# MONTHLY MARKET REVIEW AND FORECAST

## AUGUST 2018

TRUSTFUND PENSIONS LTD RESEARCH

SEPTEMBER 2018

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

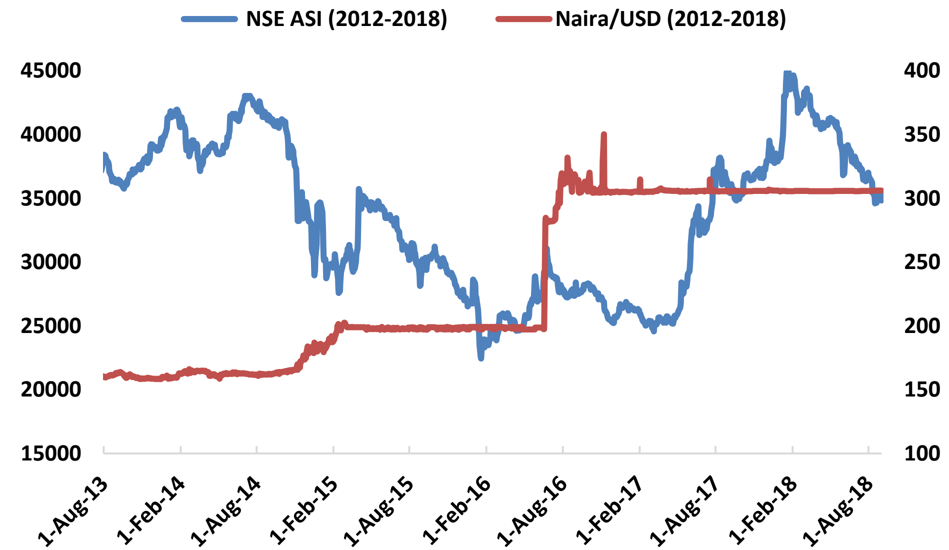
# Outline

# Snapshot of the Current Economic Environment

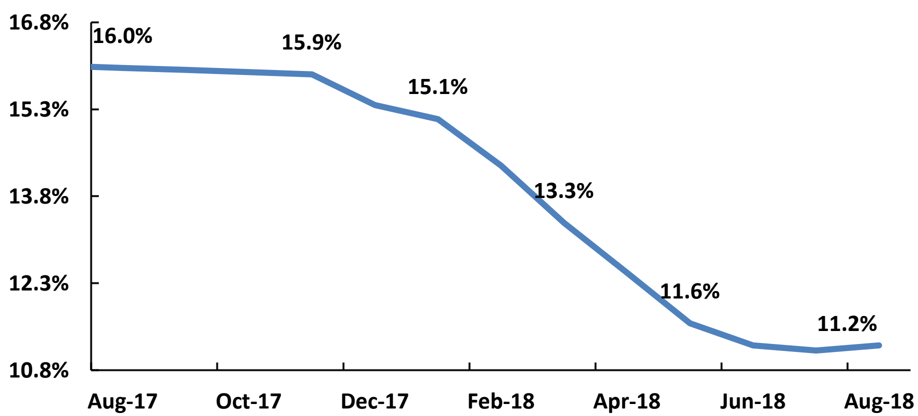
## *Macroeconomic Environment*

- ✓ We expect the MPC to keep the MPR unchanged, amid budget and pre-election spending; hence allowing the CBN to continue with short term administrative measures.
- ✓ The CBN announced the implementation of a dynamic CRR regime to incentivize DMBs to increase credit to real sectors.
- ✓ Inflation attained another Ytd low of 11.14% in July driven by softening consumer prices in the food and core basket, amidst still favorable base effects
- ✓ The Naira weakened in the interbank market, depreciating 0.10% Mom to N306.15/USD. However, the local currency hovered between N359-N362/USD on the street, amidst decreased demand
- ✓ Reserves are expected to maintain downtrend as currency fear and political uncertainties spur FIs exit from emerging markets, even as oil prices hold steady.

