



KEY HIGHLIGHTS FROM OUTLOOK 2024

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- Portfolio theory still prevails in setting a trade-off between expected risk and expected returns. As such, higher the risk higher the returns.

- Each investor's risk tolerance levels will be based on the individual circumstances such as:

- Investment horizon
- Income level
- Anticipated expenditure / cash needs / age demography

- CSE performance shows even on a USD adjusted basis, it has been better in preserving / growing capital in the long term.

- In the event of another inflation / currency crisis, stocks can provide a better hedge than fixed income.

- Investors need to follow their broker / research stock recommendations closely, as such recommendations change on a regular basis. Stocks that perform well in one period may perform adversely in another period based on company specific and macro factors. Therefore, it's important to evaluate your portfolio regularly and lock in profits where applicable.

Recommendations for 2022 as a hedge against inflation/ currency collapse

Performance during the year: from start of the year to highest price point during the year



↑
335%



↑
59%



↑
47%

Recommendations for 2023 based on potential re-rating of market valuations/ favorable DDO outcome

Performance during the year: from start of the year to highest price point during the year



↑
37%



↑
V 35%
X 44%



↑
V 38%
X 60%

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Factors taken into consideration by Acuity in picking the top stocks in 2024:

- High growth – better prospects in the longer run.
- Brands/Essential goods and pricing power – Strong brands which will have higher pricing power.
- Limited recurring Cap-ex requirements – entities with limited recurring capex requirements are preferred.

- Foreign currency revenue streams – Entities which cater to larger addressable markets overseas, with less reliance on domestic demands, are best positioned.
- Moderate financial leverage – Would avoid highly leveraged companies to manage the impact out of interest volatility.
- Banking stocks – Beneficial due to the bank stocks still trading below its historical valuations.
- Defensive stocks – Selection of stocks with less volatility, moderate to high dividend yield and stable core business are selected .

What caused the crisis situation?

- Tax cut in 2020 and reduction in government revenue.
- COVID pandemic in 2019 affected tourism/remittances/exports.
- Modern Monetary Theory: 'Money printing' happened during 2019-2022 to increase GDP, which can work only for countries where the reserve currency is USD.
- USD/LKR exchange rate was held at 203 artificially, not allowing the market forces to decide the exchange rate.
- IMF – Undue delays in approaching IMF to manage the fiscal and monetary stance.

Challenges faced by businesses

- Lack of foreign currency reserves
- High Inflation
- Import Controls
- High Interest rate regime
- Excessive Energy Prices

Challenges for businesses moving forward

- Access to Finance
- Low adoption to Technology infrastructure
- Bureaucracy

What should businesses concentrate on?

- Market Research
- Outsourcing strategies
- Organization transformations
- Two-way communication
- Entrepreneurial mindset

Opportunities for Sri Lanka

- Strategic location of the country
- Resilience
- Renewable Energy
- Tourist attractions to promote tourism

Recommendations for economic growth

- CBSL independence
- Support for start-ups
- Encouraging innovation
- An export oriented economy
- Entering into FTAs (Free Trade Agreements) and Global supply Chains
- Setting up clear Taxation policies
- Restructuring State Owned Enterprises (SOEs)
- Driving a greener economy
- Labour and Land reforms
- Ensuring consistent policies

Global Growth Prospects

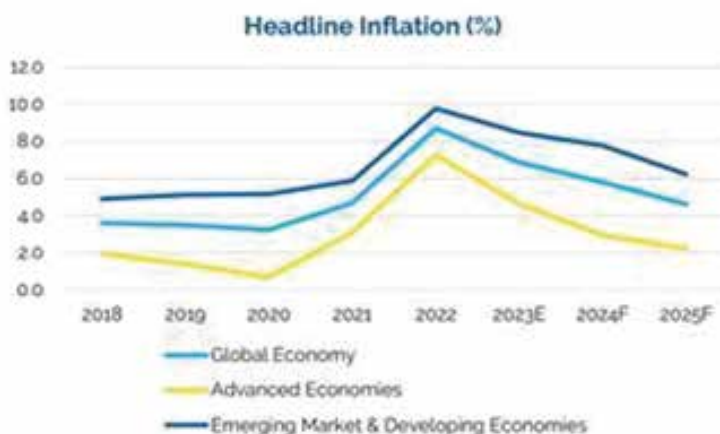
- The Global economy has shown resilience post COVID yet according to IMF the growth remains slow and uneven, well below the historical average.



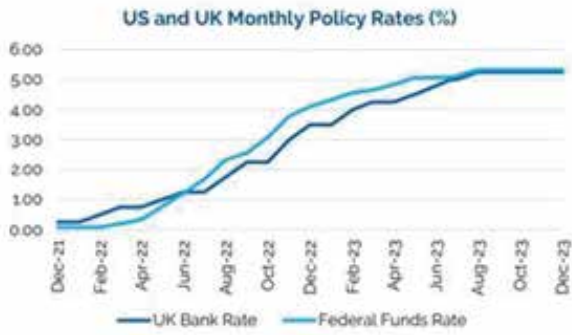
Inflation and Monetary Policy

Inflation

The fall in energy prices, food prices (to a lesser extent) have contributed to driving the decline in headline inflation



Monetary Policy



Commodity Markets

- Oil prices are expected to hover around USD 81 per barrel in 2024 as global activity slows and China's economy continues to decelerate.
- The escalation of the conflict in the Middle East is a major upside risk to oil prices. Further extensions of production cuts by OPEC+ and stronger than expected demand could also result in higher prices in 2024.
- Natural gas, metal and food prices are expected to reduce in 2023/24.

