

MONTHLY MARKET REVIEW AND FORECAST

JUNE 2018

TRUSTFUND PENSIONS LTD RESEARCH

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Outline

Nigeria Macro Review

Domestic market review

Equity market outlook

Fixed Income Markets Outlook

Trustfund Unit Price Performance

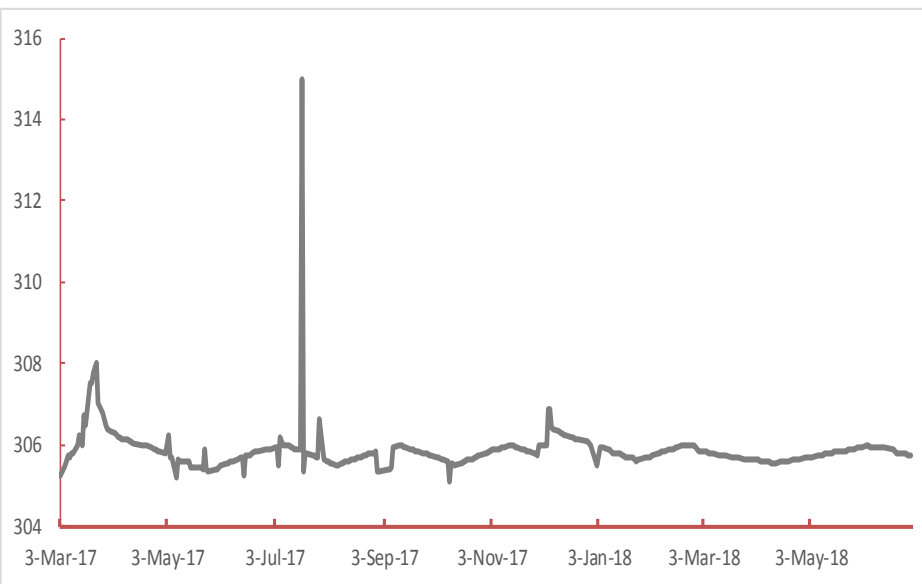
Market Outlook

Snapshot of the Current Economic Environment

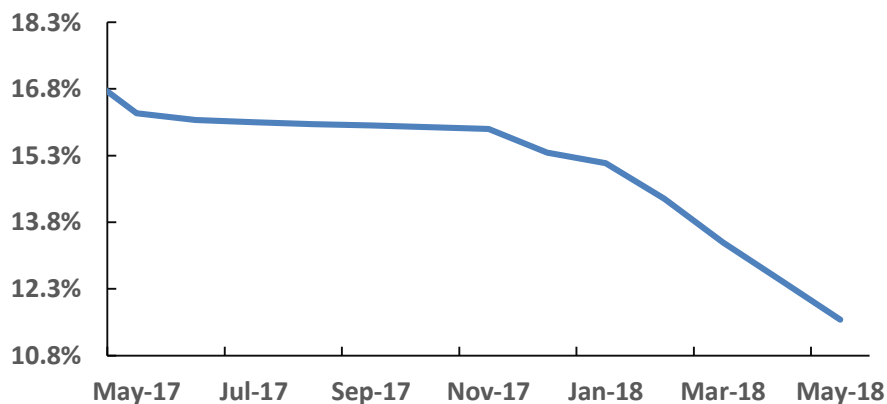
Macroeconomic Environment

- ✓ The MPC is expected to trade off inflation for growth in the July meeting on account of the positive real interest rate environment.
- ✓ But may stay action on the Cash Reserve Requirement (CRR) to support improved credit to the real sector
- ✓ We expect lower inflation reading for June on high 2017 base effect and favorable movement in the prices of food items in the month.
- ✓ Naira appreciated by 0.07% at the inter-bank market to N305.75/US\$ at the end of June, on improved confidence in the I&E window which recorded a turnover of \$32.14bn in June 2018.
- ✓ External reserve balance remained relatively stable over the past two months with a marginal increase of 0.38% to \$47.79bn at the end of June; signifying a strong outlook for the Naira.

