

# MONTHLY MARKET REVIEW AND FORECAST

DECEMBER 2018

**TRUSTFUND PENSIONS LTD RESEARCH**

J A N U A R Y 2 0 1 8

# Outline

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**Nigeria Macro Review**

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**Domestic market review**

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**Equity market outlook**

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**Fixed Income Markets Outlook**

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**Trustfund Unit Price Performance**

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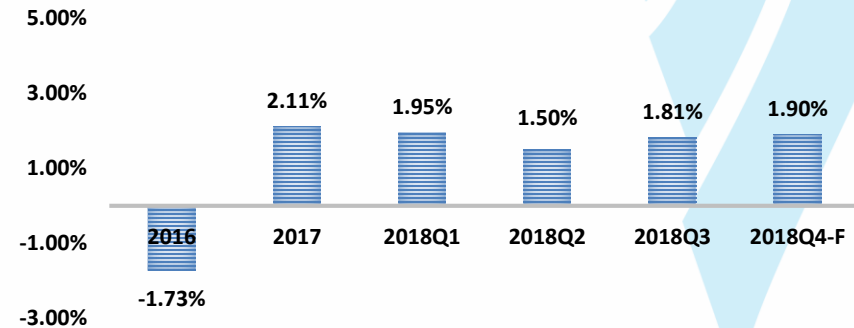
**Market Outlook**

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# Key Macro Variables: 2018 Trajectory and 2019 Outlook

## Economic Growth

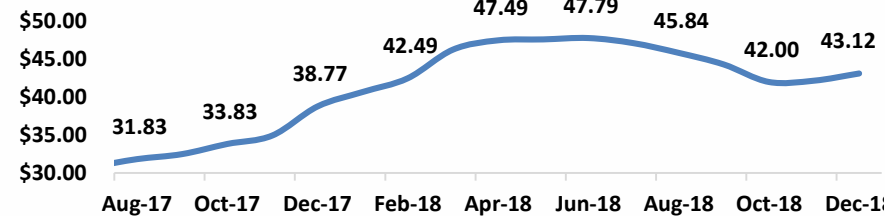
The real Gross Domestic Product (GDP) growth rate of 1.81% recorded in Q3 2018 beats the expectations of most analysts as it reflects the impact of improved dynamics in both the oil and non-oil economy. While we share IMF position on 2018-Q4 growth (1.90%) we expect a lower run rate on output growth in 2019FY.



## Monetary Policy and The Naira

We note less pressure on the Naira in 2018 following a narrow gap between the parallel and the interbank exchange rate. The continued CBN intervention moderated the pressure on the currency, as the Naira at the parallel FX market appreciated by 1.93%, while it depreciated marginally at the Interbank market by 0.07%. Also in defense, the MPC sustained the policy rate at 14% through 2018FY to keep capital flight in check.

External Reserves (US\$m)

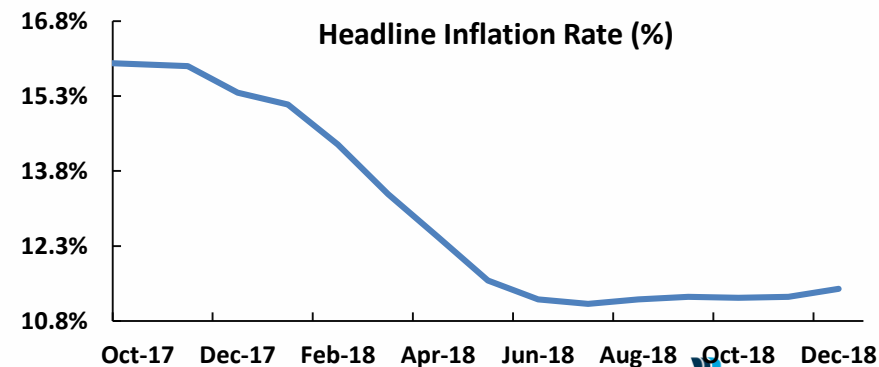


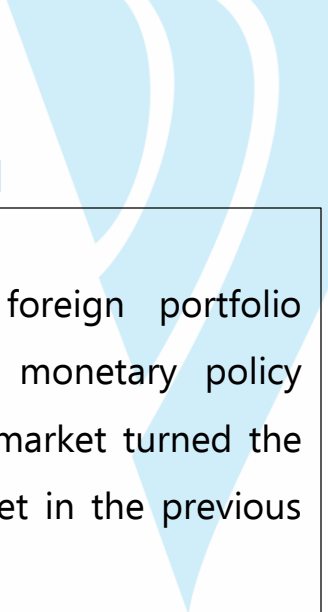
## Inflation

In 2018, headline inflation rate decelerated for 7 consecutive months, anchored on the blend of soft domestic food prices, reduction in logistics cost and the base-effects (H1 17).

We expect a slight uptick in inflation rate to an average of 13.8% in 2019-FY up from an average rate of 12.15% in 2018-FY. This is anchored on the stubbornly high food inflation overshadowing the moderation seen in core inflation.

