



DRY
ASSOCIATES
INVESTMENT BANK

Investment Newsletter March 2022



"Sundowners at Dunes Beach Restaurant & Bar", Hout Bay, 20th December 2021 - Courtesy, J.Dry

Dear Investor,

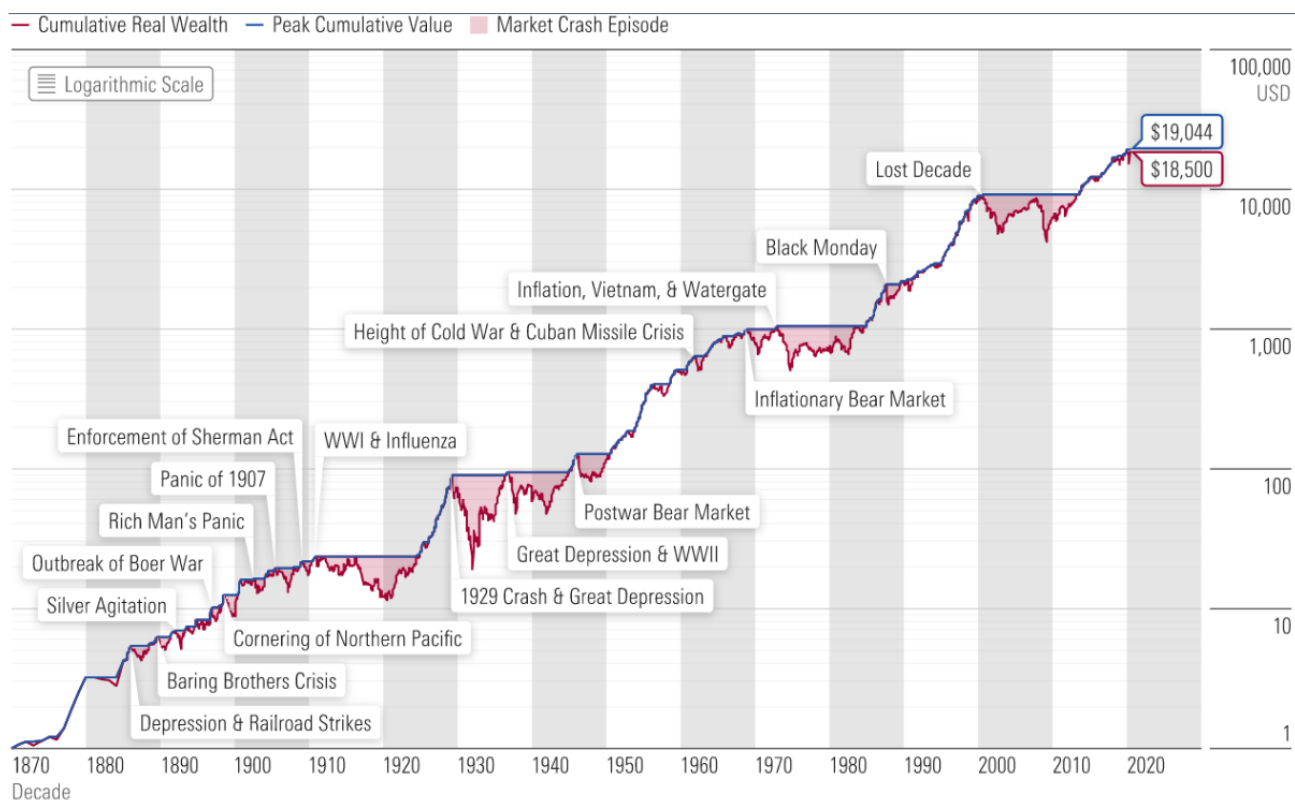
What Next?

Just as the world is picking up the pieces after the worst pandemic in 100 years, Vladimir Putin steps on the stage and tries to rewrite history. Unnecessary and foolish but that's the world we live in.

On the one hand, Russia is punching above its weight. Its GDP represents a mere 2% of global GDP so on the world stage, its war on Ukraine shouldn't have much global impact. On the other hand, supply chains are so international, even Kenyans will pay higher prices for oil, wheat, sunflower seed oil and their substitutes.

While the geopolitics of Russia's actions are beyond the scope of this newsletter, it would seem sensible that the US re-open the US Keystone pipeline (closed on the first day of President Biden's presidency). Keystone oil would come from tar sands in Canada and along with other dormant oil rigs in the US, oil could be redirected to Europe to counter the closure of Russia's Nord Stream 2 pipeline. Oil unfortunately still provides 40% of the world's energy needs. The roll out of renewable energy, unfortunately, will just have to be rescheduled a bit to deal with Russia.