Risks to the Global Outlook

Conflict and geopolitical tensions	Persistently high interest rates	Trade fragmentation
Food and energy market disruptions	Financial stress	Climate-related disasters
Additional inflation shocks	Weaker-than-expected near-term growth in major economies	Weaker-than-expected long-term growth

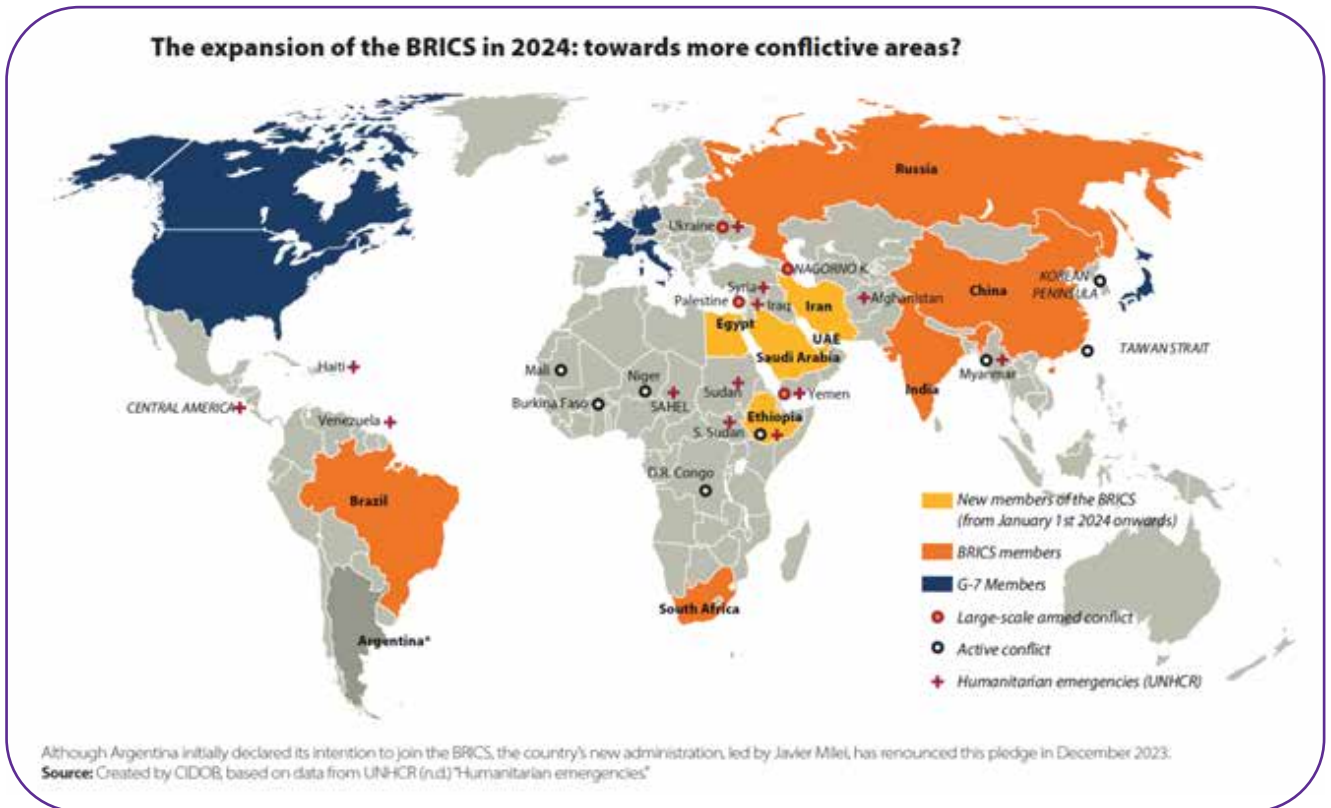
Ten issues that will shape the international agenda



2024: the most significant electoral year in history.



- 2024 can be identified as the most significant global electoral year in the history
- US, EU, Ukraine, Russia, Taiwan.
- Consequences of the expansion of BRICS in 2024.
- Advanced radio-frequency communications, Quantum technology and Bio technology has set a tone for the new nature of war.
- Ukraine, Middle East, Taiwan, Sahel and Venezuela are five regions to be watchful .



The top global policy challenge that will shape 2024

- Global conflicts – impact on energy prices with many ripple effects
- Trade turmoil between regional powers
- Clean energy policy
- Data privacy, Cybersecurity and AI

Challenges and opportunities for Sri Lanka

- Exports will be under pressure due to slow recovery of major buyers
- Economic populism due to expected elections
- Impact of China's sluggish recovery
- Pressure for Interest rates to go up and the Rupee to depreciate
- Renewable energy boost
- Necessity to make use of our existing resources. Ex – A solid programme to develop young talent

