

Quarter 1 | 2024

Business E-Brief

Your quarterly Fund Performance update



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Global markets delivered strong returns in QI 2024, driven by a continuation of the bull market in Global Equities. Global Equities led the charge, with several markets reaching record levels. The main drivers of performance for Global Equities were the robust US economic fundamentals, strong corporate earnings, improved investor and business confidence, sustained Artificial Intelligence (AI) optimism, and expectations for further rate cuts, albeit at a slower pace. The world’s largest equity market, the United States, had a positive performance due to favourable economic data, including moderating inflation, a strong labour market, and sturdy GDP growth. Artificial Intelligence continued to be dominant in equity markets, with surging demand for AI infrastructure propelling tech stocks higher. Nvidia, one of the leading architects of AI infrastructure, reported record performance in QI.

The firm generated a record USD 26 billion in QI 2024, an 18 percent quarter-on-quarter increase and an overall 262 percent year-on-year rise. Soaring demand for their microchip platform across data centres, cloud providers, and enterprises propelled the firm’s performance. The Standard & Poor’s 500 index generated 10.6 percent in the quarter; its best quarter since 2019. The “Magnificent 7” were some of the top contributors to the S&P 500, led by Nvidia (24.3%), Amazon (8.3%), Meta (7.3%), and Microsoft (6.2%), while Apple and Tesla were detractors, declining by 11 and 29 percent, respectively. Markets remain concerned with Apple’s future growth strategy, while Tesla grapples with weakening electronic vehicle demand, rising Chinese competition, and reputational risks from the Chief Executive Officer, Elon Musk.

The United States Central Bank, the Federal Reserve, is currently maintaining a pause on interest rate adjustments, prioritising the achievement of its 2 percent inflation target. The Federal Reserve is

likely to maintain this hawkish monetary policy stance until inflation data shows a sustained convergence towards the target. The market is currently expecting two or three interest cuts after initially anticipating six or seven cuts. Equities had a positive performance in contrast to Bonds which remained flat. Global Fixed income markets experienced significant repricing in QI due to a shift in central bank monetary policy expectations. The initial anticipation of accelerated interest rate cuts gave way to a prevailing view of sustained higher interest rates for an extended period. Emerging Market (EM) Equities delivered positive returns in QI 2024; however, their performance lagged behind their Developed Market (DM) counterparts.

Debswana Pension Fund’s Net Total Assets increased by 6.19 percent from BWP 10,927 to BWP 11,457 billion. Positive performance for the quarter was driven by offshore assets namely, Global Equities, Emerging Market Bonds, EM Equities, African Equities, and Global Cash. Global Equities were the main driver of growth in the quarter, particularly in the United States. US markets were bullish in the quarter, underpinned by strong growth, healthy consumer spending, and high employment levels. Real Gross Domestic Product (GDP) increased at an annual rate of 1.6 percent in the first quarter of 2024. Inflation in the United States increased to 3.50 percent in March from 3.20 percent in February of 2024, moving away from the Fed’s 2 percent target and prompting the Fed to keep interest rates higher for longer. Emerging Markets Equities exhibited positive returns in QI 2024.

The leading performers from the previous year, Taiwan and India, continued their upward trajectory. Taiwan’s outperformance can be attributed to its strategic positioning within the burgeoning AI sector, while India benefited from the tailwinds of a strong domestic economy and proactive government initiatives. Emerging Market (EM) debt performance

in QI 2024 continued to be influenced by the dynamics of the US economy and Federal Reserve policy.

A resilient US economy and a shift in market expectations, regarding the timing of the Fed’s first rate cut, impacted returns. Local Currency Debt in EM experienced negative total returns, primarily due to the appreciation of the US dollar. Meanwhile, Hard Currency Debt experienced positive returns, driven by significant spread tightening. African Equity performance in QI 2024 was multifaceted, driven by a mix of regional trends, economic factors, and investor sentiment.

