

2020 Investment Outlook Survey Report

Introduction - Why Economic Surveys are Important?

We set out to find out key macro economic themes that will shape investment outlook in 2020 from 10 money managers.

A research by [Ritong Qu, Allan Timmermann, and Yinchu Zhu](#) shows that **the consensus forecast** of individual economists **beats even** that of the most **skilled single economist**. So investors should rely on the wisdom of the crowd and follow the expert consensus forecast rather than any individual prediction.

Presentation Structure

- GDP growth outlook
- Fiscal Policy
- Interest rate outlook
- Inflation
- Monetary policy rate outlook
- Currency outlook
- Equity Market Outlook
- Multi-asset strategy

GDP Growth Outlook

Our experts predict an economic growth of between 5% and 7%. The average growth rate from survey finding comes to 6.28% compared to EIU prediction of 5.5%, MoF and IMF forecast of 6.8% and 7.5% respectively.



Why GDP May be Poised For Robust Growth

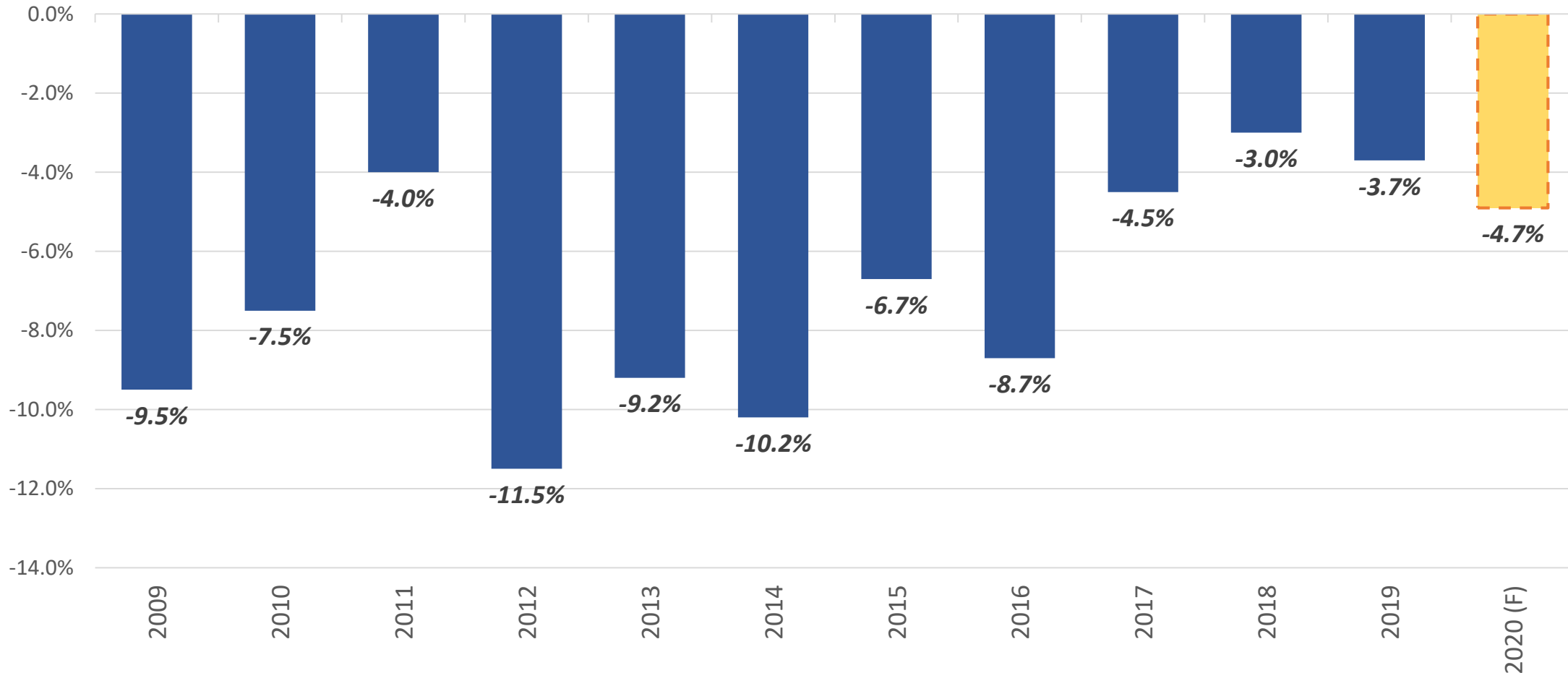
- Resilient domestic demand on the back of increase in economic activities.
- Successful execution of the Sinohydro deal.
- Success in the \$750m Mineral Royalty floatation in March.
- Renewed confidence in the financial services sector.
- Improved credit environment for businesses and consumers.
- Bank of Ghana's (BOG) enterprise credit initiative.
- Execution of government flagship projects.

