

# MONTHLY MARKET REVIEW AND FORECAST

MAY 2018

**TRUSTFUND PENSIONS LTD RESEARCH**

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# Outline

**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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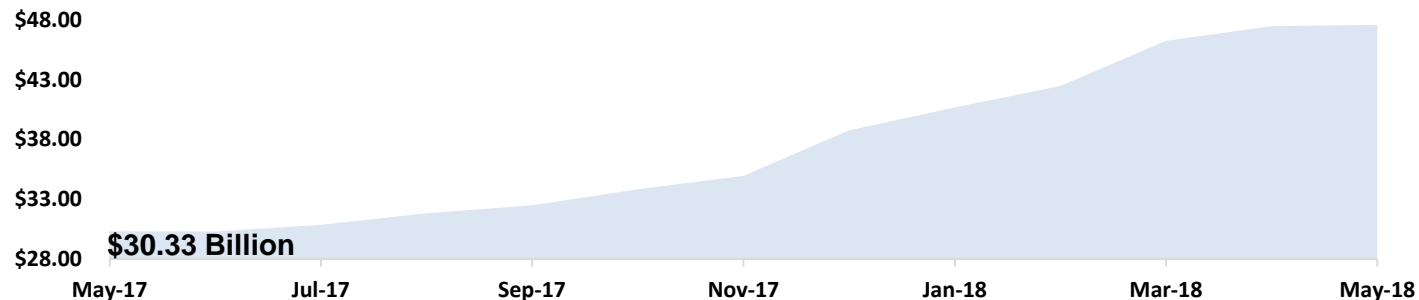
**Market Outlook**

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# Key Macro Variables: Evolving In the Positive Direction

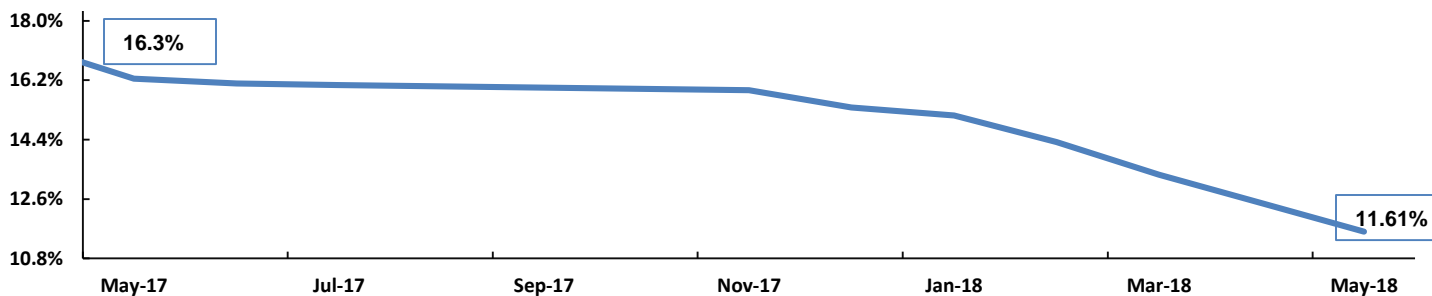
External Reserves (US\$mn)

\$47.61 Billion



The rising foreign capital inflows into Nigeria; favorable crude oil price; and increased oil production have led to significant accretion to the external reserves.

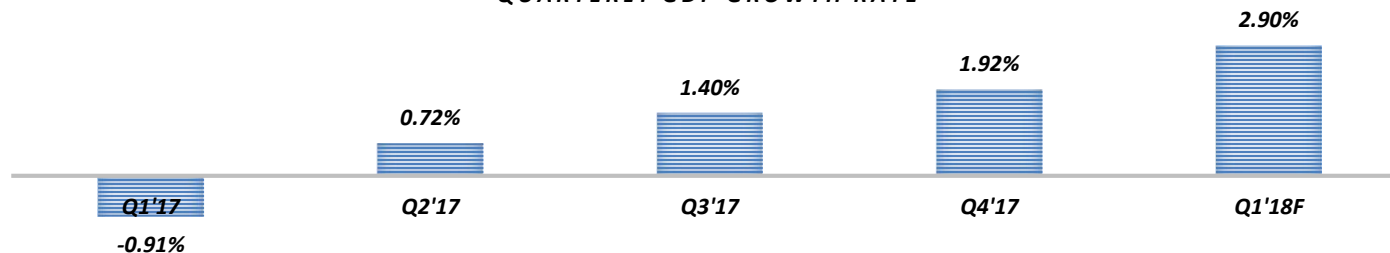
Headline Inflation Rate (%)



Headline Inflation rate declined further to 11.61% in May, mainly on account of base effect of the previous year.

Decelerating inflation & increasing macro confidence weighed on Nigeria's bond yields. Average 10-yr bond yield closed May at 13.44%.

