MONTHLY MARKET REVIEW AND FORECAST

OCTOBER 2017

TRUSTFUND PENSIONS PLC RESEARCH

NOVEMBER 2017

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

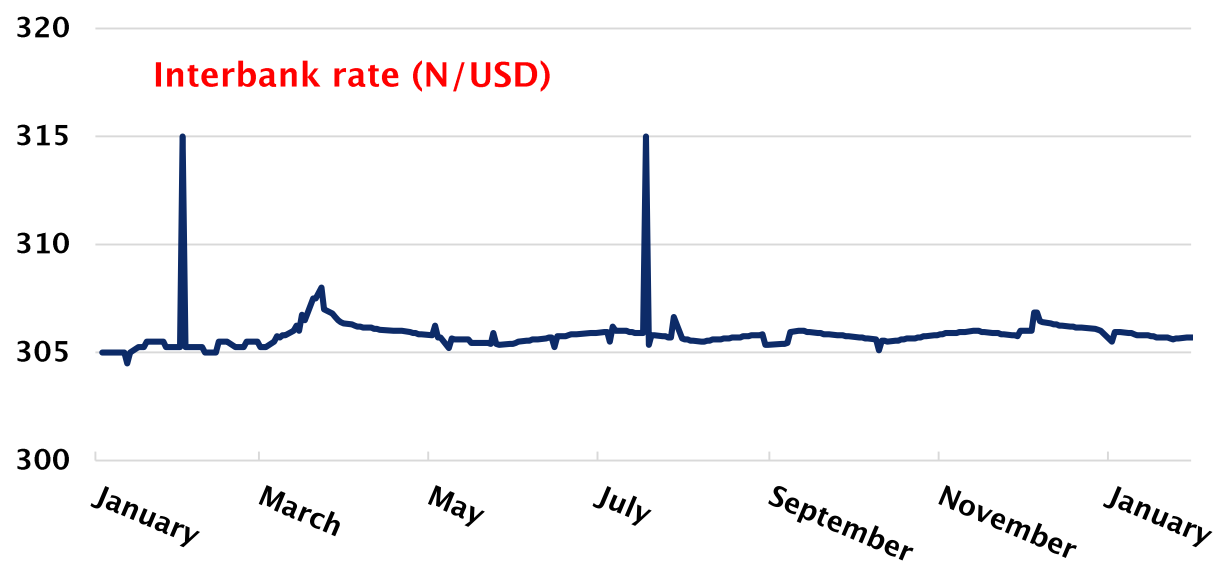
Outline

Snapshot of the Current Economic Environment

Macroeconomic Environment

- ✓ MPR at 14% (1.98% below inflation) leaves real investment return in the negative till October MPC meeting when the CBN is expected to elect between growth and price stability.
- ✓ Again, previous threshold sustained on CRR to support the quest to move the economy forward by extending reasonably low priced credit to the private sector.
- ✓ We expected inflation rate to compress further in November on slower increase in food inflation and naira appreciation on the parallel market.
- ✓ The value of the Naira weakened in the inter-bank space but appreciated by 0.83% to N362.50/$ on the parallel FX markets.
- ✓ Relatively high crude oil price coupled with improved oil production has led to a sustained accretion to the external reserves, which stood at US$33.8bn at the end of October.