Keeping things in perspective, however, is vital to investing. In effect, stay invested. A brief look at the performance of the US Dow Jones Industrial Average over the past 150 years shows that staying invested— while making sensible moves into certain growth sectors – makes good investing sense.



Data as of Jun 30, 2020. Sources: Kaplan et al. (2009); Ibbotson (2020); Morningstar Direct; Goetzmann, Ibbotson, and Peng (2000); Pierce (1982); www.econ.yale.edu/~shiller/data.htm, Ibbotson Associates SBBI US Large-Cap Stock Inflation Adjusted Total Return Extended Index.

What to Expect in the Short Term?

In fact, over the past 50 years, as JP Morgan has pointed out in a recent article and as shown by the table below, major events have not had a lasting effect on the market. The average sell-off for these military events was 12 days with the S&P 500 falling an average 6.5% and taking 137 days to recover.

Event	Start of sell-off	Duration of sell-off (trading days)	Duration to recover to prior level (trading days)	Size of sell-off
Israel Arab war/ oil embargo	29-Oct-73	27	1475	-17.1%
Shah of Iran exiled	26-Jan-79	9	34	-4.6%
Iranian hostage crisis	05-Oct-79	24	51	-10.2%
Soviet invasion of Afghanistan	17-Dec-79	12	6	-3.8%
Libya bombing	21-Apr-86	20	7	-4.9%
First Gulf War	01-Jan-91	6	8	-5.7%
Kosovo bombing	18-Mar-99	4	9	-4.1%
9/11 attacks	10-Sep-01	6	15	-11.6%
Iraq war	21-Mar-03	7	16	-5.3%
Arab spring (Egypt)	27-Jan-11	2	3	-1.8%
Ukraine Conflict	07-Mar-14	6	13	-2.0%
Intervention in Syria	18-Sep-14	21	12	-7.4%
Average	1973-2014	12	137	-6.5%

Source: Deutsche Bank, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

Looking forward we expect the US equities markets to be volatile but rangebound over the next 3-6 months as two other major themes play out. First, the Federal Reserve will raise interest rates to counter inflation. This is meant to dampen consumer demand and wage hikes. However, the second major theme in 2022 is the pent-up consumer and wage increase demand in the aftermath of the pandemic. As these themes play out this year, we expect inflation to slowly come down and corporate earnings rise as supply chain bottle necks unwind.

Within these broad parameters, it is important that investors continue to have exposure to the three megatrends affecting the global economies, namely:

1. The digital transformation of businesses from e-commerce to AI to robotics.
2. Biological and health advances from gene splitting to anti-aging breakthroughs.
3. Recyclable industries affecting water, energy and waste reducing burdens on natural resources.

Subsequent newsletters will expand on these major trends and give recommendations for direct plays in companies that are leading advances in these areas as we go on-line with our global electronic trading partners.

Markets Roiled

To recap, global markets have been roiled since February 24th when Russia invaded Ukraine. When stock markets are down 10 – 20% it's called a "correction". When they're down more than 20%, you're in "bear" territory.

Technology stocks (as measured by the ETF QQQ) were down briefly 22% on March 3rd but have pulled up since then and are now down about 18%. As such, they technically dipped into bear territory. The Russell 1000 which represents smaller companies and the Dow Jones which represents larger companies are down 12.5% and 10% respectively so there are in correction territory. Fixed income securities are also down slightly but generally less than 5%.

Franklin Templeton Funds

In reaction to the events in eastern Europe, there are obvious short-term plays like oil and gold. As such, the Franklin Templeton Natural Resources Fund (+25% in 3 months) and the Precious Metals Fund (+20% in 3 months) made our Weekly Recommended List.

The lesson here, of course, is that markets go up as well as down and to protect one's wealth, there is no substitute for a diversified portfolio. The best way to manage this market is to take the long view and dollar cost average the market. Dollar cost averaging means taking advantage of depressed prices by topping up your existing funds in the Franklin Templeton India Fund, the US Value Fund, the Technology Fund every month or so over the next 6 to 9 months. This will reduce your average cost in the funds as the markets returns to normal.

Kenyan Market

The Nairobi Securities Exchange continues to underwhelm per the chart below. As you can see below, NSE All Share Index is trading below its 50 (green line), 100 (purple) and 200 (red) day moving average.

Even a steady eddy like Safaricom has fallen 8% over the past 3 months. Gold, of course, is the exception jumping 10% over the past month.



