AXIS PENSION TRUST

2023 OUTLOOK REPORT

Axis Pension Survey

February 2023

CONTENTS

2023 INVESTMENT OUTLOOK

The economic angst of 2022 caused by external factors including high and rising inflation; global geopolitical tensions; the risk of a global recession and the removal of global liquidity by central banks exacerbated domestic economic troubles in Ghana, culminating in local currency depreciation; rising domestic debt levels and a deteriorating fiscal position. These were stark reminders that wealth preservation and accumulation in turbulent markets are about risk management whilst capitalizing on fleeting opportunities in volatile markets to protect and grow assets. The 2022 turbulence weighed heavily on the investment outlook for 2023, adversely impacting economic growth, cost of living, interest rates, credit quality and investor sentiments. However, as money managers, it is our responsibility to exhibit emotional stability in the midst of economic and market turbulence in order to preserve the sanity of our clients, whom we so dearly serve.

Whilst FY 2022 may have delivered more than its fair share of disruptions, our investment philosophy – "that you should stay invested across a multi-asset portfolio mindful of your investment mandate and risk-return expectation" - remains relevant and our guiding principle for 2023 is – "DIVERSIFICATION" - one of the oldest tenets in finance and investing. Aggressive and intentional diversification across asset class and geography(s) is necessary to achieving effective risk management. In this 2023 outlook, our fund managers and industry experts share their diverse views on where they see markets heading and how they are positioning their strategies. We hope you find the discussions informative, and we wish you a healthy and prosperous New Year.

SUMMARY

Survey participants shared their views on key macroeconomic events that could shape 2023 in what many believe to be the most challenging economy in three decades. The political and economic foundation of Ghana is at a fragile crossroad, driven by overleveraging of the economy that has pushed the nation's debts to "junk status" whilst rapid inflation and depreciation of the local currency is threatening the existence of both the consumer and businesses.

With the treasury being shut out of both the global and domestic debt capital market, the economy is literally hanging on life support, in dire need of debt relief and an IMF bailout. Confidence in the political leadership and in the central bank is lost, deepening the uncertainty as the nation gears to go to the polls next year to elect a new president. In the coming year, investors will be on the lookout for the bifurcation of economies - between those that have been able to bring inflation and interest rates under control and those that continue to struggle to control the pace of inflation, interest rates and currency direction.

Survey participants unanimously agree that the ongoing debt exchange program will be disruptive to both the financial and real sector for years to come. With the central bank losing credibility in its ability to control inflation and with liquidity being drained out of the system, the growth outlook and its consequential impact on asset prices is highly negative. In the current economic chaos, investors are looking to diversify away from government securities and this could lead to a renaissance in alternative assets, setting the stage for pension funds to finally invest in the real sector of the economy and in the process contribute to addressing structural weaknesses in the economy.

- **Growth Outlook:**

Surveyed money managers expect Ghana to have a challenging 2023, growing at below trend pace of between 2-3% due to rising inflation and elevated interest rates, slowdown in government capital expenditure, and a decimated consumer population suffering from the effects of the domestic debt exchange program (DDE). The central government in its 2023 budget, forecasts the Ghanaian economy to grow by 2.8% in 2023, however, heightened uncertainty surrounding the debt exchange program and its consequential impact on local currency and inflation may necessitate a downward revision of the forecast.

Participants anticipate conditions that will provide the balance for growth opportunities in the coming year include:

i. An IMF deal and governments consequential access to capital markets;
ii. A relatively stable currency; and
iii. The beginning of a disinflationary cycle.

At the same time, investors expect downside risk to economic growth to include:

i. Delay in clinching an IMF deal;
ii. Slowdown of credit by commercial banks to private enterprise;
iii. De-anchoring of inflation expectations;
iv. Liquidity challenges and capital destruction as a result of government's debt restructuring program;
v. Spillover effects of global recession risk into frontier and emerging markets;
vi. Civil unrest due to economic challenges;
vii. Perennial depreciation of the local currency, elevated interest rates and negative market sentiments;
viii. Lack of fiscal space for the government to support the economy through capital expenditure; and
ix. Commodity price shocks.

Thematic Areas

According to the survey, key themes that will influence asset allocation and money management strategies in 2023 include the following:

i. The domestic macroeconomic climate - particularly the performance of the local currency, inflation and the nature of the yield curve;
ii. The government's debt restructuring program;
iii. Liquidity and the heightened need for capital preservation; and
iv. The need for diversification – both from an asset class and country/regional perspective.

- **Monetary And Fiscal Policies:**

Majority of respondents remain concerned about governments commitment to fiscal discipline especially in the absence of any signal by the authorities to reduce its 2023 planned expenditure in the midst of the current fiscal challenges. A successful debt exchange program and its consequential planned deferment of interest payments and principal at maturity will however support government's deficit target in the short term. There is no doubt the outcome of the fiscal position will highly be dependent on the rollout of a successful IMF program, without which the consequences will be dire. In addition, taking into cognizance the fact that credit will be greatly constrained in 2023 as banks assume a conservative posture in order to preserve their solvency and liquidity ratios due to the impact of the planned debt restructuring, economic growth will be severely impacted and that will consequently have a negative impact on revenue generation from taxes.

With government effectively shut out from the capital market, the central bank's ability to influence the economy through its traditional policy tools will be limited. Nonetheless, it will keenly try to regain the markets confidence in its ability to fight inflation and maintain price stability. That said, surveyed participants are tilted towards a more hawkish central bank and half of respondents fairly split between a central bank that does nothing – leaving rates unchanged throughout the coming year and one that begins to cut rates in reaction to lackluster economic growth as economic conditions improve with a successful IMF program.

• **Multi-asset Strategy:**

A confluence of unprecedented negative events in the prior year meant 2022 was an "annus horribilis", characterized by bear markets across various assets with local government of Ghana debt securities down -20.4% on a total return basis, the Ghana stock exchange composite index down -12.38% and the Ghana cedi down over -30.0%. Rarely have investors had to grapple with losses of this magnitude across domestic assets and with high levels of correlation during cycles of economic stress, investors have had limited options to hide.