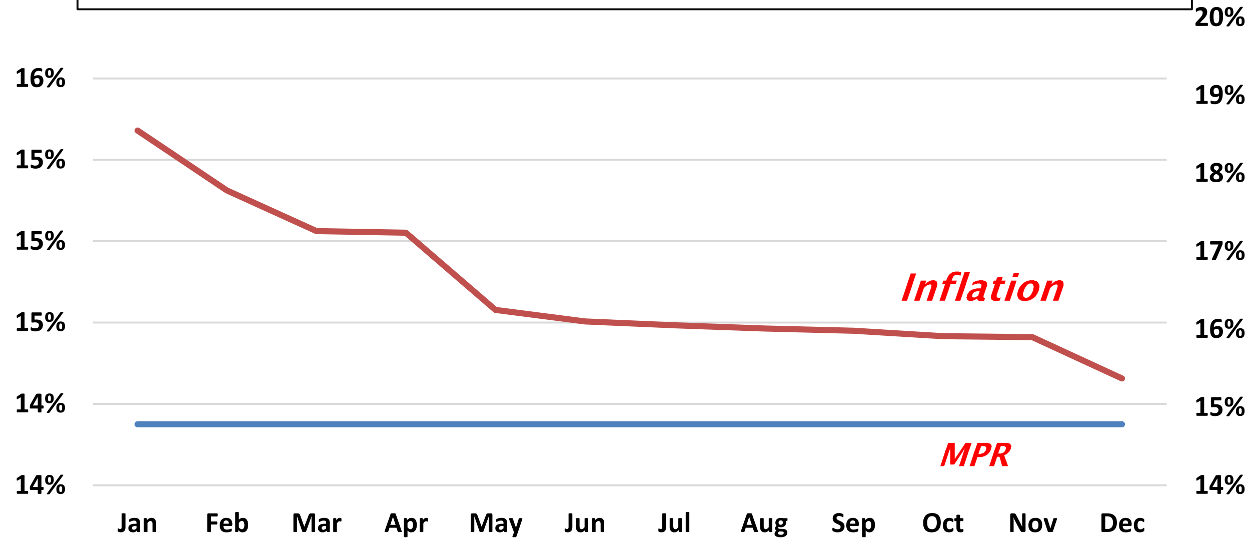
Naira/USD Exchange Rate Between Jan 2017 & Jan 2018



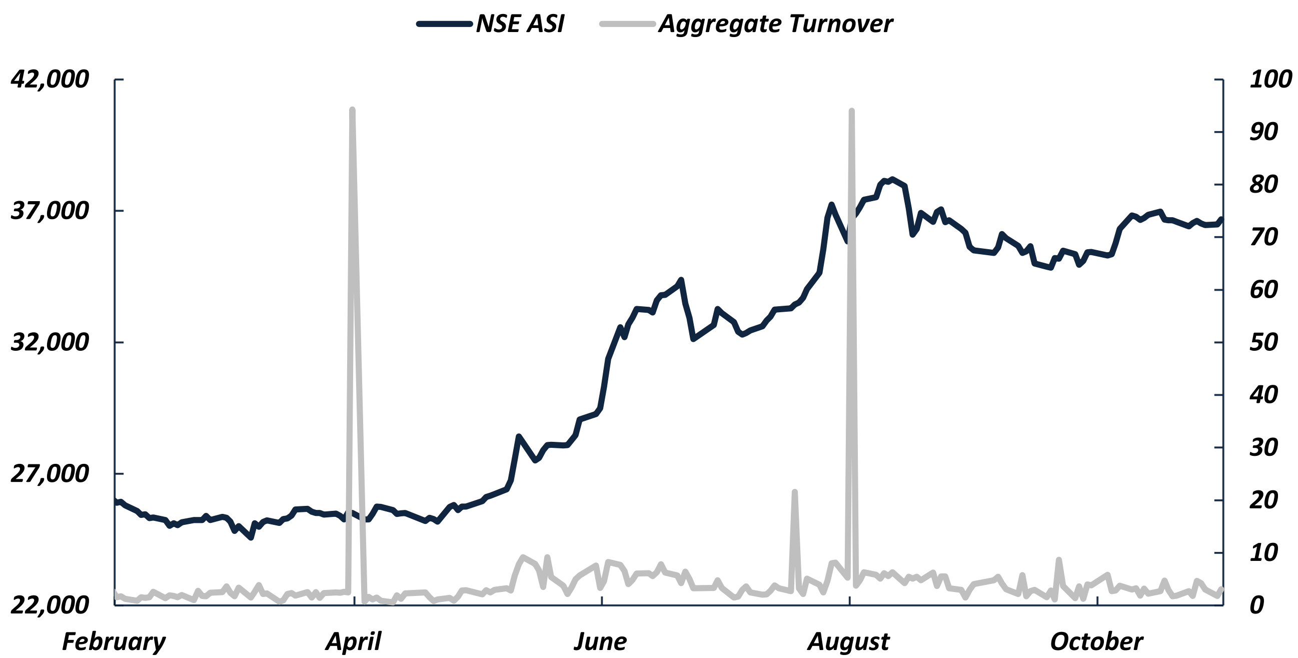
Month	*MPR*	*PLR*	*Inflation*	*Naira Returns*	*90 days T-bills rate*	*TFP 90 days MM*
Mar-17	14.0%	17.4%	17.3%	0.3%	13.6%	18.5%
Apr-17	14.0%	17.4%	17.2%	-0.2%	13.6%	18.8%
May-17	14.0%	17.6%	16.25%	-0.2%	13.5%	19.3%
Jun-17	14.0%	17.6%	16.10%	0.2%	13.5%	19.8%
Jul-17	14.0%	17.7%	16.05%	-0.1%	13.5%	19.9%
Aug-17	14.0%	-	16.01%	-0.1%	-	20.0%
Sep-17	14.0%	-	15.98%	0.1%	-	19.9%
Oct-17	14.0%	-	15.91%	0.0%	-	20.0%

