had the same issuers mostly in the financial sector rolling over maturities and raising additional to finance working capital.
	Bank Fixed deposit	▼	With a lot of banks which hitherto competed for fixed deposit by offering higher yield no longer in operation, we do not expect banks to offer any significant premiums above treasury bills. Thus we believe fixed deposit risk will not be well compensated for.
	Local government securities	▲	Cocoa bills and the ESLA Plc bond are the only available instrument under this asset class. We see the opportunities for yield pickups above treasury and therefore offering a better risk adjusted return.
Others	Commodities and currencies	▲	Gold exchange traded funds priced in foreign currency, foreign currency denominated fixed asset will be a good addition to a typical pension portfolio. Although these assets may not match the return on typical government securities, it offers many diversification benefits and stable risk adjusted return.

ABOUT AXIS PENSION TRUST

Axis Pension Trust Ltd (APTL) offers boutique pensions management services for SMEs and individuals. As agents APTL is accountable to the regulator, our Trustees and scheme members. In terms of products, Axis Pension Trust offers administration services for standalone schemes of larger institutions and multi-employer pension schemes for SMEs seeking to achieve optimal returns on pension investments.

The firm is also the largest provider of personal pension schemes with 84% market share. Both our multi-employer schemes and personal pension schemes are multi-asset schemes that invest across multiple asset classes. We employ both quantitative and qualitative analysis underpinned by solid understanding of the working of the economy in asset allocation. We believe asset allocation influences to a larger extent the overall return of an investment program.