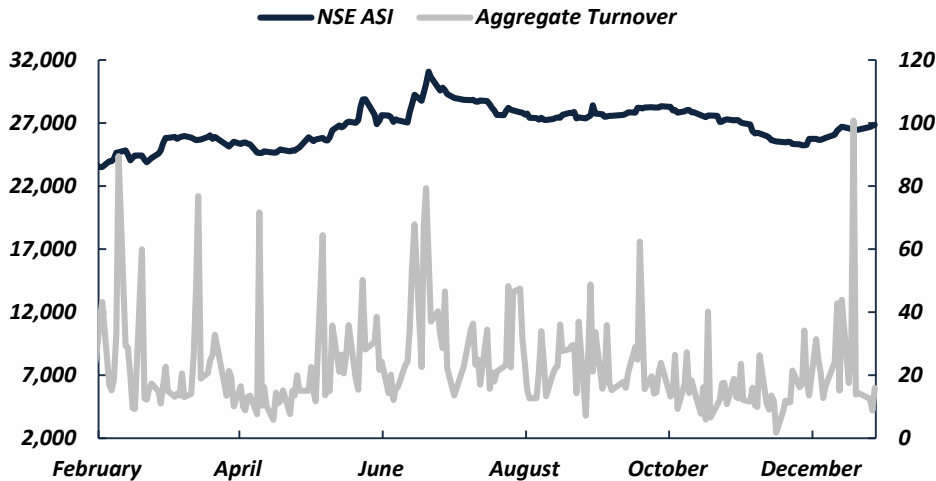
Headline Inflation Rate (%)





# Equity Market: Round up and Outlook

Return on the Nigerian Equity Market closed at -17.81%



## Equity Market Commentary

- Protracted capital flight by foreign portfolio investors on political risk and monetary policy normalization in the developed market turned the tide on the Nigerian stock market in the previous year.
- Stocks recovered mildly in late December, with Ytd loss reducing to -17.81% from -19.27% in November.

Source: Trustfund Pensions Plc Investment Department

## Equity Commentary

- As we see minimal upside from the current levels, we expect Investor sentiment to remain weak till after the first quarter.
- The Service, Conglomerates and the Financial Sectors remain the cheapest sectors at 2.3x, 5.2x and 6.2x P/E respectively.
- We will explore stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield.

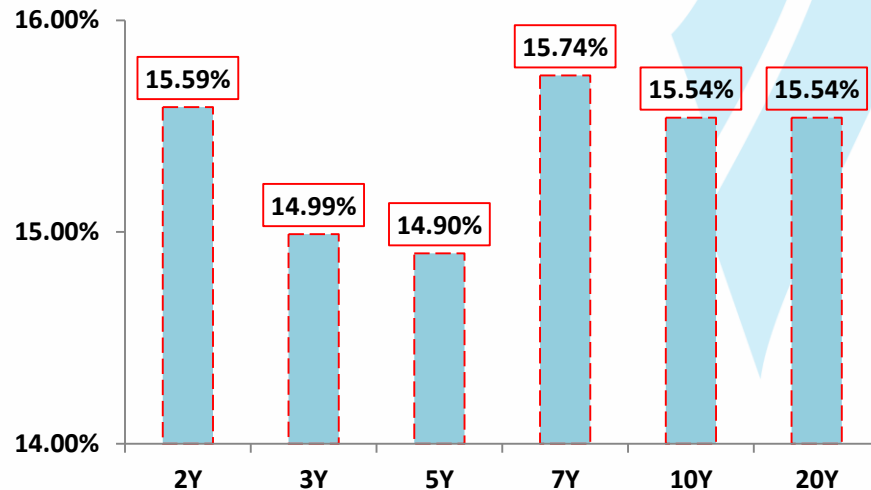
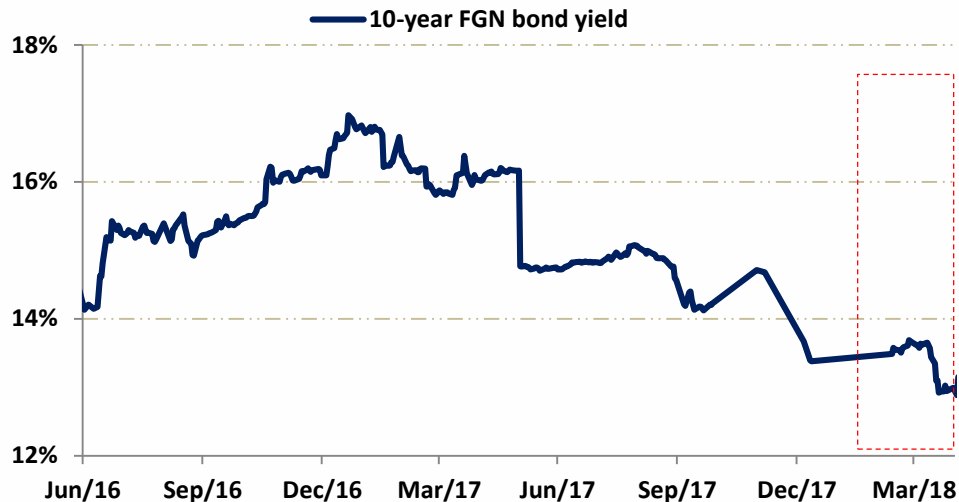
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-3.02%	4.1%	7.6x	2.0%
CONSUMER GOODS	1.02%	-6.3%	22.1x	1.9%
OIL AND GAS	-0.48%	14.5%	9.6x	5.3%
INDUSTRIAL GOODS	3.96%	3.9%	21.6x	3.5%
SERVICES	-1.0%	2.4%	2.6x	693.6%
HEALTHCARE	0.0%	0.0%	0.0x	1.4%
CONGLOMERATES	1.1%	-12.0%	8.3x	7.4%
AGRICULTURE	0.1%	10.9%	20.1x	2.0%