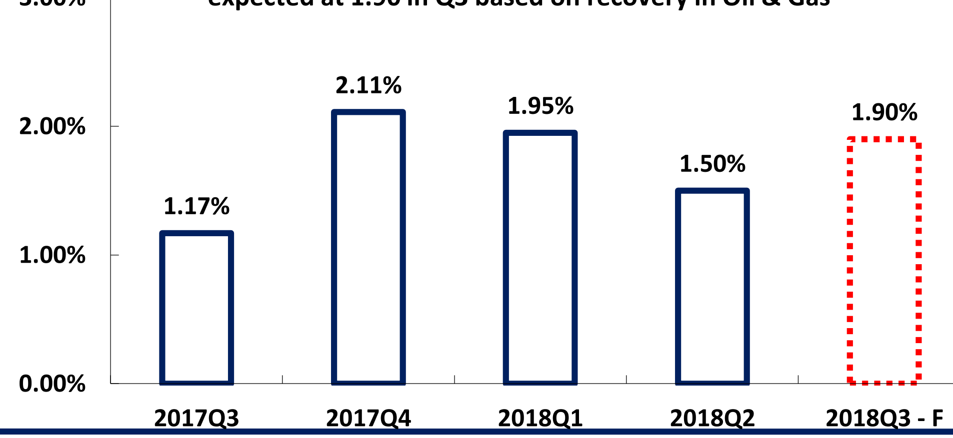
## *NSE-ASI Vs NGN/\$: FX stability propelled ASI to 45,000 levels in 2018-H1*



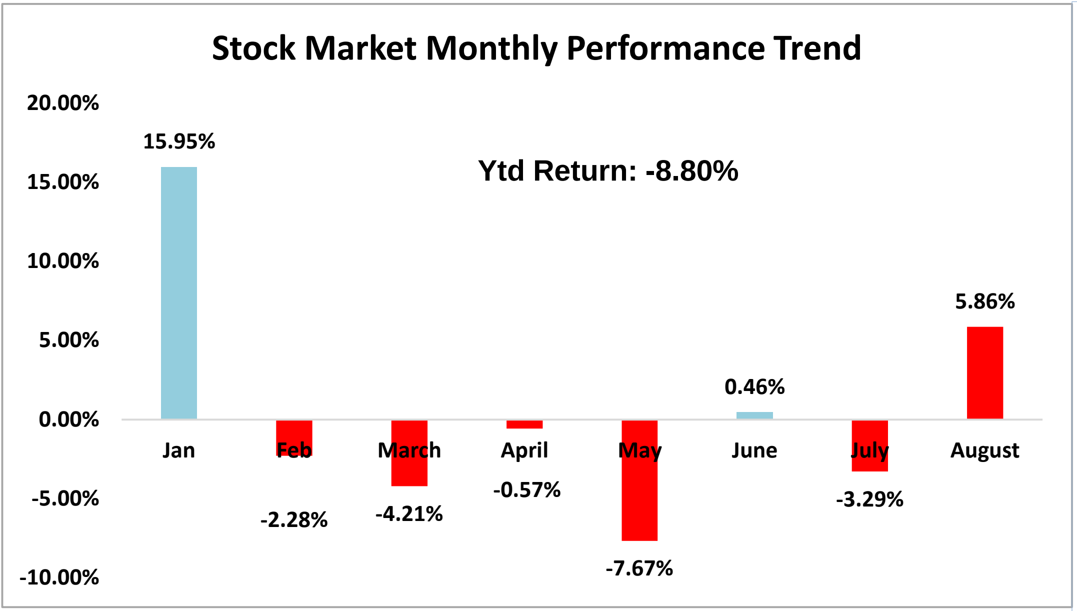

## Headline Inflation Rate (%)




GDP growth is expected at 2.00% in 2018FY (IMF Forcast), but expected at 1.90 in Q3 based on recovery in Oil & Gas



# August Equity Market Round-up




## Sector Performance Summary

| Sector Indexes | Today's Return | YTD Return | P/E (x) | Dividend Yield |
|---|---|---|---|---|
| INDUSTRIAL GOODS | -0.03% | -2.8% | 20.2x | 3.7% |
| FINANCIAL SERVICES | -4.72% | -10.3% | 6.6x | 2.3% |
| CONSUMER GOODS | -0.42% | -15.6% | 20.0x | 2.1% |
| OIL AND GAS | 0.20% | -2.5% | 8.6x | 6.0% |
| SERVICES | 0.5% | -6.1% | 2.3x | 760.8% |
| AGRICULTURE | 4.2% | -0.7% | 18.0x | 2.2% |
| HEALTHCARE | -3.3% | -19.7% | 0.0x | 1.8% |
| CONGLOMERATES | 0.0% | -25.6% | 7.0x | 9.0% |