QUARTERLY GDP GROWTH RATE

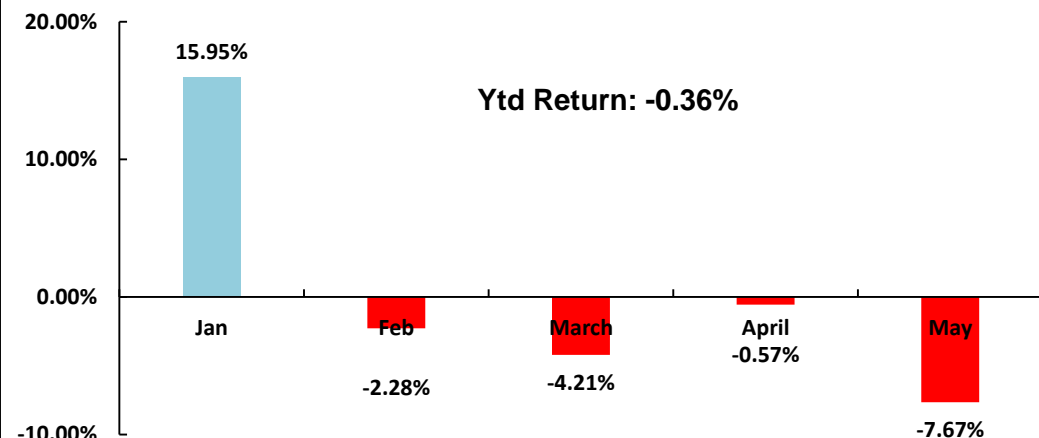


GDP growth is expected higher in 2018Q1 as macro variables evolve in the positive direction.

Thus, we remain less bullish on high yield in 2018Q2.

# May Equity Market Round-up

## Stock Market Monthly Performance Trend



- Nigerian stocks depreciated a further 7.67% in May, worse than the -4.21% loss recorded in March and -0.57% loss suffered in the previous month.

- Ytd performance fell to -0.36% in May, a fall out of accelerated and broad based selloff on the Banking and Industrial Goods stocks

- The downtrend is attributable to profit taking accentuated by uncertainty ahead of the general election in Nigeria next year and the fact that some foreign investors are repatriating their maturing fixed income investments due to low yields.

- Despite recent recovery recorded in the last few weeks, we opined that the market is yet to bottom as the latest rates hike in the U.S is likely to further dampen sentiments in 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

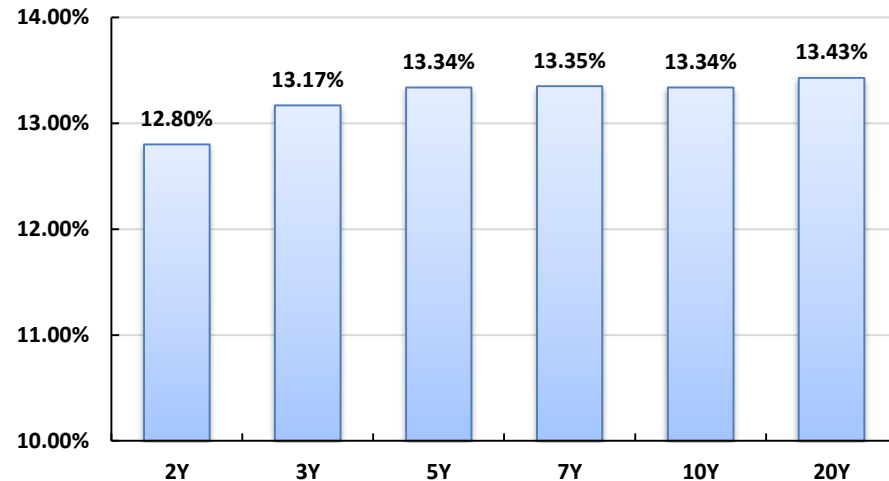
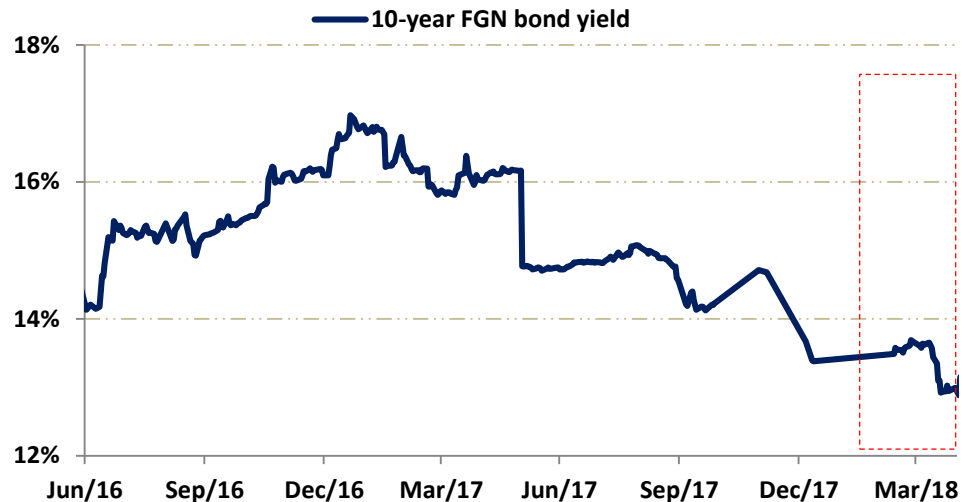
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-3.02%	4.1%	7.6x	2.0%
CONSUMER GOODS	1.02%	-6.3%	22.1x	1.9%
OIL AND GAS	-0.48%	14.5%	9.6x	5.3%
INDUSTRIAL GOODS	3.96%	3.9%	21.6x	3.5%
SERVICES	-1.0%	2.4%	2.6x	693.6%
HEALTHCARE	0.0%	0.0%	0.0x	1.4%
CONGLOMERATES	1.1%	-12.0%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