Factors That May Act as Impediment to Growth

- Perennial currency blips.
- General inflationary pressures.
- Election related sentiments.
- Rising debt levels and the risk of debt unsustainability
- Budget overruns leading to increased government borrowings.
- Low commodity price outlook.
- Unfavorable external market conditions influencing the Eurobond floatation in Q1-2020.

Fiscal Deficit Expectation

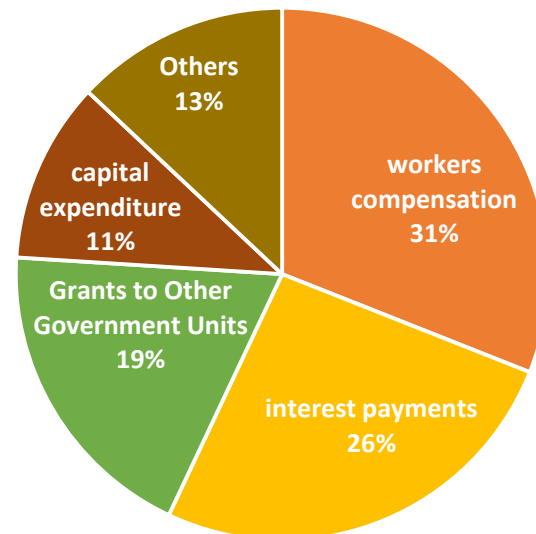
- Our investment managers believe fiscal deficits on a cash by cash basis will top government forecast of 4.7% of GDP albeit below the 5% stipulated by the Fiscal Responsibility Act, 2018 (Act 982).



Sustaining Fiscal Deficit Below 5% Will Be a Challenge in an Election Year

- Fiscal support for flagship programs expected to increase.
- Financial sector clean up cost will escalate.
- Revenue mobilization (GH¢67billion in 2020) remains a challenge and is likely to disappoint.