The scars of 2022 undoubtedly weighs heavily on multi- asset strategy for 2023 with implication ranging from economic growth, inflation, central bank policy, investor sentiments, credit quality and interest rates. The overall outlook suggests investors are now more constructive towards a broad based well diversified portfolio whilst building in hard currency hedges to mitigate against the risk of a depreciating local currency. With the risk of a prolonged cycle of negative real returns given the path of inflation, investors are constructive on alternative assets in a bid to reach for yield to narrow the negative real return gap. However, structuring of investment opportunities within the alternative asset class space will be important giving the risk profile of asset owners and their desire for liquidity

That said, investors are focusing on building liquidity buffers for clients especially giving the cloud of uncertainty that hangs over the nation whilst being constructive on risk assets to earn a return that at least matches inflation. An overview of the portfolio positioning strategies surveyed include:

i. Neutral towards equities giving the impact on the domestic debt exchange program on banks and the concomitant freeze on dividend payments by banks for the year;
ii. Significantly reduce exposure to government of Ghana securities. Within government securities, focus of cash equivalent securities for liquidity purposes;
iii. Favor treasury bills over Fixed Deposit giving the wide spread between the two;
iv. Despite the dearth of corporate debt securities, money managers favor corporate debt over government bonds due to the proposed low coupon nature

of government bonds as a result of DDE;

v. Reduce overall duration due to imminent risk on the horizon and non-tradability of government bonds;

vi. Gaining FX exposure as a hedge towards the perennial depreciation of the local currency;

vii. Gaining some exposure to commodities as a hedge against any potential disruption in global financial markets. Within commodities, overweight gold due to the imminent risk of a global recession.

• **ESG:**

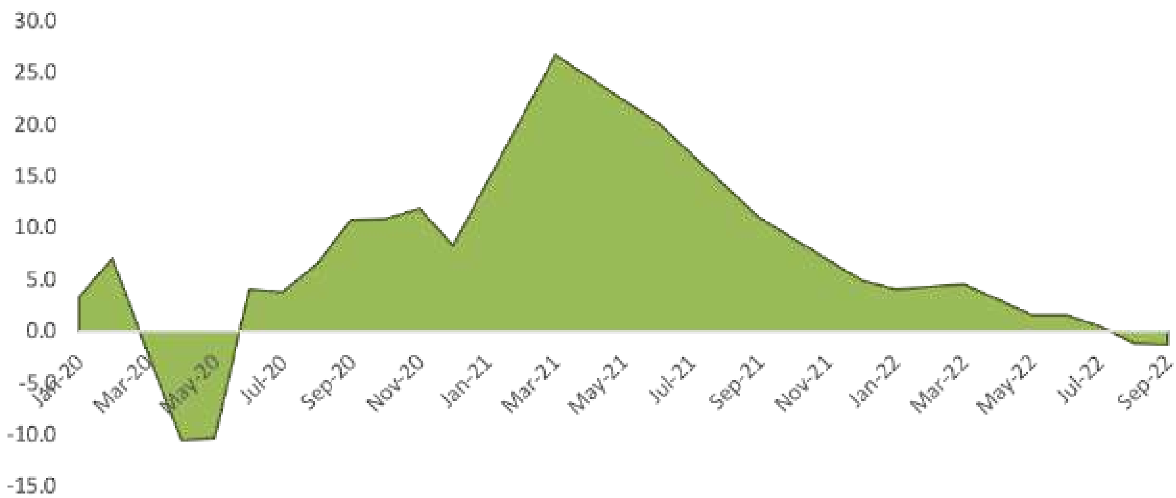
Compared to previous survey results, the ESG hype is showing signs of fatigue and it appears there are fractures in the ESG investment movement as the number of respondents who mentioned in the affirmative that they consider ESG in their investment strategy significantly reduced. This phenomena, could just be due to the volatile nature of the investing environment and the fact that money managers are currently focused on liquidity and returning capital back to clients. Despite this trend, we believe that an ESG focused strategy can be a source of alpha in a portfolio strategy.

SECTION 1: **ECONOMIC GROWTH OUTLOOK**

Portfolio managers surveyed remain bearish on Ghana's economic outlook due to a confluence of significant headwinds the economy is expected to encounter during the coming year. Business and consumer sentiment is expected to remain negative giving the macroeconomic distortions in the economy characterized by soaring inflation, incessant depreciation of the local currency, high cost of credit and tight cedi liquidity.

All meaningful economic expansion begins with the supply of credit, therefore with financial institutions potentially slowing down the creation of credit due to the negative impact of DDE on their capital, the real economy is going to be starved of a key ingredient required for growth. The central banks composite index of economic activity that tracks cyclical dynamics in economic activity both from the perspective of the consumer and business is down in negative territory just as witnessed during the height of the covid pandemic in Q1 2020. Consequently, Q3 2022 provisional economic print for the Ghana statistical service indicated that real GDP slowed to 2.9 percent, down from 6.5 percent a year earlier.

FIGURE 1: **Real Annual CIEA Growth (%) down in negative territory at -1.2%, for the first time since the height of the COVID pandemic in March 2020.**



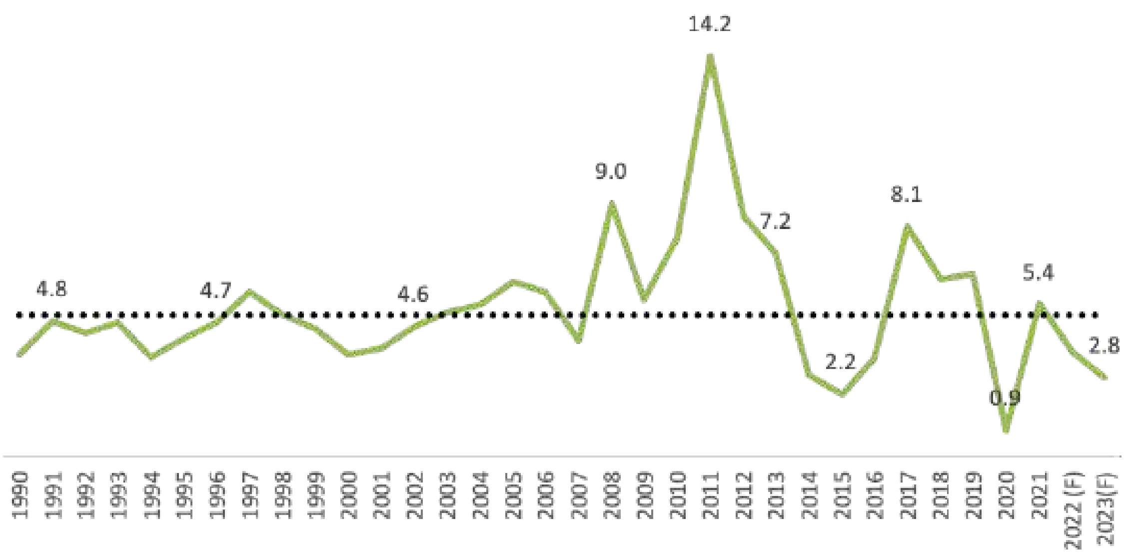
The expectation from consensus is that, Ghana's economy grows below the trend pace of 5 percent in the coming year. Official forecast from the Ministry of finance pegs real economic growth at 2.8%, in line with the IMFs forecast for the same period. Factors accounting for the sub trend growth include macroeconomic imbalances characterized by soaring inflation, local currency depreciation and a high public debt, estimated north of 91 percent of GDP.