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

# Fixed Income Market: Round up and Outlook

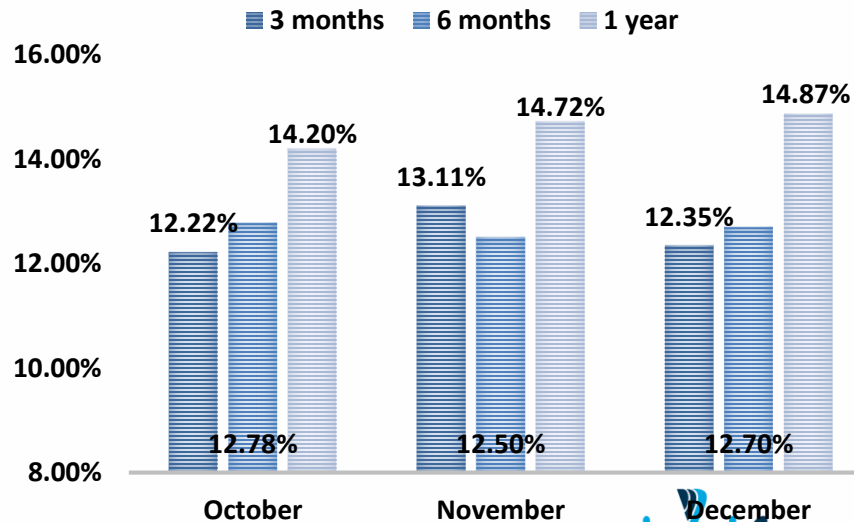
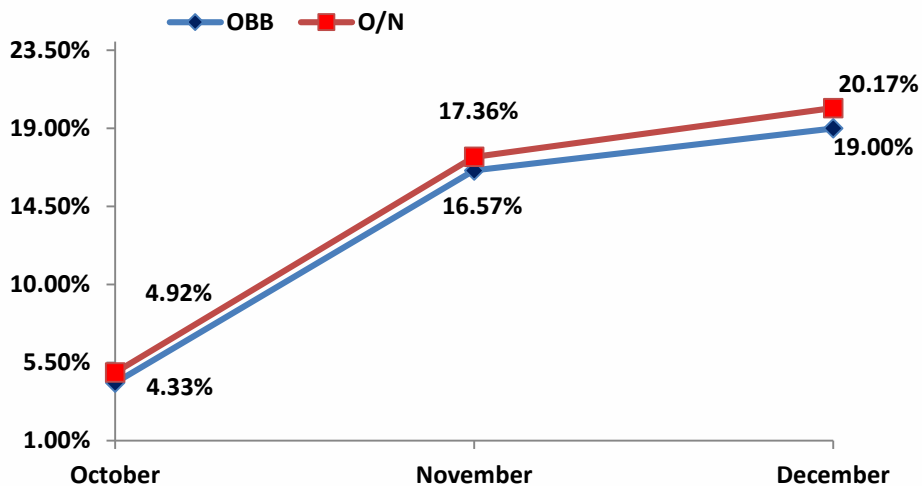
10 year average Bond Yield closed May at 15.54%

Secondary Market Bond Yield in November (%)



Short term Inter-Banks Placement Rates

Secondary Market Treasury Bills Rates



# Market Outlook and Strategy

We expect the yield curve to remain inverted over the course of the year, as the CBN is expected to maintain a tight stance on financial system liquidity, in a bid to rein in on expected inflationary pressures and maintain stability of the exchange rate. On the equity front, the NSE ASI has continued to test new lows, having lost 17.81% in 2018. Nonetheless, we spot imbalances; the price loss has been overdone in certain sectors (particularly the liquid sectors), which makes these sectors comparatively attractive than others.

### **Equity**

Despite current low prices, the outlook for Nigerian equities remains uncertain in 2019 ( especially the first quarter), mainly due to the political risk of the 2019 elections. Given this bleak outlook for price recovery, our equity strategy for 2019 will be conservative and dividend focused. We will explore stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield.

### **Bonds**

Taking position in long term bonds offers trading opportunity in the near term should our projection of lower bond yield materializes. More so, our preferred long term bonds are currently trading at 15% yield levels in the secondary market Hence, we will continue to take position in high coupon bonds, at low premium, to improve portfolio return

### **Money Market**

Average T-bills yield closed December at 14.24% (a notable 0.60% MoM appreciate), improving the relative attractiveness of bills compared to interbank placements.

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.

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# THANK YOU

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