If we drill down at the NSE, we can identify a few counters that are fighting the negative sentiment. Here's a list of the companies whose shares are trading above their 50-day moving average:

	Ticker	Close	SMA 200	SMA 100	SMA 50
Kakuzi	KUKZ	415.00	398.00	403.60	409.20
Car & General	CGEN	62.00	38.43	45.71	56.83
Absa Bank Plc	ABSA	12.10	10.73	11.32	11.91
Equity Group Holdings	EQTY	51.00	49.79	50.81	51.86
KCB Group	KCB	45.50	45.07	44.70	45.44
Stanbic Plc	SBIC	100.00	88.29	90.33	90.23
Crown Berger	CRWN	36.00	31.71	32.83	34.60
Sanlam	SLAM	12.75	11.25	11.65	11.68
British American Tobacco	BAT	491.00	454.00	445.60	433.10
Absa NewGold ETF	GLD	2,075.00	1,884.00	1,888.00	1,907.00



"Hermanus, Eastcliff, South Africa, 25-Dec-21, Courtesy J.Dry"

Kenyan Fixed Income Securities

Kenyan fixed income securities continue to be an attractive source of current income. The Dry Associates Shilling Money Market Fund, for example, pays an attractive 9%+ per annum. The Government of Kenya tax free infrastructure bonds also ought to have a place in Kenyan portfolios.

The interest rate returns on various fixed income securities in Kenya today are as follows:

Security		Source
GOK Infrastructure Bond (tax free) – 14 years	14.6% (tax free equivalent)	Market Determined
Commercial Paper – 12 Months	14%	Dry Associates
Commercial Paper – 6 Months	13%	Dry Associates
Kenya Treasury Bill – 12 months	9.8%	Central Bank of Kenya
Dry Associates KES Money Market Unit Trust	9.1%	Dry Associates
Kenya Treasury Bill – 6 months	8.0%	Central Bank of Kenya
Kenya Treasury Bill – 3 months	7.2%	Central Bank of Kenya
Commercial Bank Fixed Deposit Receipt	6.5%	Central Bank of Kenya
Inflation	6.2%	Central Bank of Kenya
Commercial Bank Savings Rate	2.3%	Central Bank of Kenya

New Issues

The last quarter of 2021 was a busy period for capital raising at Dry Associates. Before breaking for the holidays, we acted as Transaction Advisor and Placement Agent for a private issue of KES 850 million 5-year bonds for GardaWorld Kenya, the owner of KK Security. The issue was a refinancing of an earlier bond issued in 1996. The notes carried an A+ rating from Global Credit Rating (GCR) and were guaranteed by GardWorld's parent company in Canada. GardaWorld is the largest privately owned security company in the world and operates in 45 countries. The notes pay 15% for Kenya Shillings and 7.5% for US Dollars. A second tranche will be forthcoming in several months.

We also issued US 10 million in 1-year notes for R.A. International, a global construction and facilities management company listed on the London Stock Exchange. It carried a AAA rating from GCR and paid 7.0% on the US Dollar 1-year notes and 6.5% on the GBP notes.

We also increased the private issue Watu Credit Short Term Note programme to KES 2 billion. These notes are collateralized by the company's loan receivables and carry a BBB+ rating. The 6-month note pays 14% and the 1 year note 15% in shillings.

These and other private debt issuances are available to institutional and accredited investors. The Dry Associates Unit Trusts, on the other hand, are on offer to the public. The Dry Associates Kenya Shilling Money Market Fund, for example, is increasingly popular as a liquid, safe and relatively high paying fund at 9.1% per annum. The fund size is currently KES 2.7 billion and made up of fixed income securities including Treasuries, Bank Fixed Deposits, and some private short-term notes.

For easy reference, all the company's offerings are available, together with recommended purchases, in our Weekly Report ([click here](#)).

New Dry Associates Logo

Dry Associates has a new logo! We've had the old logo for 28 years and well, it was thought a bit old fashioned by some of the younger staff. So, here it is:



As these things go, there will be a gradual phasing in of this logo on all branded assets over the next several weeks

And finally, we'd like to take the opportunity to thank you all for being such wonderful associates over the past two and a half decades. As we move through this uncertain world, we recommit to service you as diligently as possible to build strong and profitable portfolios for the next two and a half decades.

Sincerely,

Dry Associates Investment Bank

“ We Know - Investment Matters ”





Dry Associates is an Investment Group in Kenya and offers a wide range of products and services:

**Private Wealth Management | Unit Trusts | Commercial Paper | Investment Advisory Services |
Pension Fund Management | Offshore Funds | Consulting | Corporate Finance | Treasury
Management | Portfolio Management**

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