Surveyed participants agree that the economic trajectory for 2023 will be greatly dependent on an IMF program, especially giving that the government is priced out from both the international and domestic capital market. Global monetary tightening and domestic market turmoil, sharp local currency depreciation and runaway inflation has put the nation's debt on an unsustainable path and in this context authorities have formally requested for an IMF support for the implementation of a multiyear program aimed at restoring macroeconomic stability, investor confidence and debt sustainability. The invitation to exchange – infamously referred to as DDE - is part of a comprehensive program that aims at bringing public debt back on a sustainable path, which is needed to unlock financial support from the IMF.

According to survey participants the outlook on economic growth will be hinged on the following factors below:

	Downside	Upside
Macro	• Persistent rise in inflation • Negative business confidence and consequently poor margin growth leading to layoffs • Social unrest giving ongoing cost of living pressures • Delay in clinching an IMF deal • Continued slowdown of credit by commercial banks to private enterprise • Liquidity challenges and capital destruction as a result of government's debt restructuring program • Spillover effects of global recession risk into frontier and emerging markets • Perennial depreciation of the local currency, and negative market sentiments • Commodity price shocks – leading to a boom bust commodity cycle.	• A disinflationary cycle begins • An IMF deal is approved • A relatively stable currency
Policy	• The central bank is forced to maintain elevated interest rates to anchor inflation expectations even as growth deteriorates. • Continued lack of access to both local and domestic capital markets to fund treasury capital needs	• Central bank begins to loosen monetary policy • Stable debt service cost as result ofsucc essful debt restructuring

FIGURE 2: **Real GDP growth, 1990-2023. Long term average growth since 1990 is 5.2%**



Source: Axis Pension Trust, with data from the World Bank Notes: Projection for 2023 is based on data from the Ministry of Finance. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

SECTION 2: **FISCAL POLICY AND INTEREST RATE**

FIGURE 3: **Government fiscal deficit, 2009- 2023**

Source: Axis Pension Trust, with data from the Bank of Ghana. Note: The unprecedented scale of the damage and macroeconomic distortions caused by the pandemic has necessitated the suspension of the fiscal responsibility rule of fiscal deficit not exceeding 5% of GDP. Our experts predict the fiscal deficit target of 7.7% of GDP will be exceeded.

SUMMARY

Ghana's already precarious fiscal position caused by excessive expenditure and debt binge has been made worse by rising global interest rates which have had the concomitant effect of capital flight from the domestic economy leading to rapid depreciation of the local currency. Ghana's fiscal deficit – which is one of the highest in the region stands at 9.8 percent (Nov; 2022) owing to government missing its target for the year on account of disappointing revenue numbers, particularly due to its miscalculation with regard to the infamous electronic transactions levy (E-Levy).

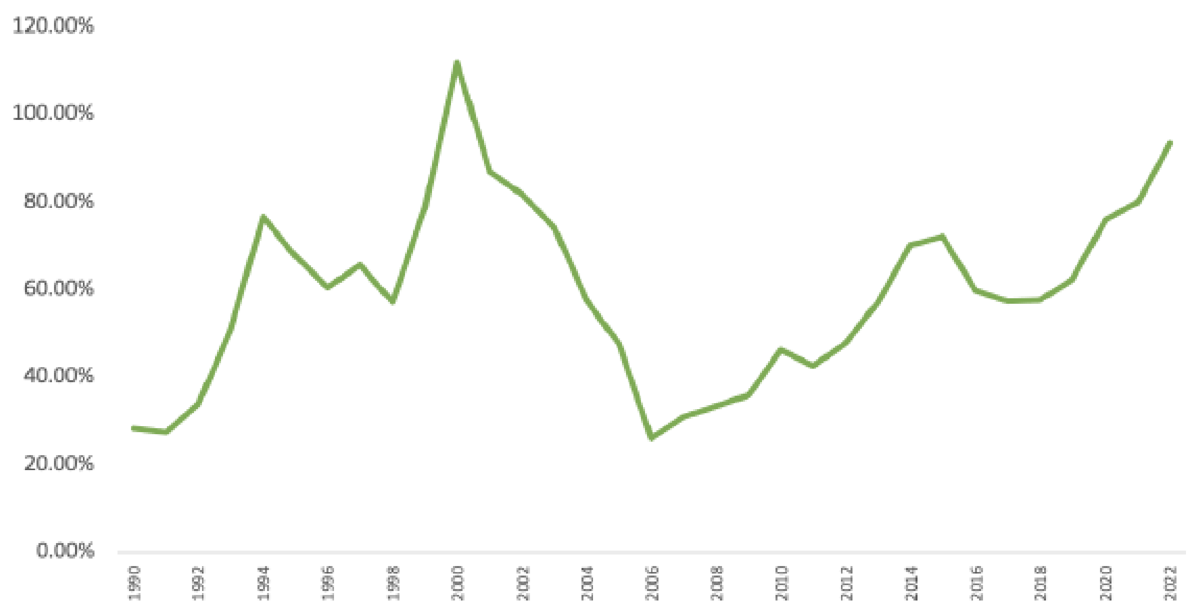
The country's unsustainable fiscal position, combined with underperforming revenue levers, high expenditure and lackluster economic growth triggered multiple credit downgrades by the major credit ratings agencies (CRAs). Consequently, the spreads on both local and Eurobond issuances began to trade at distress levels, effectively pricing the government out of any future issuance. It is in this context that the government of Ghana formally requested an IMF support for the implementation of a multiyear program aimed at restoring macroeconomic stability, investor confidence and debt sustainability. As a result of the fact that the IMF cannot lend to a country whose public debt is deemed unsustainable, authorities have resorted to financial restructuring through a debt exchange program aimed at reducing its public debt to gdp to 54%.

Beyond the DDE, the government will have to think of bolder and more transformative policies to build fiscal buffers towards a path of sustainability. In the context of large informal sector and low tax base, addressing weakness in enforcing compliance and improving tax administration must be a strategic imperative for mobilizing domestic resources to support economic recovery. Improving the efficiency of revenue collection through institutional reforms such as improved governance and adopting digitization and e-governance will improve transparency and reduce illicit financial flows.