Spending Breakdown

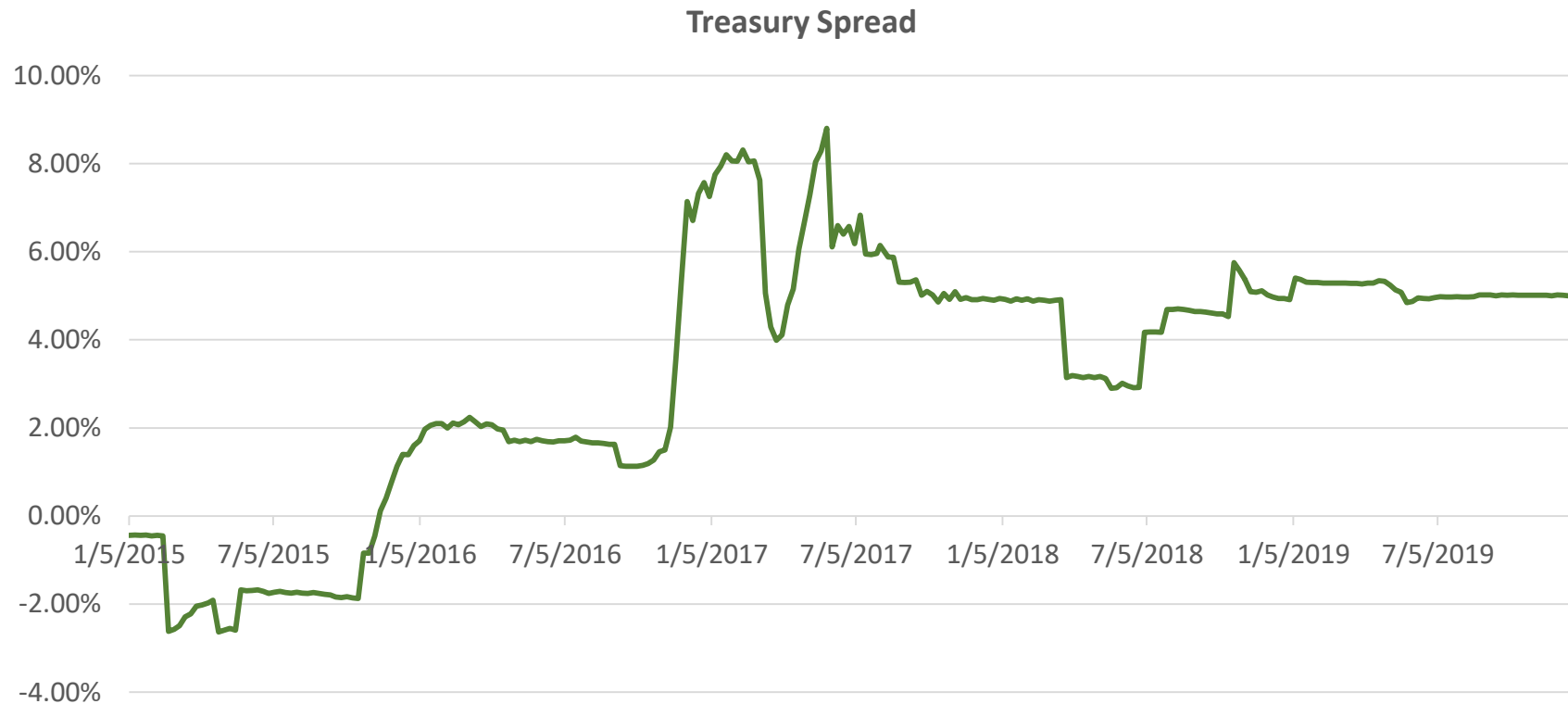


Short Term Interest Rate Expectation

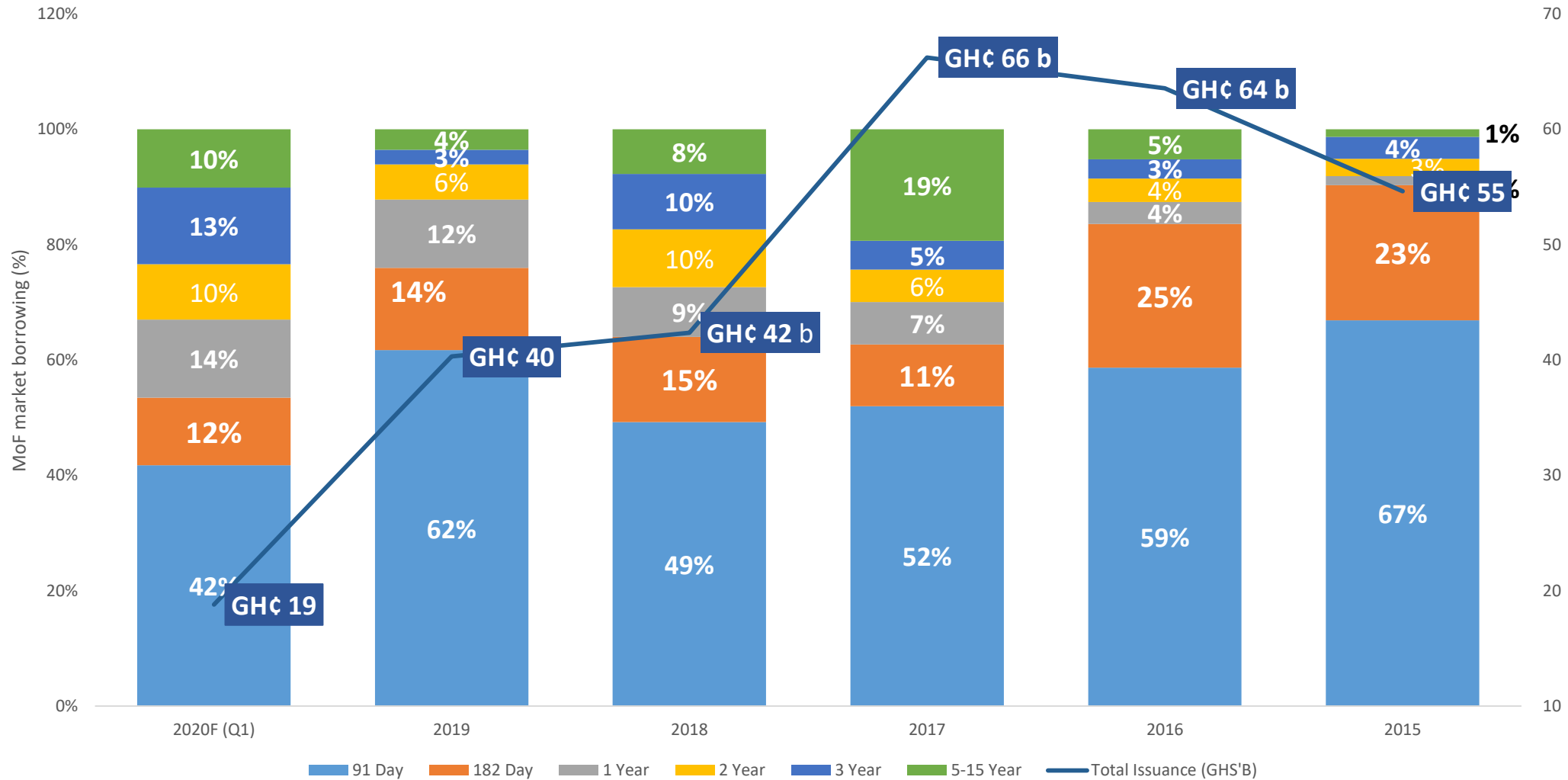
The consensus expectation amongst most money managers is that short term interest rates will increase. Short term rates are expected to increase by about 0.1% to 0.45%.