Source: Trustfund Pensions Plc Research; Bloomberg

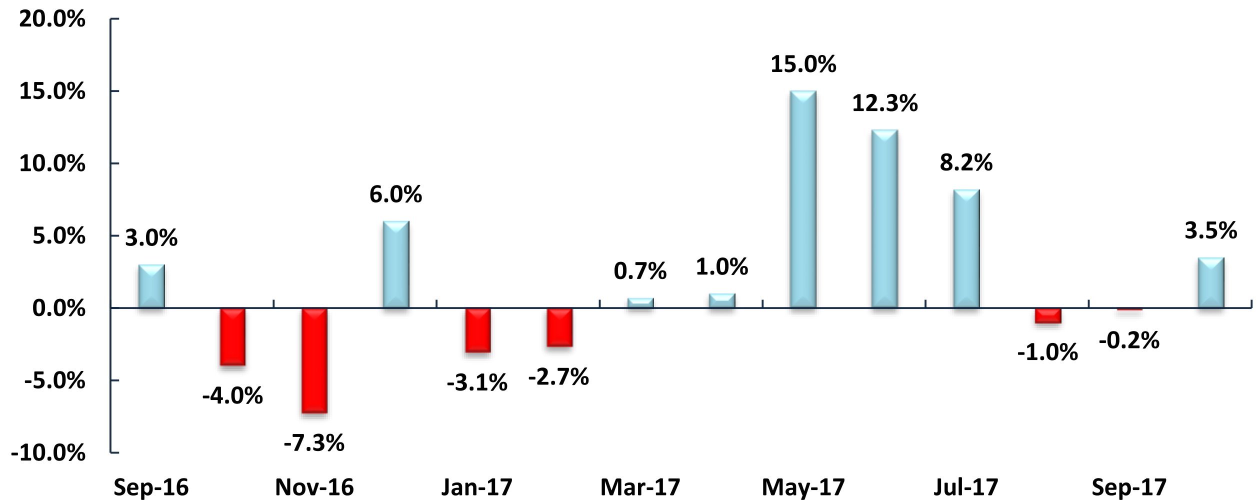
Negative real return waned gradually as inflation rate (now 15.91%) decelerates further