KEY POINTS

	Downside	Upside
Macro	• Lack of political commitment to tax reforms and expenditure controls are upside risks to fiscal positon • Lackluster economic growth and poor consumer demand constraining economic activity	• An IMF program is critical to ensuring fiscal sustainability • A successive debt restructuring program
Policy	• The central bank is forced to maintain elevated interest rates to anchor inflation expectations even as growth deteriorates • Continued lack of access to both local and domestic capital markets to fund treasury's capital needs	• Central bank begins to loosen monetary policy • Stable debt service cost as result of successful debt restructuring

FIGURE 4: **Debt to GDP ratio, 1990-2022**



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 72% in 2015. In recent years, debt to GDP has ticked up mainly due to the cost of the energy and financial sector clean up and more recently due to Covid-19.

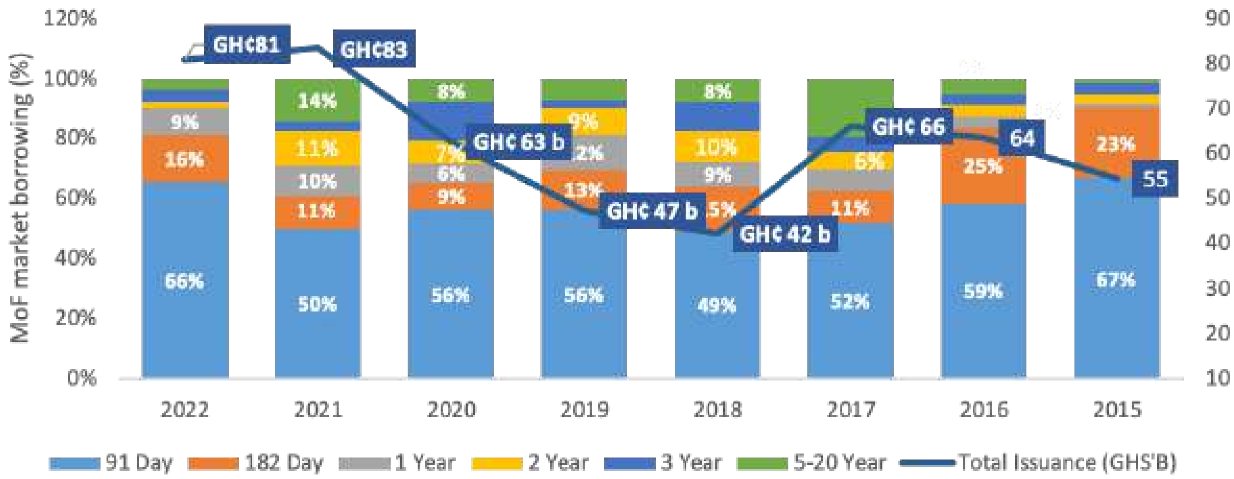
SHORT TERM INTEREST RATE

Persistent increase in both consumer and producer inflation expectation contributed to the 1,250 bps increase in policy rate throughout FY 2022. With inflation at a two decade high at 54.1percent, the central bank in an attempt albeit with limited success to regain the markets confidence in its credibility to fight inflation increased its policy rate to a twenty year high at 27percent (currently, 28 percent). Consequently, short term rates increased aggressively over the year with the Ghana Reference Rate (GRR), the 91, 182 and 364 Treasury bill rates ending the year at 32.83, 35.36, 35.9 and 36.1 percent respectively. Overall, spreads at the short end of the curve increased by 2000 bps during FY 2022. Considering the lack of trading activity and limited issuance of securities above the 364-day tenure due to the ongoing debt exchange program, the increase in demand for short term securities should translate in downside risk during the course of the year. The inflation trajectory and success of the debt exchange program will however dictate the pace of decline.

The results of the survey reflect this phenomenon with 75% of respondents expecting short term rates to decline.

KEY POINTS

i. *Investor demand for treasury bills will push short term rates down.*
ii. *Fiscal and monetary authorities will gradually reduce interest rates in order to reduce government's debt burden.*
iii. *Lack of investor options due to lack of trading activity in the medium to longer end of the curve will concentrate activity in money market securities, providing the impetus for yields to decline.*
iv. *Consequential impact of DDE will lead to an estimated 50 percent decline in yields across the curve.*
v. • *Inflation trajectory will influence path of short term rates.*



Source: Axis Pension Trust, with data from the Central Securities Depository.
Note: Governments relied on the money market for funding.

LONG TERM INTEREST RATE

With the bond market virtually closed due to the debt exchange program, a yield curve beyond the 364-day tenure is currently nonexistent. However, should the proposed DDE be successful, the yield curve beyond the shorter end will be reset in the region of 9 - 11%. Furthermore, should inflation remain elevated at current levels, the bonds will remain unattractive due to steep negative real return profile.