Why Short Term Interest Rates are Expected To Increase

- Shortfall in domestic revenue coupled with high medium to long term government yields will increase the supply of short term bills.



Increase supply of short term papers will likely drive up interest rate



Long term interest rate outlook

There was no consensus among our money managers on the direction of long term interest rate.

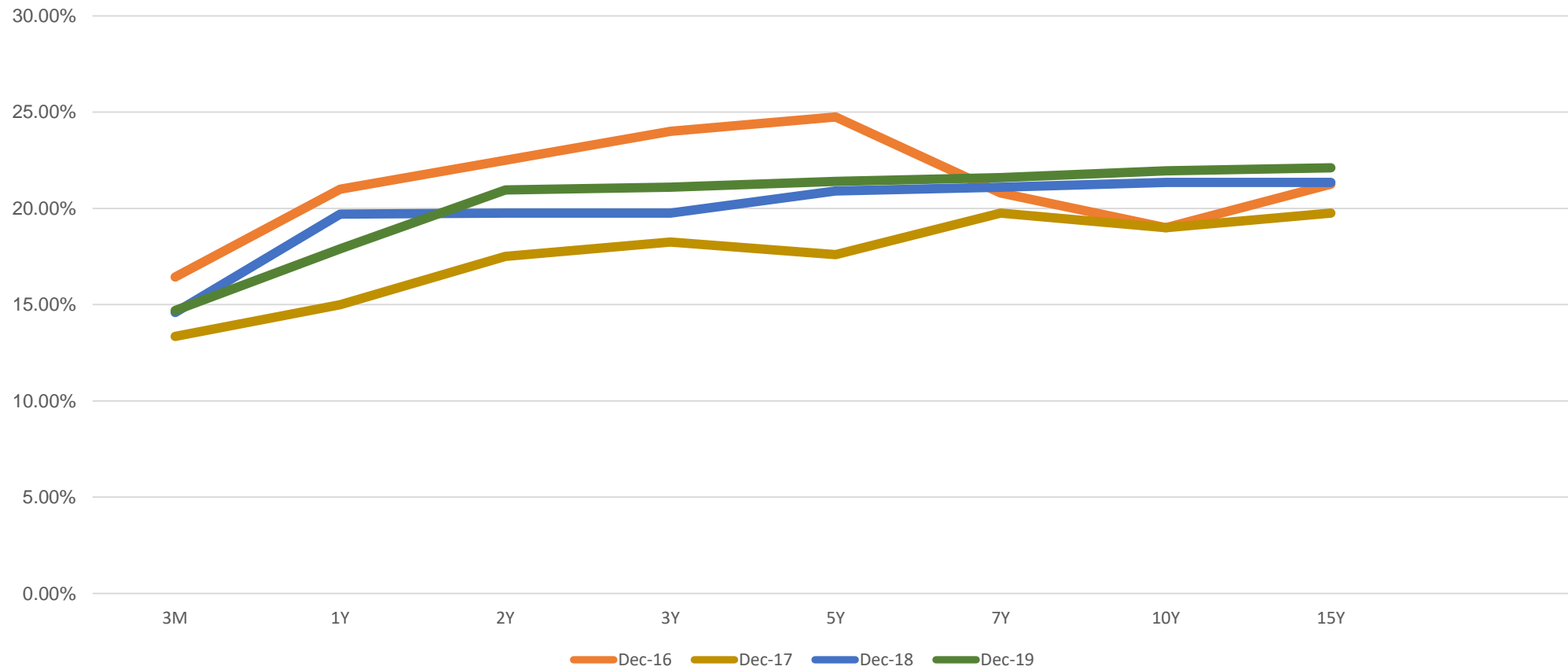
Reasons Given For Potential Increase in Interest Rates

- Weak off-shore investor participation is likely to see yields on long-term government pick up on the secondary market.
- Risk-off sentiments is expected as investors seek to keep duration of fixed income investment short.
- Political risk, weaker currency and a potentially wider deficit could see investors demand relatively higher rates.
- Refinancing of about GH¢5billion maturities falling due in Q1-2020.