The Nigeria equity market has returned 36.49% YTD



Monthly Equity Movement



Source: Trustfund Pensions Plc Research; NSE

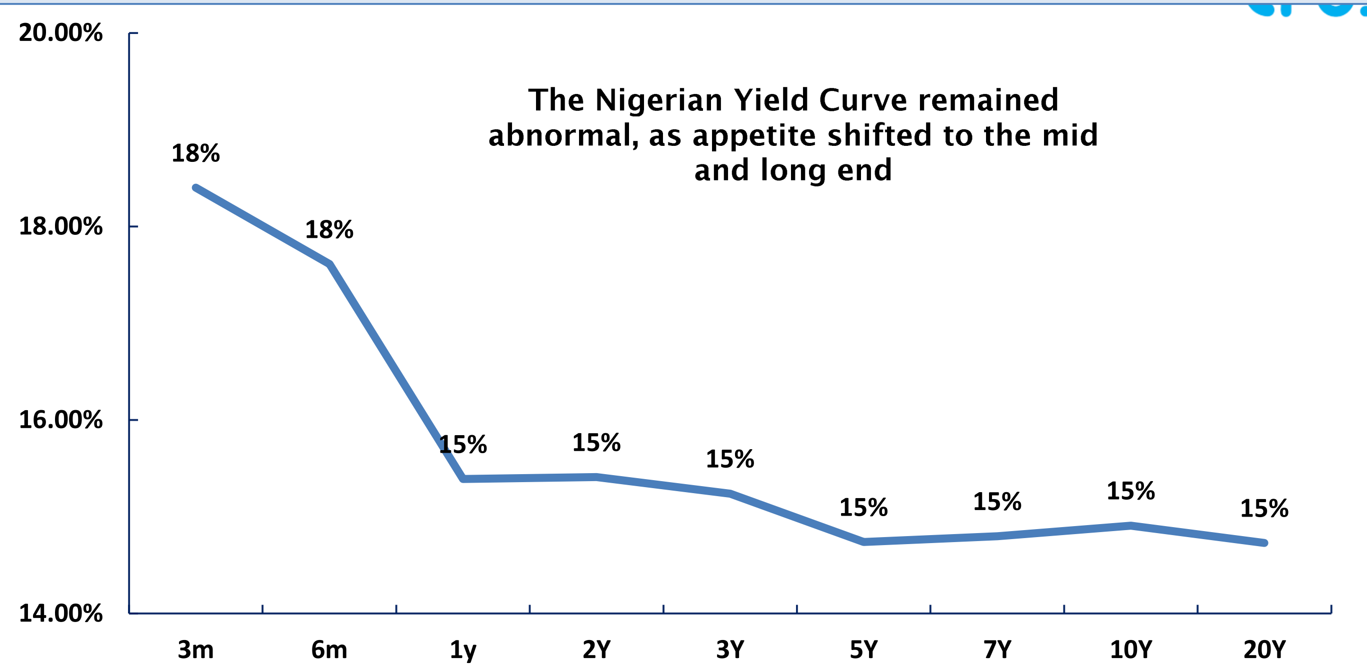
Equity Market Commentary

- The Nigerian equity market index rallied 3.50% in October, reversing previous down sessions as investors reposition on the strength of earnings power and the I&E window induced FX liquidity, spurring increase foreign portfolio inflow into the NSE.
- The uptick reflected more on the medium and high cap stocks like DANGCEM, FLOURMILL, UBA, FBNH, AFRIPRUD, ZENITHBANK, DANGSUGAR, GUARANTY and GUINNESS.
- Market breadth for the month closed positive as the numbers of advancers outpaced decliners in the ratio 49:30 on a high traded volume that was higher than previous month's level to halt the bear.
- As the market closed on good technical in October, we expect volatility to continue on the back of portfolio rebalancing, profit taking, market news and expectations ahead of the release of Q3 GDP figure on the 20th of November 2017.

