
STERLING CAPITAL LIMITED

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**Bonds turnover at the NSE down as investors opt for State papers**

- NSE data shows that the secondary market turnover for bonds declined by 21.8% to KES.283.8Bn in the six month period from KES.363.1Bn last year as investors held on to the low-risk government securities as a buffer against poor returns in other investment classes.
- Riskier asset classes such as the equities market has been hit hard by the effects of the Covid-19 pandemic, causing investors to hold on to bonds in a bid to protect their returns and were, therefore, less inclined to sell these assets at the exchange.
- The bonds yield curve rates range from 6.2% for the 91-day Treasury bill to 13.1% for bonds of over 20-year tenors.
- The equities market in the first half of the year recorded a decline of 17% (KES.436Bn) in market capitalization to end June at KES.2.1Tn.
- The benchmark NSE 20 share index was down 27% in the six months to end June at 1,942 points, while the all-inclusive NSE All Share Index fell 17% to end the half-year at 137.7 points.
- High liquidity in the market in the first half of the year resulted in oversubscription of both Treasury bills and bonds during primary market auctions.
- Investors bid a total of KES.917Bn for Treasury bills in the six months, which represented an oversubscription rate of 153% with the CBK taking up KES.551Bn. Bonds received bids worth KES.415Bn, representing a subscription rate of 120% of which the CBK took up KES.279Bn.

**Our View:**

- **In the second half of the year, we expect secondary market activity to decline further as bond holders hold on to their investments, which are safer investments compared to equities.**
- Uncertainties associated with the Covid-19 pandemic are likely to keep equities market prices low, leaving investors with limited investment options.
- The pandemic has resulted in a decline in corporate earnings, with some companies opting to withhold dividends, making investment in shares less attractive to investors.
- Discounted prices on the equities market however, present buy opportunities for investors with an investment horizon longer than a year.

**Source: Daily Nation and Sterling Research**