MONTHLY MARKET REVIEW AND FORECAST

JANUARY 2019

TRUSTFUND PENSIONS LTD RESEARCH

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Market Outlook

Nigeria Macro Review

ECONOMIC GROWTH

Nigeria's GDP grew by 1.93% in 2018, 3bps above Bloomberg consensus. On a quarter on quarter basis, it grew by 2.38% in real terms, representing an increase of 0.27% when compared with 2017'Q4. The growth is attributable to improvement from the Non-oil sector, with services contributing the most to the uptick. In line with IMF's forecast of 2%, we expect the GDP growth for 2019 to be sustained by improvement in Agricultural sector and improved oil production, while bearing in mind the impact of the possibility of change in government.

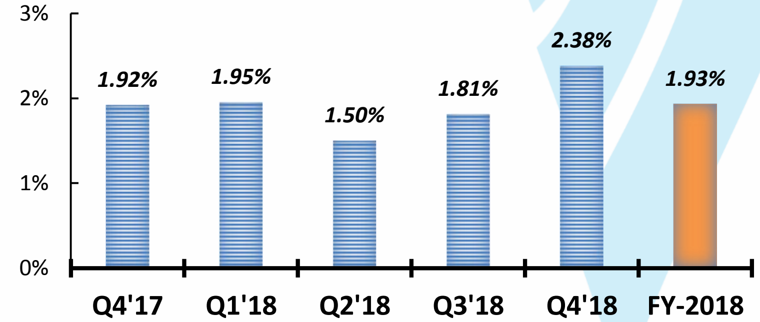
Oil

The oil sector, the primary source of government revenue, grew by 1.1% in 2018, down from 4.7% in 2017. The sector, which accounts for 8.6% of the economy, contracted in the second, third and forth quarters of 2018. Attributable to this is the lower oil prices and production volume.

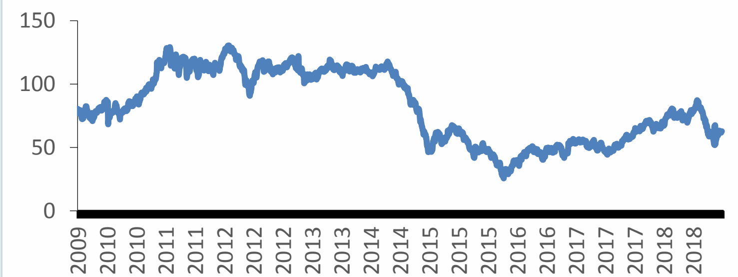
Capital Importation

In 2018, Capital Importation stood at $16,812.47, representing a 37.5% growth when compared with the figure reported in 2017. On a quarterly basis, total capital importation for Q4'2018 is reported at $2,140 million, representing a decrease of 25% when compared to previous quarter and 60% decline compared to Q4'2017, which can be attributed to the effect of pre-election year. Portfolio Investment accounted for 70% of total capital importation, channeled into Money Market (72%), Equity (20%) and Bonds (8%). Over 90% of inflow from other investment accounts for loans from foreign institutions.

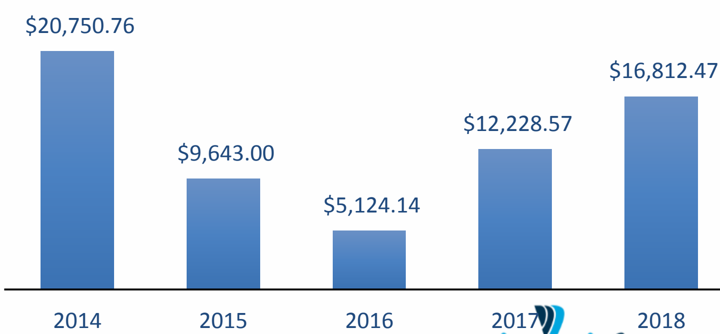
QUARTERLY GDP GROWTH RATE



Crude Oil Price History (in USD)