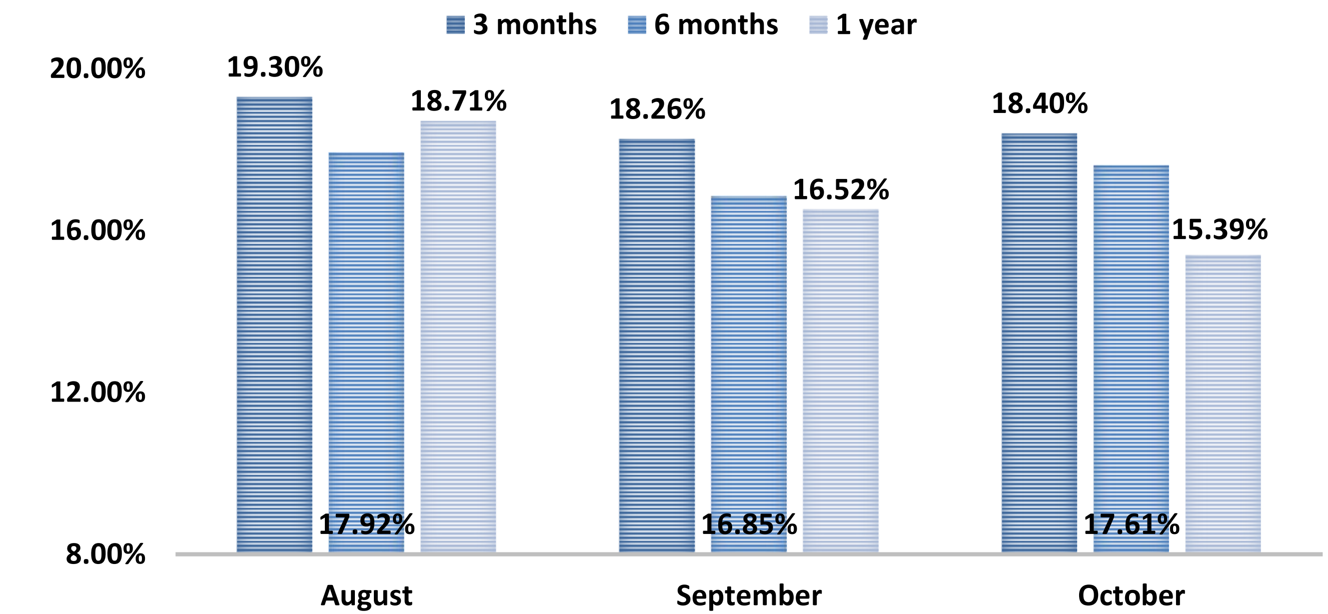
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-1.28%	66.1%	6.5x	4.8%
CONSUMER GOODS	0.51%	20.6%	22.2x	2.7%
INDUSTRIAL GOODS	0.00%	26.0%	20.5x	3.6%
OIL AND GAS	0.00%	-23.8%	10.2x	5.7%
SERVICES	-0.1%	3.8%	9.8x	5.1%
AGRICULTURE	-1.4%	98.9%	17.2x	0.8%
CONGLOMERATES	-7.2%	-15.8%	10.0x	6.3%
HEALTHCARE	0.1%	-10.2%	#DIV/0!	1.3%

