

### In Memoriam, [Ring out, wild bells]

The End of the Year is upon us, and it is that time to Ring out, wild bells

The year is dying in the night;  
Ring out, wild bells, and let him die.  
Ring out the old, ring in the new,  
Ring, happy bells, across the snow:  
The year is going, let him go;

In Memoriam, [Ring out, wild bells] Alfred Lord Tennyson -

Against a global backdrop which was hardly conducive, what with the crossfire of a Trade War [now ebbing well for a few months because Trump has an election to win and Xi has an economy to rescue] and a Global Revolution which Bloomberg Opinion's Pankaj Mishra headlined thus; "A Global Anarchy Revival Could Outdo the 1960s" and added "That acknowledgement of the state's authority as ultimate arbiter is now rapidly disappearing, in not only Hong Kong, but also India and many other countries. It is being replaced by the conviction that the state has lost its legitimacy through cruel and malign actions" As Pierre-Joseph Proudhon, the pioneering thinker of anarchism put it,

"To be GOVERNED is to be kept in sight, inspected, spied upon, directed, law-driven, numbered, enrolled, indoctrinated, preached at, controlled, estimated, valued, censured, commanded, by creatures who have neither the right, nor the wisdom, nor the virtue to do so."

In such a complex, nonlinear and interdependent World where feedback loops can start spinning at dizzying speed, it is in fact easier to look backwards and into the proverbial rear-view mirror.

Internationally, Dirk Thiels of KBC Asset Management pronounced "We call it a grand cru, which in wine terms means a very good vintage,"

The scorecard tells the story: America's equity benchmark has climbed 28%. A global stocks gauge is up 23%. A worldwide credit index rose 10%. Emerging-market sovereign dollar bonds added 12%. Even Treasuries and gold, those classic safe havens, advanced about 7% and 15%, respectively. Staying on the side-lines was about the only way to lose.

Turning our gaze closer to home. We must start first with a Currency overlay because as I am sure you are aware Venezuela and the likes of Zimbabwe often times top the League in percentage terms but when You convert its worth its "tuppence" in hard currency. Whilst Kenya's Shilling which is +1.00% in 2019 did not match the Egypt Pound's +12.00% gain, The Shilling's performance is more than respectable especially when you consider it against the SSA scorecard. I don't need to repeat that the Zambia Kwacha is the 3rd worst performing currency in the World, The Ghana Cedi has fallen 25 Years in a row and so forth. The Central Bank of Kenya have to be commended for their FX Operations. Of course, The IMF have previously cited the Shilling as overvalued and if we do go to that Institution for support [which is as sure a Thing as the Aga Khan's Shergar was] we will need to be alert to any Shilling Quid pro Quo scenario. So, The Shilling has been a Performer and has surfed on a rising tide of Remittances \$2.4b on a 12-month running basis at the last count. The Governor Dr. Patrick Njoroge also bounced the Government into touch You will recall

"CBK has warned the National Treasury CBK is of the opinion that aiding by printing funds to pay debt will be a zero-sum game" [NTV] - I don't need to tell you that such an outcome would kneecap the Shilling.

Our Eurobonds have performed well, in large part because of a benign international backdrop of extreme low interest rates globally which lifted EM and Frontier bond prices as an Asset Class unless You are Zambia where Eurobonds are yielding 20% because No One believes they will pay you back. The GOK Eurobonds with are all denominated in US\$ are as follows; 10 Year Issue [now 9] is at 6.1%, the 30 Year [now 29 Year] is at 7.8% and the 12 Year Issue is at 7.1%. GOK Shilling denominated bonds were very well supported during the Interest Rate Cap regime by the Banks. However, Moodys Investor Services [The Ratings Agency] recently pronounced the following

Kenyan lenders are the second most exposed to the government with almost 300 per cent of their equity lent out to the State. However, Egyptian banks are even more exposed on lending Cairo 603 per cent of their equity.

What this tells me is that an important Source of Buy Side Demand for GOK Shilling Paper is now "limit Long" If You are sitting on the Credit Committee of a Kenyan Bank and exercising some degree of oversight, I would argue that then you would be demanding a Hard Cap. Therefore, given the fact that GOK issuance is not going to slow down but will probably accelerate, I would be keeping a close eye on the Curve. Staying ahead of the Curve was a remarkable book by the renowned Investor George Soros. It's worth reading.

The Nairobi All Share Index served up a +15.80% return in 2019 and that's quite a decent outcome when you consider the volume of Profits Warnings but essentially the All Share performance speaks to the increasing bifurcation between the Big Cap Stocks [outperforming] and the "zombie" or "Penny" stocks [underperforming woefully] Dr. Mwangi's Equity Bank led the charge with a +53.52% gain in 2019 and has further to go. Dr. Mwangi has spread his Wings, diversified the Banks risk across SSA and his Model is working a treat. I reckon there is a lot further to go. KCB Group has rallied +41.52%, NCBA Bank +23.02%, Barclays +19.18%. The Banks were repriced higher on the removal of the Interest Rate Cap Regime. Safaricom rallied +39.19% and this rally was

driven by another sterling performance of M-PESA, whose value remains in my opinion undervalued by more than 50% on the balance sheet. International Investors [I am reliably informed] were not excited by the proposed Ethiopia JV and clearly the Company has to do some work around persuading Investors that they have the bandwidth and an attractively structured vehicle for that. The bottom line is if Safaricom well so does the Nairobi Securities Exchange at a headline level.

I wish you all a very Merry Christmas.