Counter Argument Against a Rise in Interest Rate

- Successful \$3billion Eurobond issuance may reduce government appetite for local currency funds.
- Increase in appetite for local currency bond as a result of renewed confidence in the economy.

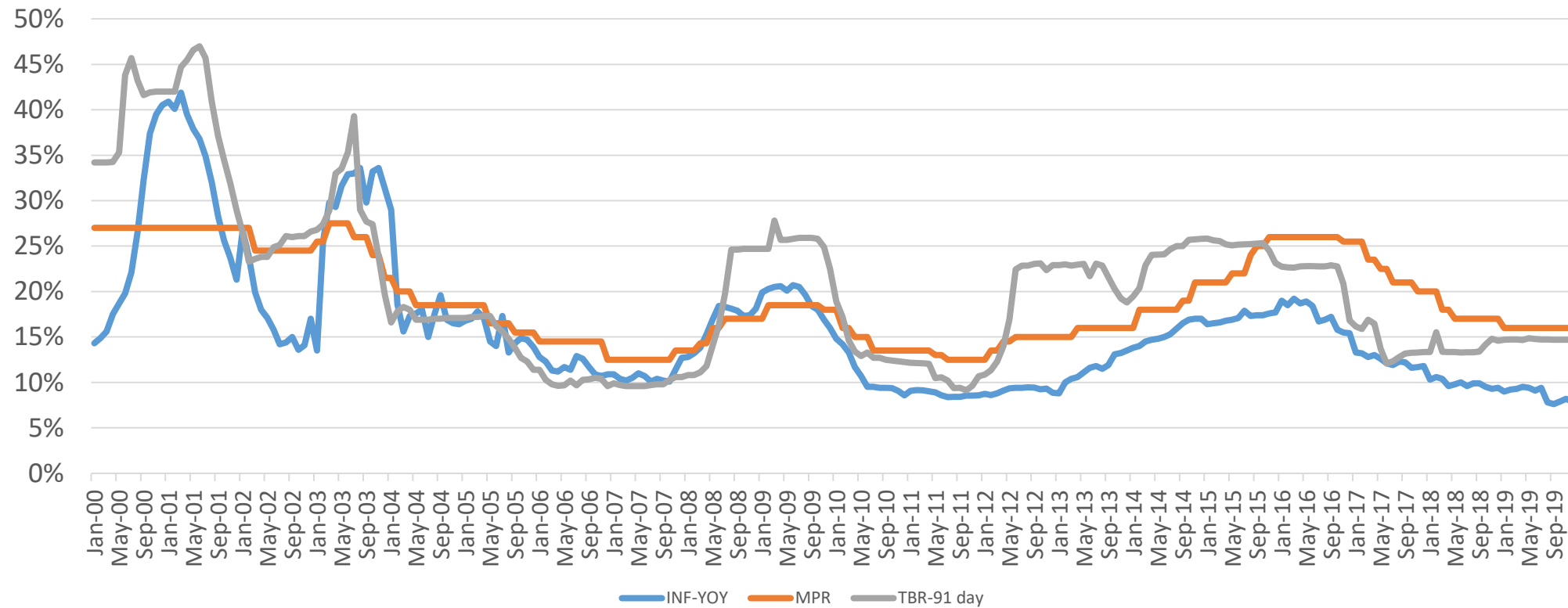
Treasury curve



Source: Axis Pension Trust, with data from the Bank of Ghana and average secondary market quotes by selected primary dealer

Monetary Policy

- Surveyed managers do not see an expansionary monetary policy tilt 2020.



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

Reasons For Neutral to Contractionary Monetary Policy Tilt in Monetary Policy

- Firstly, the seasonality in exchange rate behavior means that the first quarter might be too risky to cut the MPR.
- Inflationary pressure with December inflation increasing to 7.9% from 7.6% in September, 2019.
- Thirdly, the 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 neutral tilt.