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

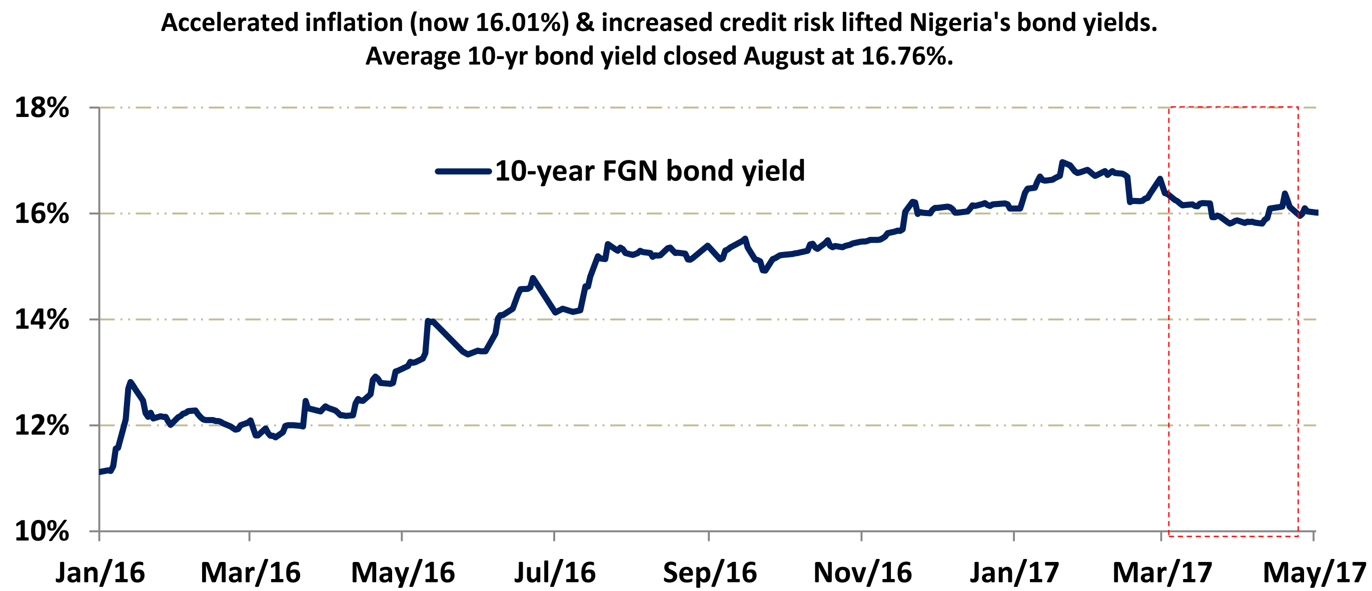
Market – Fixed Income; *Average bond yield now at 15% levels*



Secondary Market T-bills Rate (%)



2016 10-year Bond Yield Trend (YTD)



Source: Trustfund Pensions Plc Research; Bloomberg

- **Bullish sentiments permeated the bond market in October on upbeat demand across tenors which drove average bond yield southward by 77bps to 15.32% from 16.09% recorded in September.**
- **Underscoring this was the expectation of further drop in yield level, as confidence improved on key macroeconomic parameters couple with the expectation of lower October inflation reading, hence, the drive to quickly lock in at the current high yield.**
- **Conversely, average Treasury bills rate closed the month at 18.02%, a notable upswing, relative to the September threshold (17.41%).**
- **Hence, we expect demand to remain buoyant in the sessions ahead, as investors preference stays tilted to fixed income, especially, on the dearth of attractive entry point into equities on overvaluation.**

Market Outlook

The presentation of 2018 budget of consolidation should be a plus for the market as investors count on its efficient and effective implementation to support the recent recovery recorded in the Nigeria macroeconomic space. However, the same issues of revenue accruals, speed of passage and skill in execution would determine the success of the 2018 fiscal efforts. We emphasize the importance of capital expenditure and human capital investments in increasing Nigeria long term productive capacity. Hence, we remain upbeat on the macro outlook through year end, especially as investors price in the economic optimism stemming from the rising crude oil price and FX liquidity.

Equity

We will continue to take strategic positions in stocks that have good fundamentals to take advantage of the expected year end rally in the market. We expect that the stability in the economy, the drop in yields on fixed income and expectation of higher GDP growth in Q3 will buoyed sentiment on stocks in the months ahead.

Bonds

We will take position in the T-Bill yields of 180-Day and 364-Day at yields not less than 17%, as current yields on both the bills are still higher than inflation rate. We will realign our portfolios to increase the long-dated bonds and also take advantage of the opportunities in some Infrastructure Bonds and funds in the market.

Money Market

At 19.97%, average money market rates remain attractive for liquidity and profitability.

Similar to the bonds market, we expect T-bills yields to trend lower in the near term, as confidence improves on Nigeria macro space and inflation sustains the downtrend as the gap between the parallel and the interbank FX market compresses.

We will take profit on some assets where need be and redirect the proceeds to instruments at the short end of the yield curve and at an effective yield of not less than 18% in order to improve the portfolio return.