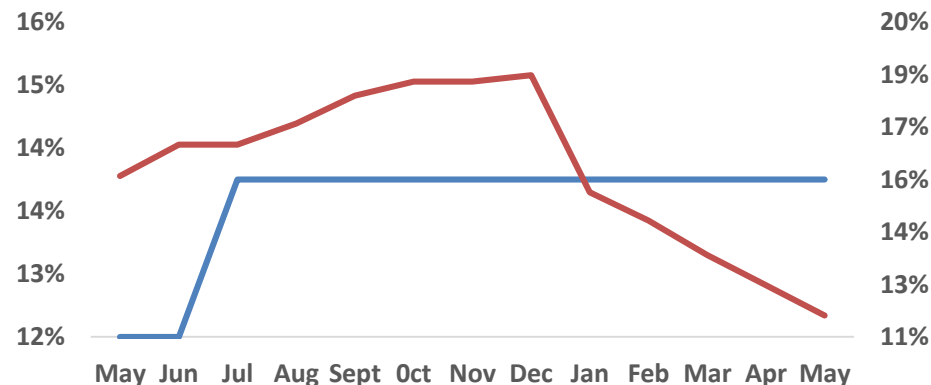
Naira/USD Exchange Rate Between May 2017 & May 2018



Headline Inflation Rate (%)

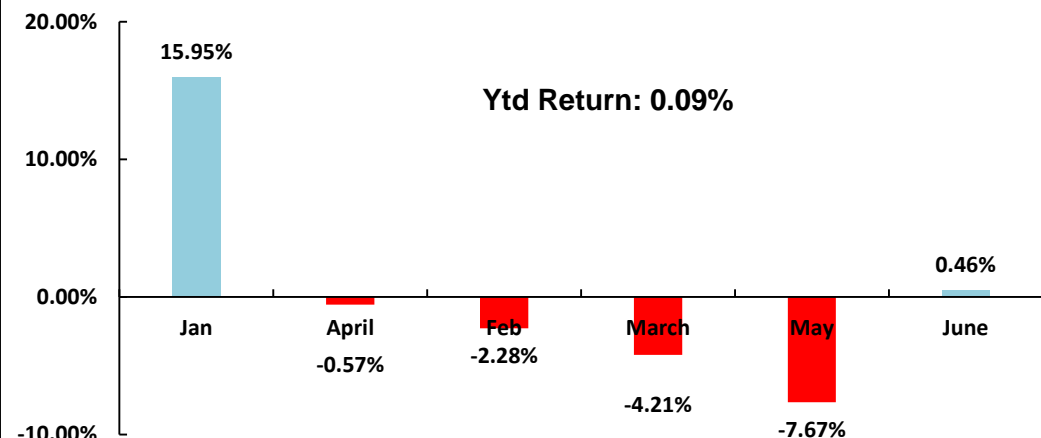


Real investment return now positive at 2.39%, paving way for a dovish tone from the July MPC meeting



June Equity Market Round-up

Stock Market Monthly Performance Trend



- After four months of negative bargain, the equity market found respite following improved appetite on the mid and small caps stocks including WAPCO, STANBIC, DIAMOND and STERLN BANK.

- This lifted the main index by 0.46% to 38,278.55 point, and returned the Ytd performance to the positive territory, closing at 0.09%, after a long bear sojourn.

- We expect profit taking to ensue in the month ahead mostly by profit inclined retail investors, as market heavyweights remain technically overvalued amid dearth of attractive entry point for long term equity return.

- Likewise, political uncertainty around the upcoming elections and monetary policies normalization in the developed market are key factors to keep foreign investors at bay and spurred capital flight from emerging markets like Nigeria

- That said, the sustained upbeat in the nation's macro-economic indices, such as the dropping inflation reading, improving PMI and the sustained liquidity in the FX market, will be supportive of the equities market in the months ahead.

- Within this realities, we will continue to explore stocks with good fundamentals that will add value to the long term performance of the portfolios.