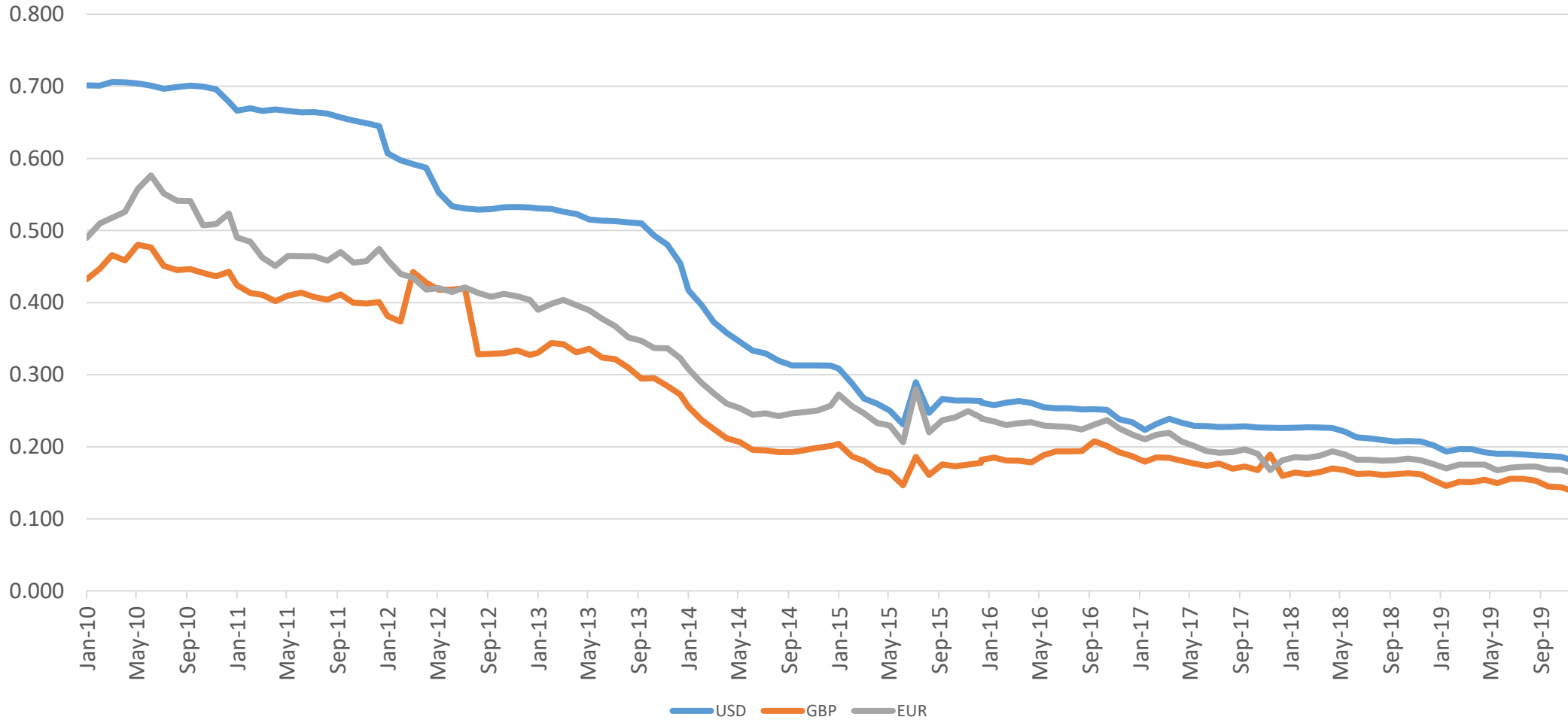
There was overwhelming consensus that the GHS will weaken against the USD. Forecasted depreciation against the USD is expected within the band of 7% to 15%.

The Following Factors Will Drive Moderate Currency Depreciation

- Dovish monetary policies in developed economies.
- Robust growth prospect of the Ghanaian economy attracting FDI and foreign currency inflow.
- Improving current account balance.
- Export driven initiatives such as planting for food and jobs and planting for export and development.

Higher Depreciation Will Arise From The Following

- Downside risk to investor confidence due to high external debt and election uncertainty.