Global Cash continued its strong performance in the quarter as the United States Dollar continued to rise, defying initial expectations amidst a backdrop of ongoing macroeconomic uncertainty. The greenback’s resilience can be attributed to sticky inflation driving Fed tightening expectations, robust US economic data fostering investor confidence, and attractive bond yields which made dollar-denominated assets attractive. The U.S. Dollar Index (DXY) is up 3.1 percent since the beginning of the year. Global Bonds experienced flat performance in the quarter; the Bloomberg Global Bond Aggregate Index generated 0.08 percent, propelled by shifting interest rate expectations. QI 2024 saw a brief uptick in Chinese equities, but the gains were ultimately erased due to persistent low foreign investor confidence stemming from economic growth concerns in China. The Domestic Market witnessed positive performance from Botswana Bonds and Botswana Equities. The Domestic Bond Market similarly generated positive results spurred by corporate credits. Local Equities performance in the quarter was driven by financials, property, and tourism sectors.

The top performing asset class for the Fund was Global Equities, which increased 11.22 percent (in BWP). The next top performing asset class for Quarter

I was EM Equities which rose 6.71 percent followed by Botswana Bonds, which advanced 5.86 percent. EM Bonds, Global Property, African Equities, Global Cash, Global Bonds, Botswana Equities, and Botswana Cash additionally provide positive performance in the quarter advancing by 4.92 percent, 0.58 percent, 2.52 percent, 2.19 percent, 0.90 percent, 2.10 percent, and 0.75 respectively.

African Private Equity was seemingly flat for the quarter generating 0.20 percent.

Botswana Property was in negative territory for the quarter declining by 0.21. China was once again the worst performing Asset Class for the quarter declining by 3.23 percent.

The Fund's Market Channel increased 6.23 percent during the quarter; the Conservative Channel rising 6.08 percent and the Pensioner Channel improving 6.16 percent.

On a twelve-month basis, the Fund

generated positive returns net of investment fees. During the 12-month period, the Market Channel delivered 18.55 percent, while the Conservative Channel rose 17.55 percent and the Pensioner Channel generated 16.89 percent. During the period under review, returns remained consistent with Debswana Pension Fund's Life Stage Models investment strategy; whereby the most aggressive Market Channel outperformed the most while the least aggressive Pensioner Channel registered relatively lower returns.

Portfolio performance as at 31st March 2024

Life Stage Channel Returns

Fund	3 Months to Mar 24	6 Months to Mar 24	12 Months to Mar 24	36 Months to Mar 24	60 Months to Mar 24	Since Inception (Aug 04)
Market	6.23	12.10	18.55	10.04	10.55	12.45
Conservative	6.08	11.41	17.55	9.39	9.62	10.68
Pensioner	6.16	11.33	16.89	8.77	9.32	11.46
Contingency	6.15	11.40	17.11	8.88	9.29	13.02

Asset Class Returns

Asset Class	Q4 2023	Q1 2024
	%Returns (Net)	%Returns (Net)
Botswana Bonds	4.01%	5.86%
Botswana Cash	0.04%	0.75%
Botswana Equities	4.48%	2.10%
Botswana Property	-0.36%	-0.21%
African Equities	-3.09%	2.52%
African Private Equity	-2.87%	0.20%
Global Bonds	6.51%	0.90%
Global Cash	-1.74%	2.19%
Global Property	15.70%	0.58%
Global Equities	8.32%	11.22%
Emerging Market Bonds	6.37%	4.92%
Emerging Market Equities	5.24%	6.71%
China Funds	-4.66%	-3.23%

Benchmark Asset Class Returns as at 31st March 2024

Asset Class	Benchmark	1M (%)	QTR (%)	YTD (%)	1Y (%)	2Y (%)	3Y (%)	5Y (%)
Local Equities	Botswana Domestic Companies Index	1.83 ▲	2.85 ▲	2.85 ▲	24.15 ▲	21.07 ▲	21.12 ▲	10.32 ▲
Bonds	Fleming Aggregate Bond Index	0.43 ▲	3.28 ▲	3.28 ▲	10.17 ▲	8.12 ▲	5.97 ▲	4.71 ▲
Global Equities	MSCI World (BWP)	2.62 ▲	11.46 ▲	11.46 ▲	31.67 ▲	17.97 ▲	16.79 ▲	17.66 ▲
Emerging Markets	MSCI EM (BWP)	1.64 ▲	4.54 ▲	4.54 ▲	13.55 ▲	7.36 ▲	2.02 ▲	7.26 ▲
Global Property	FTSE EPRA/NAREIT Developed Rental Index - (BWP)	2.34 ▲	0.30 ▲	0.30 ▲	13.29 ▲	0.42 ▲	7.25 ▲	5.95 ▲
Global Bonds	Bloomberg Barclays GABI - (BWP)	0.01 ▲	0.28 ▲	0.28 ▲	5.81 ▲	5.15 ▲	2.47 ▲	3.77 ▲
African Equities	FTSE/JSE African 30 (BWP)	-8.10 ▼	-1.30 ▼	-1.30 ▼	-18.10 ▼	-8.39 ▼	-3.39 ▼	-0.59 ▼
Exchange Rate	USD/BWP	-0.55 ▼	2.40 ▲	2.40 ▲	5.28 ▲	9.39 ▲	7.55 ▲	4.99 ▲