Sector Performance Summary

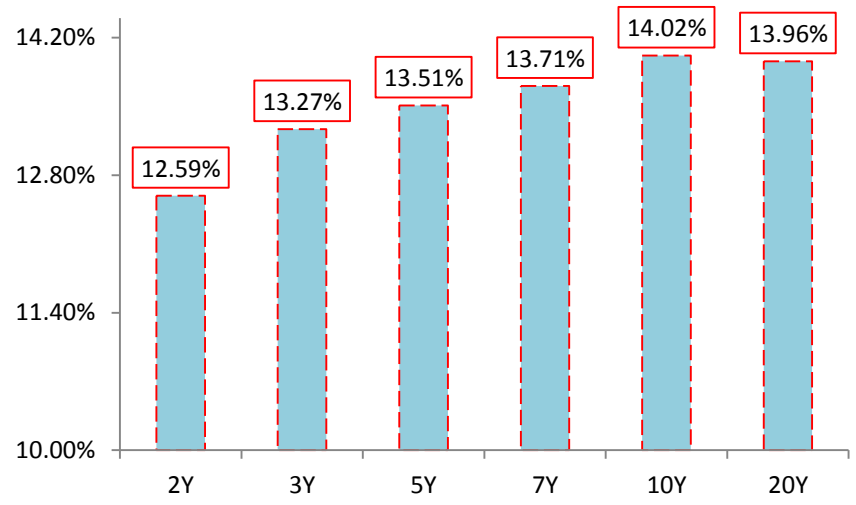
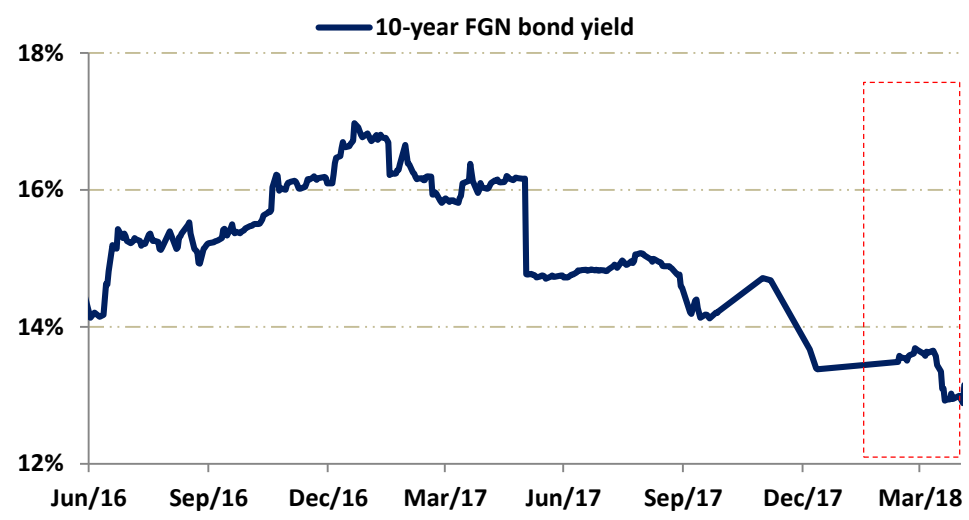
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-3.02%	4.1%	7.6x	2.0%
CONSUMER GOODS	1.02%	-6.3%	22.1x	1.9%
OIL AND GAS	-0.48%	14.5%	9.6x	5.3%
INDUSTRIAL GOODS	3.96%	3.9%	21.6x	3.5%
SERVICES	-1.0%	2.4%	2.6x	693.6%
HEALTHCARE	0.0%	0.0%	0.0x	1.4%
CONGLOMERATES	1.1%	-12.0%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