FIGURE6: **Amended curve due to the DDE**

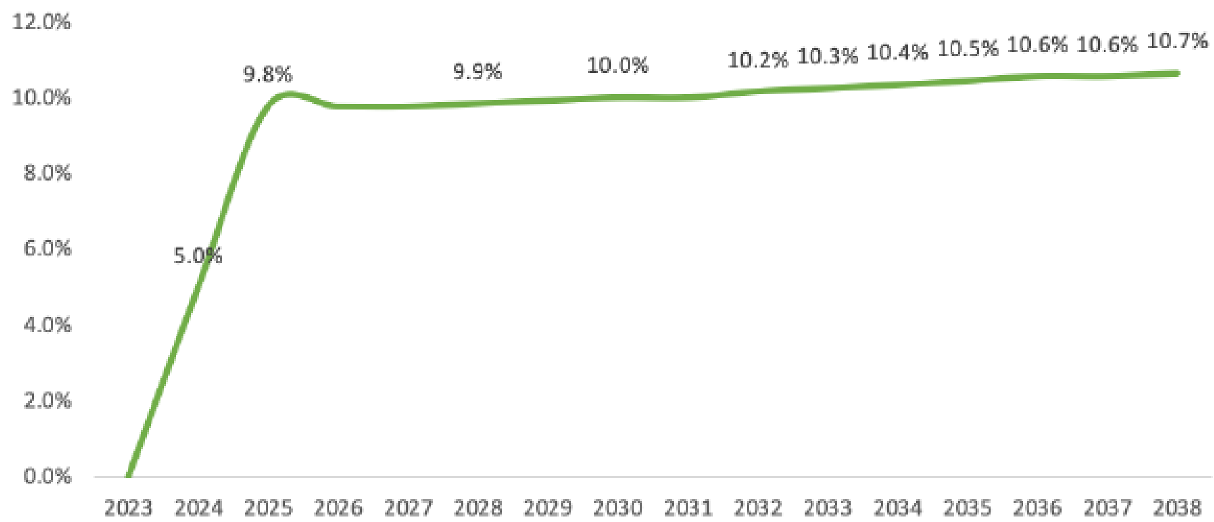
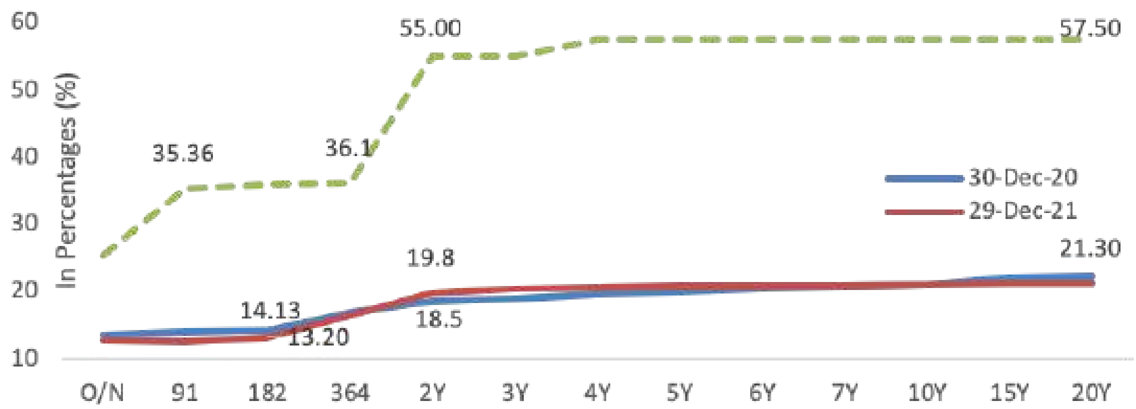


FIGURE 7: **Government Treasury Curve**



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

SECTION 3: **MONETARY POLICY, CURRENCY AND PRICE OUTLOOK**

MONETARY POLICY

One of the greatest risks to the Ghanaian economy is the central bank losing its credibility in its ability to maintain price stability. Inflation is currently at its highest point, whilst price risk remains highly elevated especially as fiscal authorities look to address fiscal positon through aggressive taxation. The driving force of inflation have been both local and imported and with supply side factors continuing to influence price pressures, the central bank's toolbox may have limited success in managing inflation. Giving current economic headwinds, survey participants opine that the central bank will exceed its inflation target of 24.3 percent for the year. However, they remain cautiously optimistic that inflation may peak within the first few months, ushering in a disinflationary cycle which will provide the impetus for short term rates to decline.

Key themes participants expect will influence the monetary policy rate during the year include:

i. *Rising inflation expectation;*

ii. *Local currency performance;*

iii. *Economic growth;*

iv. *Uncertain commodity, food and crude oil prices;*

v. *Higher taxes will keep inflation elevated;*

vi. *Weak consumer demand will help control demand push factor;*

vii. *An IMF program and its consequential impact on fiscal discipline will stabilize price expectations.*

FIGURE 8: **Inflation, prime rate and 91 Days T-bills rate, 2000-2022**

Source: Axis Pension Trust, with data from BOG and the Ghana Statistical Services
Notes: The chart shows the spread between central banks' prime rate, inflation and Treasury's 91-days bill.

CURRENCY OUTLOOK

On an annualized basis, the Ghana Cedi has lost close to 15 percent of its value versus the USD over the last 10 years. In 2022, the Ghana cedi came under immense pressure depreciating by over 30% and was at some point during the year had the unenviable position as the worst currency performer globally. The performance of the cedi was largely attributed to growing uncertainties in the economy, credit downgrades, deteriorating international reserve position due to the combined effect of portfolio outflows and lack of international capital market access.

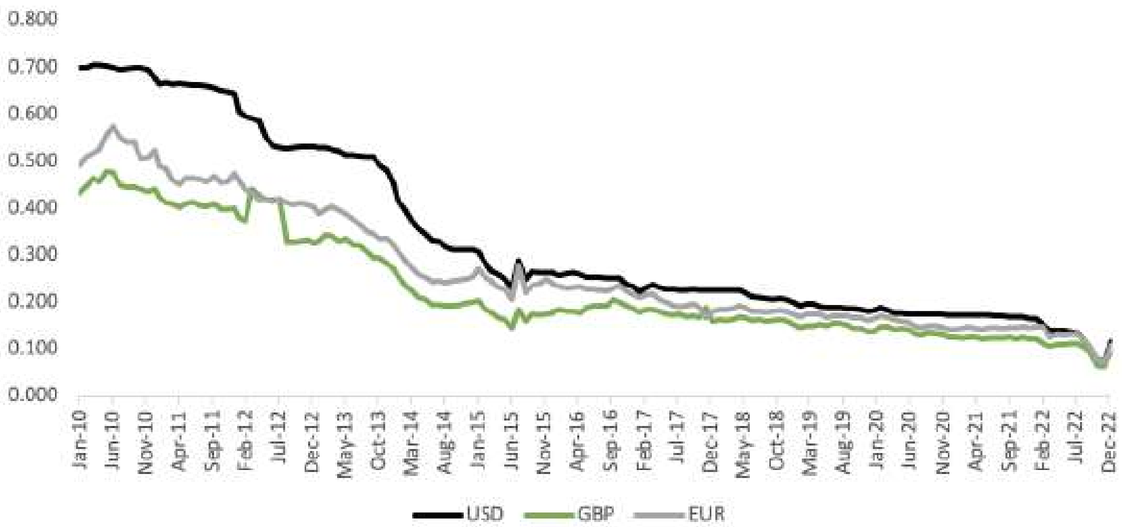
Pressures from corporate demand and energy related FX demand will continue to weigh negatively on the currency. Ghana's diverse export base made up of gold, oil and cocoa however will help its trade account position, which remains very vulnerable to external shocks.

In the previous year's report, we suggested that 2022 will be a true test of the impossible trinity – which posits that a country can only choose two of three decisions simultaneously when making fundamental policy regarding international economics - which include: a fixed exchange rate, free capital flow (absence of capital controls) and independent monetary policy. The inability to maintain a fixed exchange rate whilst allowing for free capital and independent monetary policy meant that the currency was bound to take a hit with portfolio reversals exposing structural fragilities in economy.