Inflation

The annual inflation rate increases from 2.9 percent in March to 3.1 percent in April 2024.

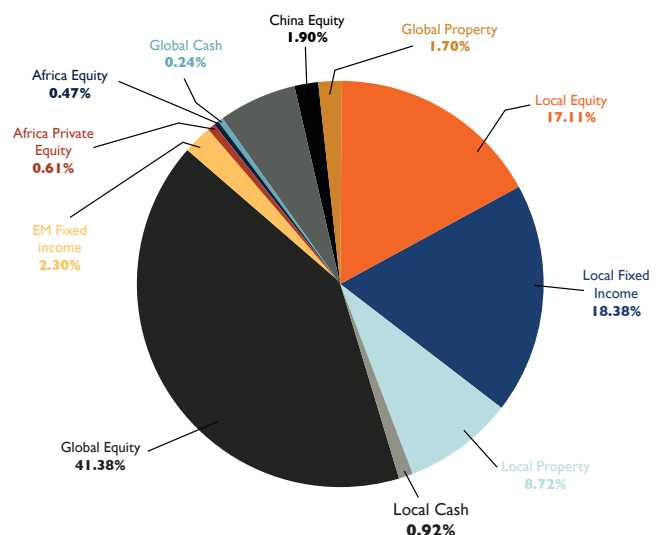
Interest Rates



At the meeting held on 26 April 2024, the Monetary Policy Committee (MPC) of the Bank of Botswana maintained the Monetary Policy Rate (MoPR) at 2.4 percent.

Bank of Botswana predicts a brief period of lower-than-target inflation, followed by a rise back within their target range from Q3 2024 onwards. They project inflation to average 3.2 percent in 2024 and 5 percent in 2025.

Asset Class Weights 31st March 2024



NB: Market performance results sourced from RISCURA

Global Market Update

Quarter ended 31st March 2024



Positive market sentiment and strong fundamentals continued in the New Year, providing a tailwind for performance in Q1 2024. Robust corporate earnings, coupled with strengthening economic indicators and overall subsiding inflationary pressures, fueled a significant rally in global equities, with developed markets leading the charge. Notably, AI-linked stocks continued to be a key driver of growth, particularly within the US market. The Federal Open Market Committee (FOMC) maintained its key policy rate, the target federal funds rate, in the 5.25 percent–5.5 percent range at its latest meeting. The Federal Reserve Chair, Jerome Powell, emphasised a cautious approach to future rate cuts. The performance of the United States was driven by the communication, energy, and information technology sectors, while the detractors to performance were the real estate and utilities sectors.

The high interest rate environment in Q1 2024 exerted significant pressure on US Real Estate and Utility equities. REIT valuations likely came under downward pressure due to increased borrowing costs, while Utilities faced a potential headwind from both higher financing expenses and potential regulatory hurdles in passing on rising costs to consumers. Q1 2024 witnessed a marked evolution in the inflation and interest rate outlook. Corporate credit continued its positive momentum in the quarter, bolstered by a sustained tightening in corporate bond spreads. High-yield bonds emerged as the strongest performers within the asset class, capitalising on improved risk sentiment driven by robust economic data and sustained investor demand. As the quarter unfolded, government bond yields underwent a recalibration in response to evolving market sentiment and key economic data points.