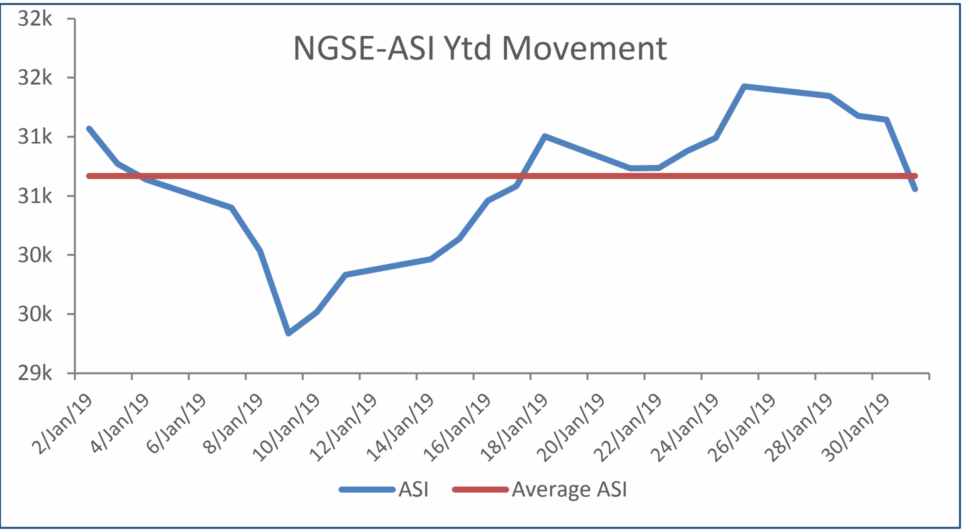


Annual Capital Importation ($'M)



Equity Market: Round up and Outlook

Bears prevailed in January – ASI down -2.78%



Source: Trustfund Pensions Plc Investment Department

Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-0.12%	-5.1%	7.0x	2.2%
INDUSTRIAL GOODS	2.27%	-20.2%	16.6x	4.6%
CONSUMER GOODS	3.87%	-21.8%	18.5x	2.3%
OIL AND GAS	5.00%	-4.7%	9.4x	5.6%
SERVICES	3.1%	5.1%	2.8x	628.8%
AGRICULTURE	-1.8%	2.8%	18.6x	2.1%
CONGLOMERATES	-1.7%	-41.1%	5.5x	11.8%
CONSTRUCTION/REAL ESTATE	-1.6%	-20.2%	6.9x	5.0%

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

Equity Commentary

- The Nigerian Equities Market continued its downward journey in January as pre-election sentiments weighed on the domestic bourse.
- The Nigerian Stock Exchange All-Share Index (ASI) for January stood at 30,557.2, down from 31,070 at the start of 2019, representing 2.78% dip in January as against +1.8% gain recorded the previous month. The equities market has generally trended downwards since January 2018, when the ASI was the best-performing index in Africa.
- The subsequent decline in January 2019 partly reflects monetary tightening in developed markets and a attendant fall in emerging- and frontier-market indices. Just as important, however, are domestic factors, including the slow pace of recovery from the 2016 recession and apprehension about political instability in the run-up to national elections on February 16th.
- While we expect improved market conditions in February on the back of Q4 earning season as most market players anticipate better corporate results, the outcome of the forthcoming general election remains a major determinant of market direction in the short run.
- Hence, we will continue to streamline our portfolio to increase position in stocks with strong fundamentals.