KEY POINTS

i. Again, survey participants expect the currency to come under immense pressure subject to IMF board approval

FIGURE 9: **Cedi performance against the USD, GBP and EUR, 2010-2022.**



Source: Axis Pension Trust, with data from BOG

Notes: The GHS continued its losing streak against major currencies in 2022.

SECTION 4: **GLOBAL ECONOMIC OUTLOOK**

On the balance of economic events, the global outlook for 2023 at the beginning of the year is more favorable than a year ago when the global inflation outlook and the extent to which Russia's invasion of Ukraine will disrupt the energy and food market were "known -unknowns." Additionally, China's zero tolerance policy on Covid-19 meant the world economy was missing a significant fuel for economic growth. Twelve months later and after the worst bond and equity market selloff, inflation across developed markets appears to have peaked and are either increasing at a more moderate pace or entering into a disinflationary cycle. The west seems to be on course to building reasonable alternatives for its gas and fuel needs away from the troubled east and that should go a long way to reducing energy related headwinds.

With the US FED and global central banks cumulatively increasing rates by 425 basis points and 2,700 basis points respectively, a dramatic secular shift in global markets may be unfolding and the pool of negative yielding debt which stood at over USD 11 trillion at year end 2021 is currently at zero (0) dollars. Consequently, global investors can now have access to yield in their portfolios without taking excessive duration or going down credit quality. With the FED not wanting to lose credibility in its inflation fight, elevated rates and quantitative tightening may persist for an extended period of time until victory can totally be declared in the fight against inflation. This phenomenon of elevated rates and tighter financing conditions at a time were corporate margins are under pressure due to heightened price risk will have a negative impact on capex, unemployment and growth.

Growth Drivers

Growth themes for the coming year include improving inflation expectations on account of easing supply chain bottlenecks, normalization of pent up demand post pandemic, cooling of energy related headwinds in Europe which spiked as result of Russia's invasion of Ukraine.

The market consensus is for some level of recession this year as corporates scale down business activity due to the effect of higher prices on their margins. However, recent unemployment data points to a robust economy and a stronger consumer, which is helping reduce the probability of a deep economic contraction this year. In addition, economic recovery in Asia spurred by tailwinds in China's reversal of its zero covid tolerance should add to the reduced odds of a global synchronize slowdown in economic growth.

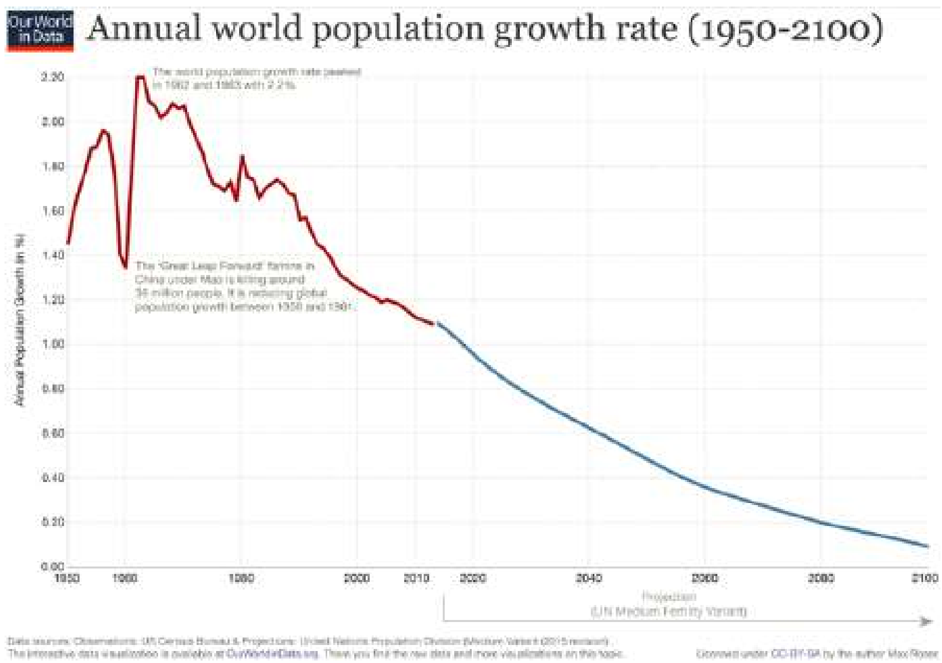
Finally, we continue to remain encouraged by the pandemic induced acceleration of the fourth industrial revolution, which contributed to the adoption of some megatrends including digital transformation, healthcare innovation and sustainability. We believe these trends will make the global economy more digital and will enhance global productivity whilst providing the impetus for future disinflationary cycles.

Potential Warning Signs

In the coming year, risk to the global outlook still remain despite a strong foundation for economic optimism. Key concerns include softening economic growth combined with elevated price levels ushering in a cycle of stagflation. What is keeping central banks on edge is the fact that the combined economic ills of rising unemployment, elevated prices along with a slowing economy hasn't been featured since the 1970 and 80's. We are therefore of the opinion that global central banks will do everything in their power to avoid history from repeating itself.

Synchronized monetary and quantitative tightening to contain inflation is pushing global markets into less favorable financing conditions with negative impact on asset prices, consumer demand and corporate expansion plans. The resulting spillovers are exacerbating headwinds faced by emerging markets and policymakers will need to prioritize reforms that support long-term growth prospects and bolster the resilience of vulnerable groups as tighter financial conditions lead to significant financing difficulties across most frontier and emerging markets.

One structural shift we see that could pose grave risk to world economies and the future of civilization is the collapse in population as fertility rates decline. China's population for example is reported to be on track to decline for the first time since the 1950s. The scenario where the older population overtake the working age population will lead to much slower economic growth and lower incomes as the population shifts resources to care for the elderly. Countries in Asia and Eastern Europe experiencing steepest population decline will have to rethink immigration policies by allowing foreigners to settle in areas with dearth of workers. The demographic shift will also have huge implications on the sustainability of pensions as the rate of payout exceed inflows.



Furthermore, the US debt ceiling clock has started ticking and it could bring with it serious bouts of volatility as the US government could enter into default, sparking losses across asset classes. With the polarizing nature of US politics, negotiations surrounding extending the debt limit could prove the most disruptive since 2011, when credit rating agencies downgraded the US treasury. We opine that the recent prolonged battle to elect the Speaker of the US House of Representatives may make negotiations to raise the debt ceiling particularly arduous. If a political battle causes the US government to slip past "the red line", the Treasury could prioritize interest payments over other obligations and the lack of spend and uncertainty could have a snowballing negative effect on global growth.