Source: Axis Pension Trust, with data from BOG

Actionable Investable Idea- Medium to long Term Treasury Securities

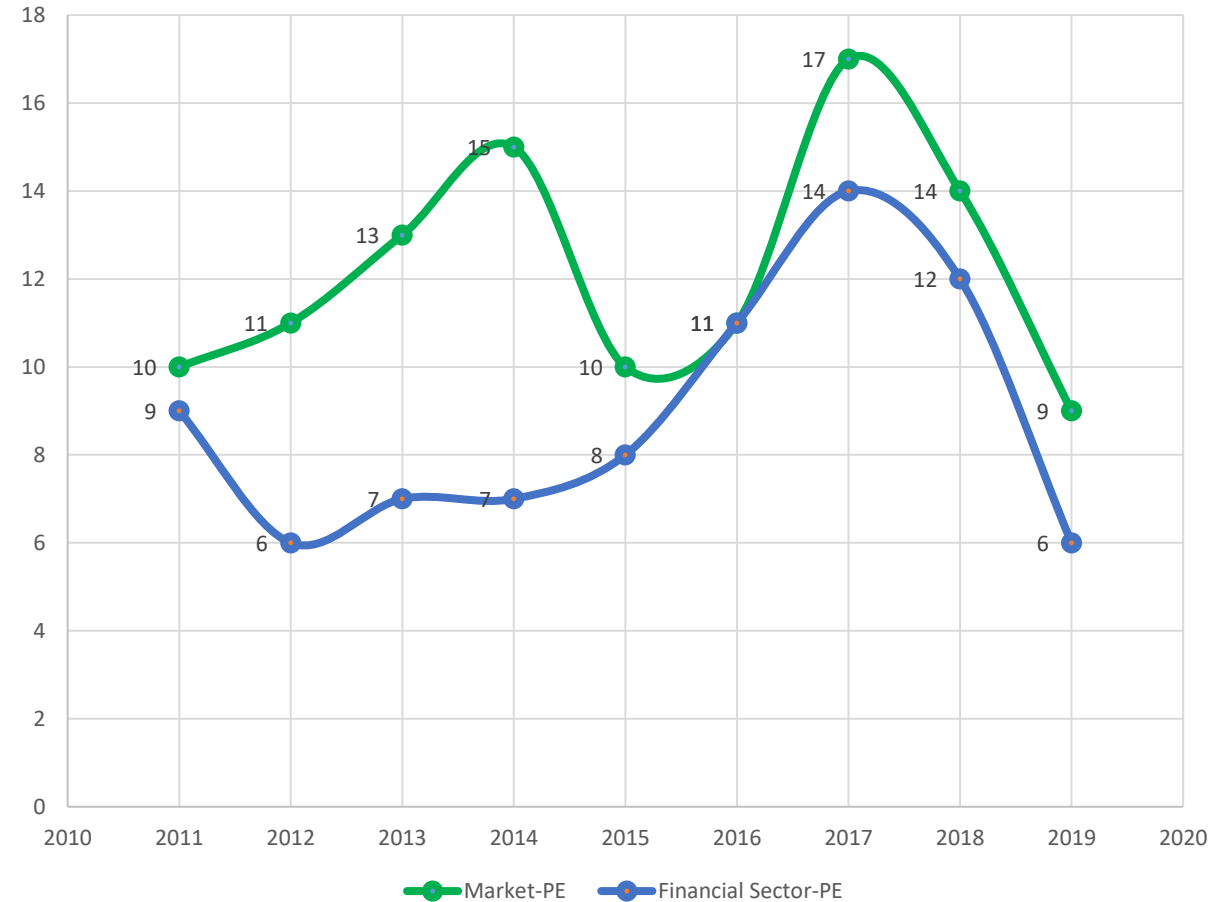
- General consensus is that medium to long term bond should be over overweight in a pension portfolio
- Higher government bond yield continues to provide opportunities for investors looking for income.
- Current yield levels and the expected outlook of the direction of yields implies very little volatilities in the price of government bond.
- Longer term maturities remains an appeal to offset to equity risk.



Source: S&P Dow Jones Indices LLC.

Actionable Investable Idea- Equities

- General view is that equities should be underweighted relatively to short term treasury bills although equities are trading at 8 years low.
- Political risk in Ghana coupled positive outlook for developed market equities will reduce offshore interest.
- Banking and financial equities are the most preferred owing to strong earnings growth after sector wide clean-up and record low valuation multiple.