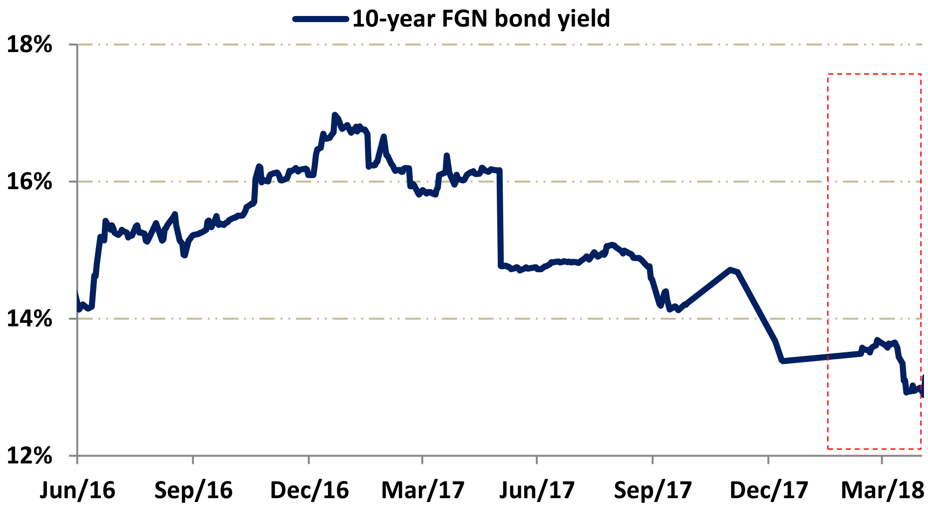
*YTD means Year-to-Date; WTD means Week-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings

- *The Nigerian equity market closed August bearish with a huge 5.95% loss to mark the second consecutive decline after a marginal uptick in June.*
- *This was largely due to a spill over effect from the current widespread bearish sentiments being experienced across emerging and frontier markets, and partly due to investors' jitters on the back of upcoming 2019 presidential elections*
- *At -8.88%, Ytd return remained less attractive and is expected to sustain the low in September as lower than expected GDP figure weighs on investor confidence in the month ahead.*
- *Hence, we will continue to scale down exposure to some challenging sectors and focus more on quality Financials with the potential to turn in attractive dividend yield, especially as market valuation remain relatively attractive at 11.5x P/E and 7.3% Dividend yield.*