Africa Growth Outlook

The secular shift in global interest rates could have dire consequences for countries in sub-Saharan Africa, especially those countries' that relied on loose money from the west to fuel their growth. The heavy burden of debt servicing will limit access to capital for capex and social spend and will heighten risk of further currency depreciation and runaway inflation. In the coming year, major concerns include the heavy burden of debt servicing, political instability and the lingering threat of food insecurity caused by conflict and climate change.

The continents economic recovery post pandemic has been disrupted by a wide range of internal and external shocks including runaway inflation, higher financing cost, a stronger USD, softer global economic growth and adverse weather conditions. Tighter global financial markets, softer global economic growth and domestic price pressures will put African countries under pressure in 2023. Debt servicing will take a chunk of domestic revenue, leaving little space for capex and social spend and that could lead to social unrest. The continents need to secure and rollover large amounts of debt at a time when domestic and international financing cost are on the rise will weigh heavily on some countries. Pressure on exchange rates will keep debt vulnerabilities and domestic inflation elevated, threatening food and energy security in most countries.

Despite the balance of risk over the near term suggesting more downside risk, longer term growth trends remain in Africa's favor. SSA is home to more than 1 billion people, half of whom will be under 25 years old by 2050. With the world's largest free trade area and a 1.2 billion-person market, the continent has the potential to create an entirely new development path, harnessing the potential of its resources and people. Despite the pandemic induced headwinds, some African countries have seized the opportunity to foster structural and macroeconomic reforms that could pave the way for inclusive growth over the long-term. Such reforms include a boost in domestic manufacturing, reforms in the digital infrastructure, digital economy and finally, reforms towards a more inclusive economy growth model.

In summary, financing gaps are likely to widen in the near term and without meaningful financial assistance, many will struggle to maintain macroeconomic stability. SSA is forecast to average 4.5 percent in 2023 and 2024, higher than the projected world averages of 2.7 percent and 3.2 percent respectively. This outlook reflects the continued effects of the pandemic, reduced policy support, policy uncertainty and worsening security situation in some countries. Bold policies are needed to address the effects of rising inflation and subdued growth.

Headwinds

i. Quantitative tightening and rising global and domestic interest rates could exacerbate rollover risk and the cost of debt servicing, pushing countries into high risk of debt distress;
ii. A stronger USD will continue to put regional currencies under pressure;
iii. The boom and bust commodity cycles will lead to heightened volatility in reserves;
iv. Rise in regional instability and conflicts; and
v. Debt servicing will take chunk of revenue.

Tailwinds

i. Slowdown in regional inflation;
ii. A broader economic recovery in China; and
iii. Asset valuations are attractive.

SECTION 5: **INVESTMENT ACTIONABLE IDEA 2023**

2022 was an "annus horriblis" for financial markets with the local currency down over 30 percent, domestic government of Ghana debt securities down -20.4% on a total return basis and the Ghana stock exchange composite index down -12.38%. Naturally, with assets trading at depressed levels following the steep decline, investors should be feeling optimistic in picking up good assets at bargain prices, however with the government of Ghana and its agencies deciding to default on its obligations, the mood is rather of uncertainty and fear.

The debt exchange program coupled with the default on select securities is reducing the investable universe of local assets and we opine that the investing community is entering into a paradigm of alternative assets and off-shore investments each with its own unique risk return attributes. The year 2022 really reinforced the importance of diversification and risk management. In the coming year, there are going to be pockets of clear economic winners and losers and managers should not be fearful of looking for opportunities outside their local borders. Despite the view of money managers polled by Axis, we maintain that your own asset allocation and portfolio positioning should reflect your investment mandate- including your goals, market expectation and risk tolerance.

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

i. Government Bonds – As reported by the S&P and on a total return basis, in the last 12 months, the S&P Ghana Sovereign Bond index (-54.73%) in USD woefully underperformed the S&P International Corporate Bond Index (-15.70%) and S&P US Government Bond Index (-7.64%). It is against this backdrop that investors are looking to diversify away from GHS denominated securities.
ii. About 58.3% of surveyed participants are of the view that treasury bonds will underperform treasury bills. Supporting this view is the fact that current bonds are stale and the expectation is for yields to be capped at 10% following the DDE

FIGURE 10: **S&P Ghana Sovereign Bond Index USD, S&P International Corporate Bond Index S&P U.S. Government Bond Index, 1-year return**

Source: S&P Dow Jones Indices LLC.

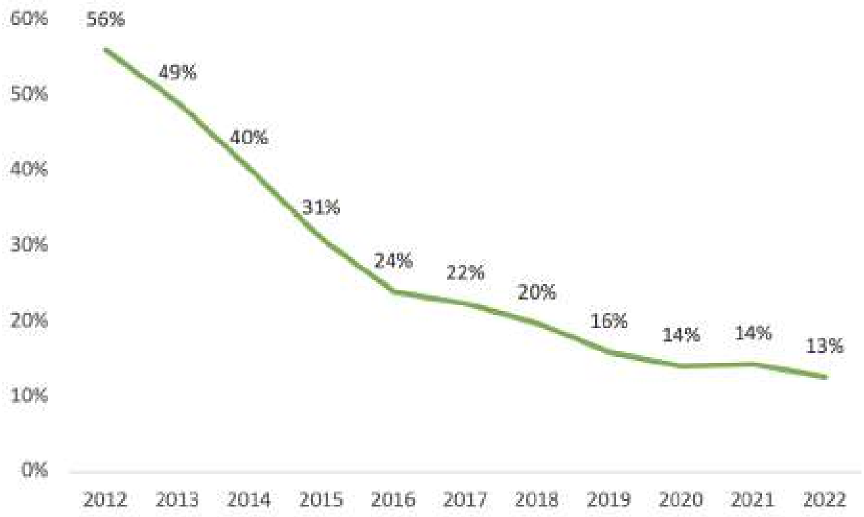
Equity – The equity market returned -12.38 per cent in 2022 on account of economic headwinds the country faced in the period under review. Market participants are not confident of a recovery in the equity market especially with the banking sector bearing the brunt of governments debt re-profiling.

That said, select listed companies will be in a position to offer dividend yields significantly above government bonds in the coming year and investors who are bold enough would be adequately rewarded.