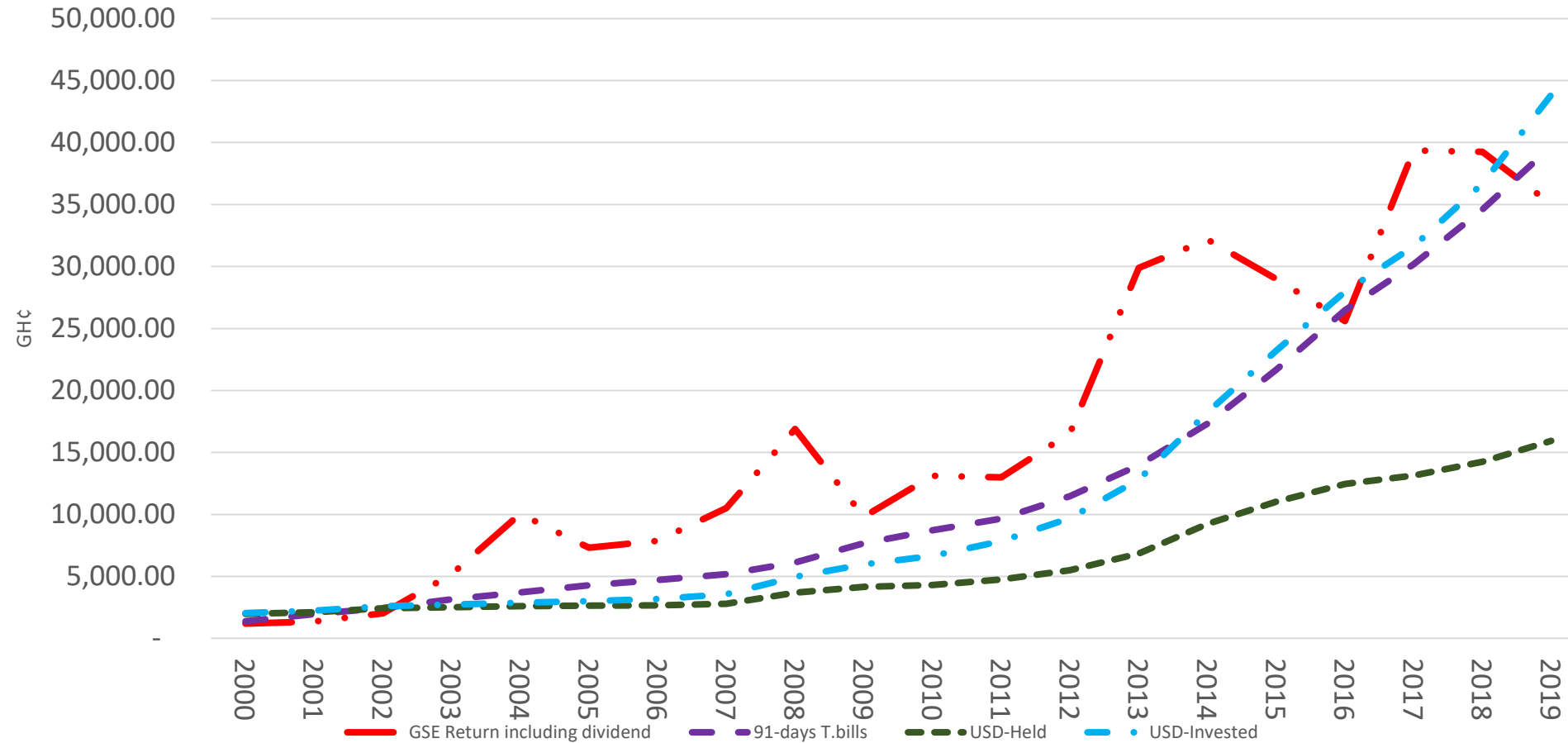
Source: Axis Pension Trust, with data from the Ghana Stock Exchange

Actionable investable idea- FX strategy

We believe the USD will continue its winning streak against the GHS mainly due to heightened political risk, fiscal pressure and the usual seasonal demand. We recommend investment in asset that gives USD exposure.

- Eurobond.
- ABSA New Gold ETF.

Investing in USD Denominated Asset is Not Bad After all



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

Actionable investable idea- FX strategy

Private equity and real estate provides very important diversification and long term risk adjusted return to pension portfolio. Trustees and fund managers should explore opportunities within this asset class.

Two PE funds licensed by SEC to undertaking private investments;

- Oasis
- Injaro

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. Projected dividend yield of 8% amongst listed financials is likely to send a positive buy signal that may drive 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 compressed margins as production cost 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. Current yield levels and the expected outlook of the direction of yields implies very little volatilities in the price of government bond. Longer term maturities remains an appeal to offset to equity risk.
	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 operating independently, 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.

My Birthday Gift to you

1. Pioneering portfolio management by David Swenson
2. Thinking, Fast and Slow by Daniel Kahneman
3. 2019 Berkshire Hathaway Annual shareholder letter by Warren Buffet.
4. Nudge: Improving Decisions about Health, Wealth, and Happiness by Richard Thaler and Cass Sunstein
5. Principles for Navigating BIG DEBT CRISES: Ray Dalio