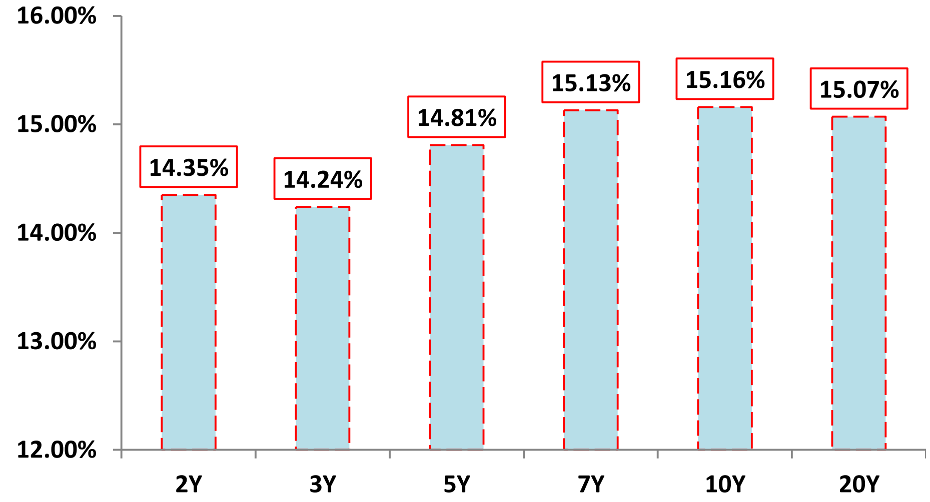
Private and Confidential

# Market Round-up :August Bonds

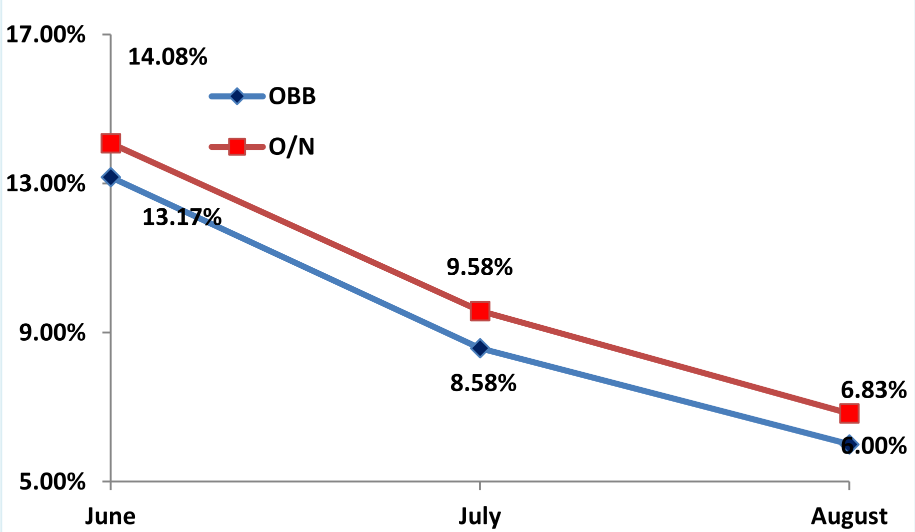
## 2018 Ytd 10 year average Bond Yield trend (%)



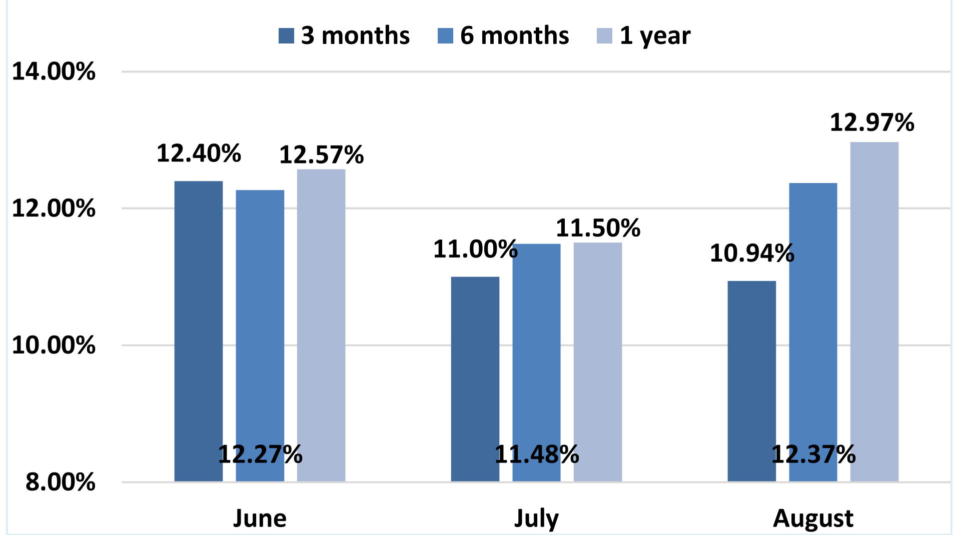

## Secondary Market Bond Yield in August




## Short term Inter-Banks Placement Rates




## Secondary Market Treasury Bills Rates




Source: Trustfund Pensions Ltd Research; fmdqotc

# Market Outlook and Strategy

The forecasts of key macroeconomic indicators point to positive economic growth in the second half of 2018. The expectation is premised on the implementation of the 2018 budget, sustained stability in the foreign exchange market, as well as increase in crude oil production and prices. However, the downside risks to the growth outlook include: delay in the implementation of the 2018 budget; worsening farmer-herdsmen conflicts in some parts of the country and nonpayment of workers' salaries and pensions in some states.

## Equity

We believe the equity market is approaching an oversold position. There may be a reversal of the downward trend as the economic fundamentals now support a recovery in the equity market. Key drivers will include: FX stability, bargain hunting on current low prices and portfolio rebalancing by PFAs. We will gradually enter the equity market through cost averaging investment strategies.

## Bonds

Yields on FGN Bonds may inch up from the current levels, as government increases its borrowing from the Bond market to finance the 2018 budget and as yields in the international market increase due to monetary policy normalization.
Amid this reality, we will restructure our bond portfolio by selling down the in-the-money low coupon bonds and reposition in the higher coupon bond to support NAV growth.

## Money Market

A net inflow of about N1.53trn is estimated to hit the Money market in August. We expect the CBN to use OMO to manage liquidity in the market, hence, yields on short-tenored fixed income securities may trend marginally lower in August, couple with lower inflation rate. While we expect yields on T-bills to trend higher from the current levels, we will be strategic and continue to deal at the best rate for liquidity and flexibility

We will be cautious on equity positions and scale down exposure to some heavyweight stocks. Proceeds will be reinvest in attractive alternatives to support NAV growth.