FIGURE 11: **GSE market valuation based on PE ratio**

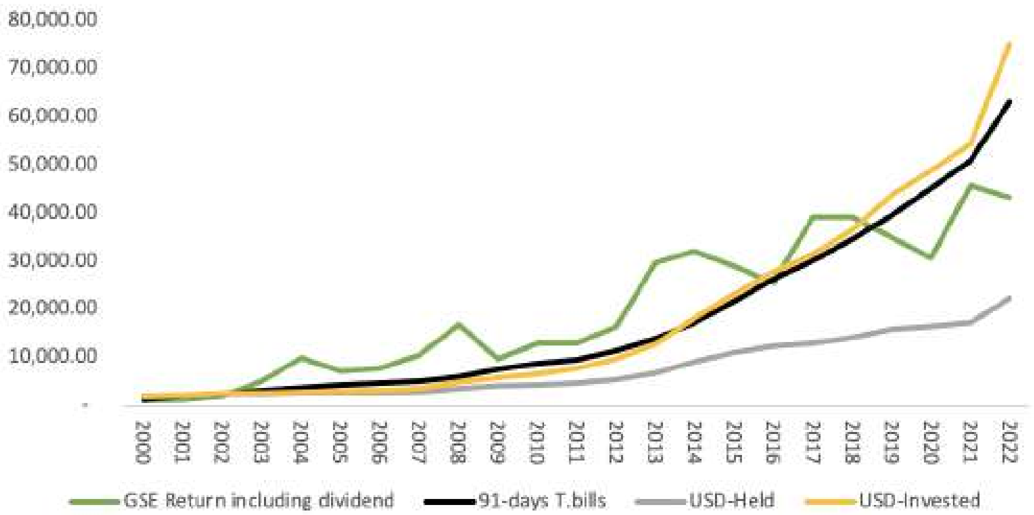
Source: Axis Pension Trust, with data from the Ghana Stock Exchange
Notes: Price to earnings multiples indicate equities trading at 10 year low reflective of current market sentiments

FIGURE 12: **Market Cap/GDP, 2012 - 2022**



FX – We believe the USD will continue its winning streak against the GHS mainly due to the structural nature of the Ghanaian economy which is import dependent. The US FED monetary policy hawkish tilt and elevated US yields poses down-side risk to the GHS. We therefore highly recommend some exposure to FX to preserve portfolio value.

Eurobond – We strongly recommend including a portfolio of high credit-rated sovereign Eurobonds to a Cedi portfolio. This play should serve as an insurance to any FX volatility on the horizon due to exposure to hard currency. Eurobond exposure will provide a hedge against currency losses and a reasonable coupon compensation even for a buy and hold strategy. With potential spread widening, this class of fixed income security is looking attractive on a total return basis.



Source: Axis Pension Trust, with data from the Ghana Stock Exchange
Notes: Holding cash – even USD denominated – is not a winning strategy

Multi-Asset – We recommend a combination of risky assets, interest rate sensitive assets and corporate credit given current attractive yields. Cash is likely to play a prominent role in this economic cycle particularly due to the DDE. Exposure to FX as an asset class has become a strategic imperative given the perennial depreciation of the local currency. We therefore encourage offshore exposure as an overall FX strategy and a total return booster. Pension funds should consider vehicles to gain exposure to commodities as a hedge to potential disruptions in financial markets due to yields increasing in the United States.

We summarize our multi-asset view in the table below.

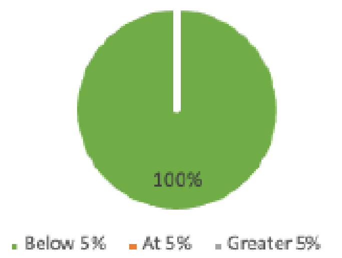
Tactical views on selected assets

▲ Overweight — Neutral ▼ Underweight

Asset class		**View**	**Reasons for Recommendation**
Equities	GSE-CI	—	- Maintain equity exposure at SAA - Take advantage of high dividend paying stocks to compensate for collapse in bond yields
Fixed Income	Government local currency bond	▼	- Defensive posture amidst DDE and IMF talks
	Treasury bills	▲	- Build exposure to T-Bills giving their current exempt status from DDE
	Eurobond	▲	- This represents a very important asset that can provide reasonable USD income for a held to maturity investor, potential FX risk hedge and price appreciation - Look to build a diversified position of high quality sovereign credit
	Corporate bond	—	- Structurally, there is inadequate supply of corporate credit on the market. We have had the same issuers mostly in the financial sector rolling over maturities and raising additional to finance working capital. - Take advantage of strong corporate credit, giving the absence of a treasury curve
	Bank Fixed deposit	▼	- Structural risks in the banking sector giving their exposure to government securities and the imminent DDE program - Be mindful of institutions with high GoG exposures
	Local government securities	▼	- Defensive posture amidst DDE and IMF talks
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. With elevated headwinds, we highly recommend some exposure as insurance against any volatility.

Appendix :(Sample responses)

1

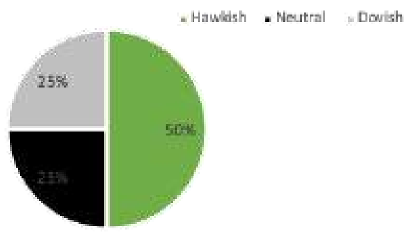


Real GDP growth target for the year?

2

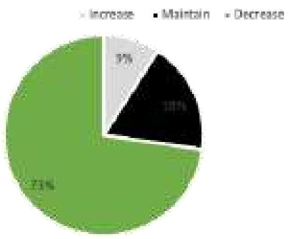
Do you expect more corporate defaults and a rise in NPLs over the next year?

3



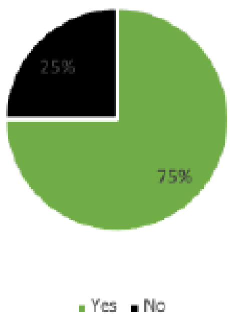
Bank of Ghana's policy stance in 2022?

4



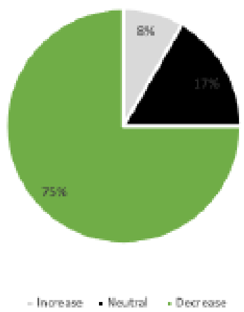
Your exposure to GoG securities in the coming year?

5



Will government be successful in its DDE program?

6



What direction will short term interest rates take?

About Axis Pension Trust

Axis Pension Trust Ltd (APTL) offers boutique pensions management and administration services for large corporates, 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 60% market share. Both our multi-employer schemes and personal pension schemes offer default multi-share class, life cycle program 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.

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