This translated into a broad-based increase in 10-year government bond yields. The yield on the US 10-year Treasury note experienced a material widening of 34 basis points to 4.21 percent in Q1 2024. Capital markets in the Eurozone similarly experienced positive performance in the quarter. The information technology sector spearheaded the rally, fueled by continued positive sentiment surrounding demand for AI-related technologies. Financials, consumer discretionary, and industrials also outperformed significantly. This performance aligns with the improved economic outlook. Conversely, utilities, consumer staples, and real estate sectors underperformed. The Eurozone economy surpassed growth expectations in Q1 2024, bolstered by Germany's return to positive growth and robust expansion in Spain. Eurozone GDP surpassed market expectations, registering a seasonally adjusted quarterly growth rate of 0.3 percent, translating to a 0.5 percent year-on-year increase. This outpaced market forecasts of 0.2 percent growth for both metrics.

UK equities experienced a positive performance in Q1 2024, driven by outperformance in financials, industrials, and the energy sector. This rally coincided with a shift in market expectations towards an earlier-than-anticipated initial rate cut by the Bank of England (BoE) due to lower-than-forecast inflation. Japanese capital markets generated significant positive performance in Q1. The TOPIX Total Return index increased by 18.1 percent in Japanese yen, driven in large part by foreign investors. Positive sentiment stemmed from growing optimism surrounding Japan's favourable economic cycle, characterised by moderate inflation and rising wages. Market performance has been primarily driven by large-cap value

equities, particularly within the automotive and financial sectors. The Bank of Japan (BoJ) marked a significant shift in monetary policy by raising its benchmark interest rate from -0.1 percent to 0.1 percent in March 2024. This move, the first-rate hike in 17 years, signalled an end to the era of negative interest rates in Japan. The 10-year Japanese government bond yield increased slightly from 0.65 percent to 0.675 percent.

Asia, excluding Japan, delivered moderate gains in the quarter. Share prices rebounded from recent declines, fueled by cautious investor optimism regarding a potential dissipation of negative sentiment surrounding China. China once again struggled in the quarter, marking more than three and a half years of underperformance in global markets. Despite the negative performance, there are signs that the economic outlook may be improving. China's GDP registered a 5.3 percent year-on-year increase in Q1 2024. China's economic outlook is bolstered by ongoing expansionary policies and the government's unwavering commitment to stimulating growth. The aforementioned suggests a potential for positive performance in the coming quarters. China's performance acted as a headwind for EM, despite the implementation of targeted stimulus measures. While a delay in the anticipated Federal Reserve (Fed) rate cuts supported overall EM returns, it negatively impacted interest-rate-sensitive markets like Brazil. Overall positive market sentiment and performance in the quarter resulted in Debswana Pension Fund's Net Total Assets increasing by 6.19 percent from BWP 10,927 billion to BWP 11,457 billion, marking another new record high for DPF.

The Fund remains cautiously optimistic heading into the second half of the year. Financial markets face numerous challenges, including resurgent inflation, the risk of a global economic slowdown, volatile energy prices, and geopolitical tensions. The Fund will continue to implement its prudent investment strategy to navigate the different risks while taking advantage of emerging opportunities.

Botswana Market Review

Quarter ended 31st March 2024



According to Statistics Botswana, the real Gross Domestic Product increased by 1.9 percent compared to the 5.5 percent growth registered in the same quarter of the previous year.

The growth was attributed to real value added for Mining & Quarrying, Real Estate and Public Administration & Defence industries which rose by 6.4, 6.3 and 5.9 percent, respectively. Diamond Traders and Water & Electricity which declined by 85.4 and 27.9 percent, respectively

On a quarter to quarter comparison the GDP decreased by 0.9 percent during the period under review.

During the quarter under review, Public Administration & Defence became the major contributors to GDP by 17.9 percent, followed by Wholesale and retail at 12.3 percent, and Construction at 12.1 percent.

The Bank of Botswana's Quarter Business Expectations Survey states that firms expect overall output to expand by 4 percent in 2024, which falls between the Ministry of Finance's more optimistic projection of 4.2 percent and the International Monetary Fund's (IMF) more conservative estimate of 3.6 percent.

The Survey highlighted that firms in the Mining and Quarrying, Manufacturing, Agriculture, Retail, Accommodation, Transport and Communications remain optimistic about economic growth.