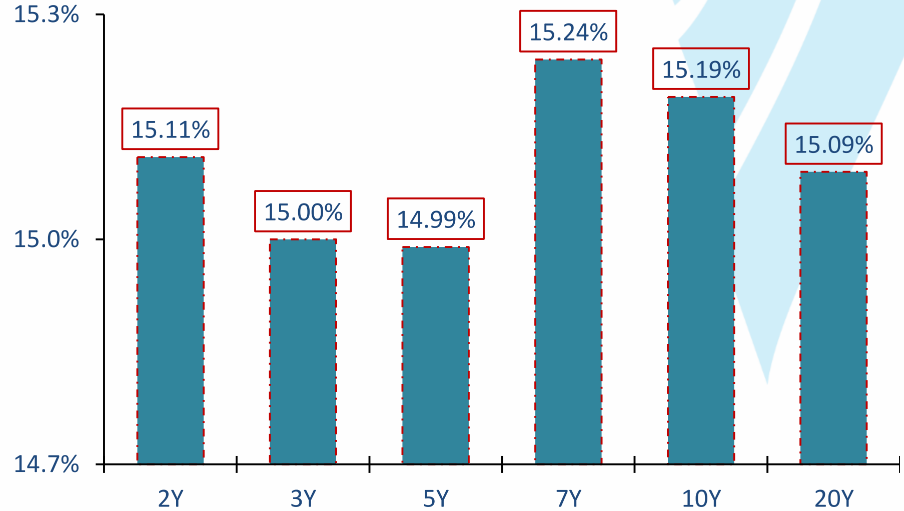
PENSIONS

Fixed Income Market: Round up and Outlook

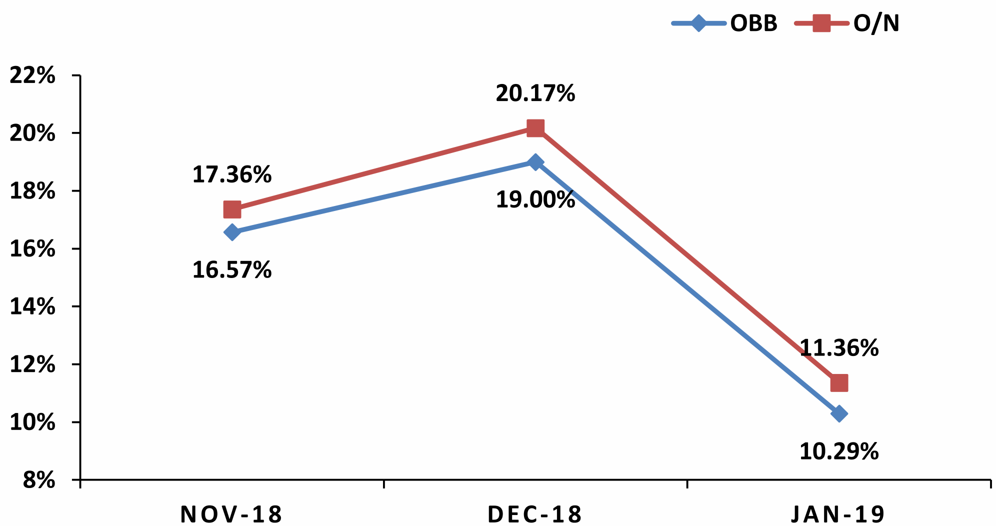
10 year average Bond Yield closed May at 15.54%

- The 10-Year Bond yield compressed by 15bps in January to close at 15.12% on the back of high local and foreign demand for high yields.
- Conversely, the 90-day, 180-day and 365-day T-bills closed higher at 11.51%, 13.53% and 14.92% respectively.
- The CBN consistently carried out its usual OMO auction at a stable rate of 15%.
- We expect rates to remain at these levels in February, while bearing in mind any CBN mop up action.

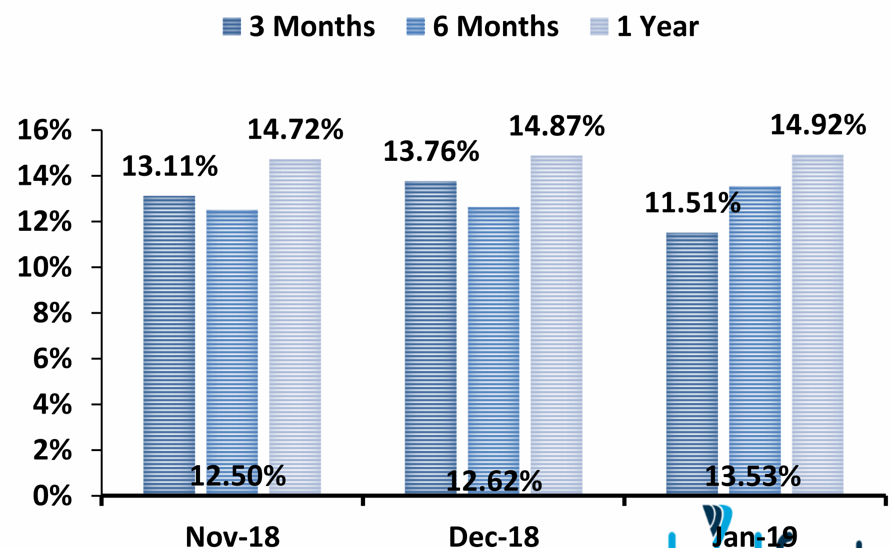
Secondary Market Bond Yield in January (%)



Short term Inter-Banks Placement Rates



Secondary Market Treasury Bills Rates



Source: Trustfund Pensions Ltd Research; fmdqotc

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 -2.78% in January. 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 effective yield closed January at 17.00%; indicating 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 reinvested in attractive alternatives to support NAV growth.

THANK YOU