Market Round-up : June Bonds

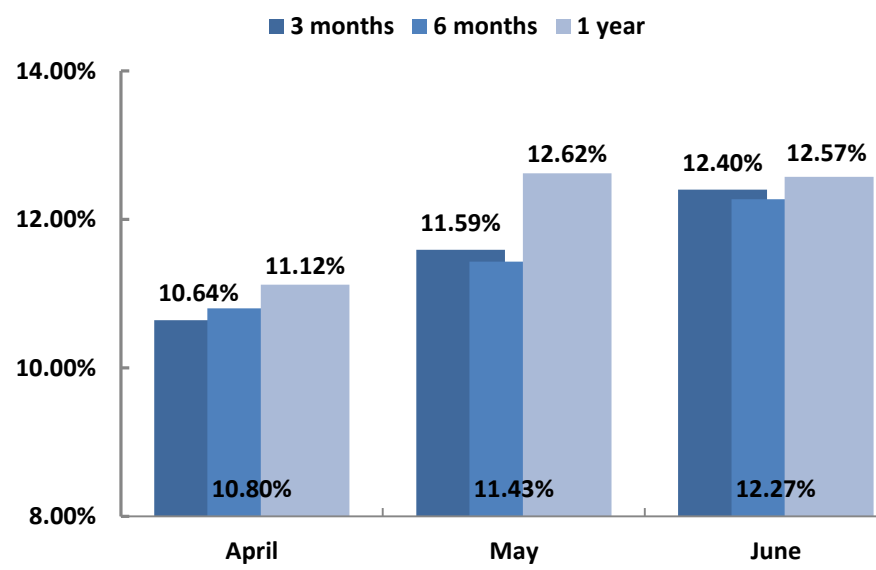
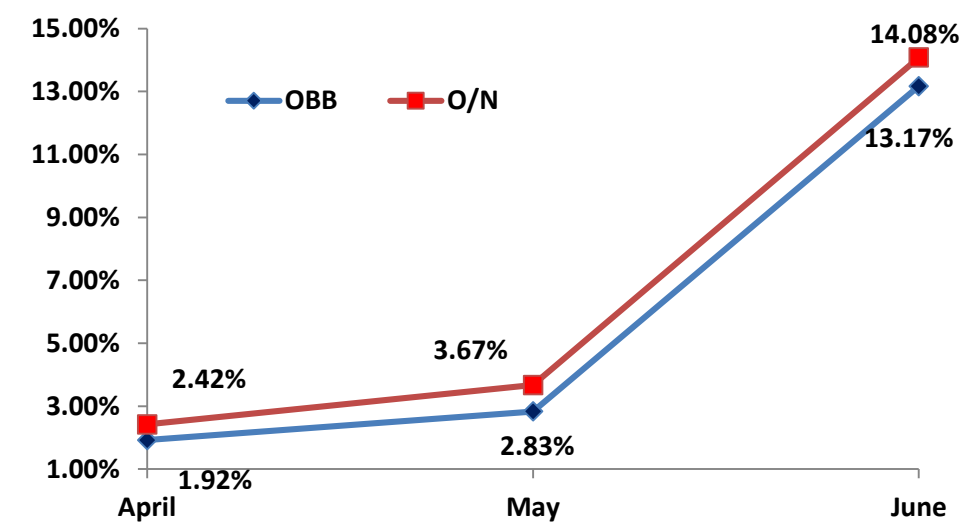
10 year average Bond Yield closed May at 13.04%

Secondary Market Bond Yield in June (%)



Short term Inter-Banks Placement Rates

Secondary Market Treasury Bills Rates



Source: Trustfund Pensions Ltd Research; fmdqotc

Market Outlook and Strategy

Although the improving economic fundamentals, based on recent data, could be aligning to support Nigeria markets rebound, politics is casting a cloud over the recovery and stability picture and this is likely to pacify the upside potential for the markets.

Equity

The performance of the equity market in the months ahead will be buoyed by the stability in the foreign exchange market, portfolio rebalancing from Pension Fund Administrations (PFAs) and Strategic positioning ahead of HY1 2018 results. Hence, we will take strategic positions in the stocks that pay interim dividends

Bonds

Yield on Fixed income will be largely driven by govt. borrowing to fund the 2018 budget deficit and the monetary policy normalization in the advanced countries.

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

The issuance of OMO to mop-up liquidity from the banking system, inflation expectation and the appetite for short term instruments for flexibility and trading will influence yield direction in the months ahead. We will continue to maintain a reasonable exposure to Money market and Treasury bills for liquidity and diversification.

We will be cautious on long equity positions and take available profits on “in the money” stocks positions and reinvest in attractive fixed income opportunities.