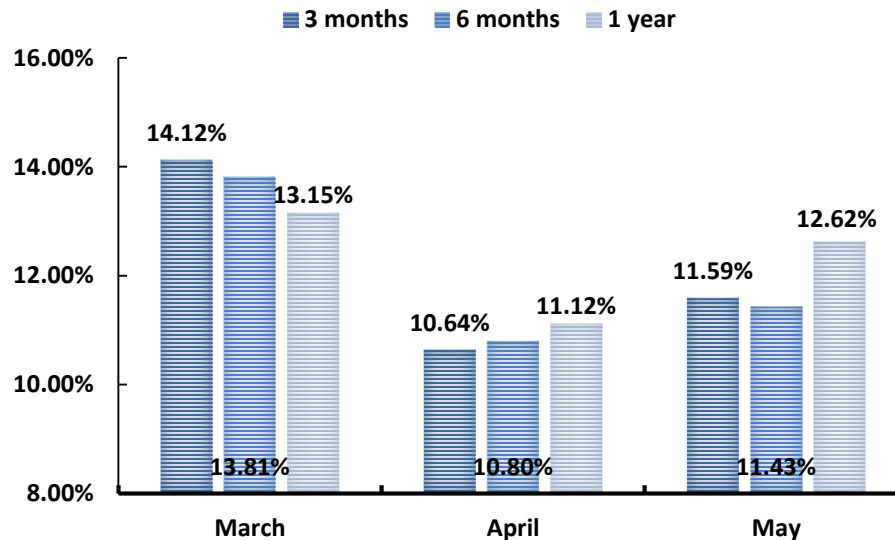
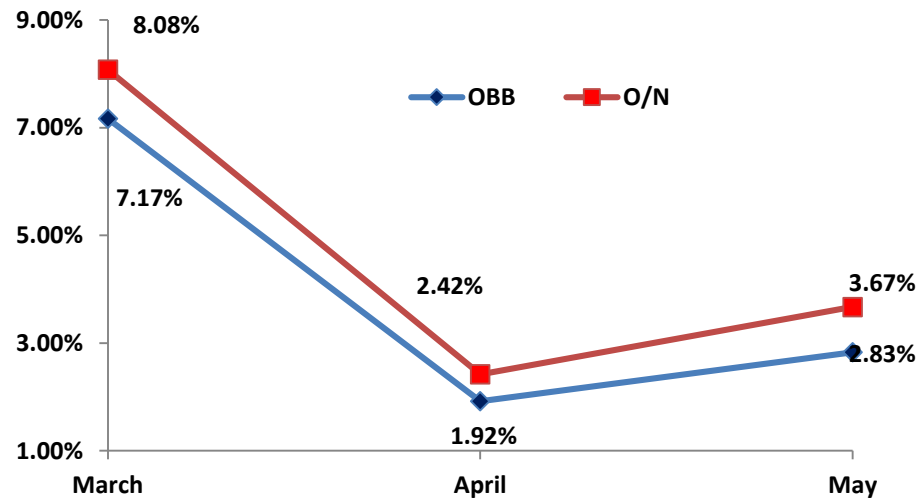
10 year average Bond Yield closed May at 13.44%

Secondary Market Bond Yield in May (%)



Short term Inter-Banks Placement Rates

Secondary Market Treasury Bills Rates



# Market Outlook

The bond and equity markets have shown less correlation since January - lower bond yields have yet to stimulate corresponding equity rally. Local bonds are relatively rich, while stocks remained tepid. Nonetheless, we are consciously optimistic about 2018FY corporate returns amid clearer macroeconomic picture. Top picks include: UBA, DANGCEM, NESTLE, FBN, ACCESS, GUARANTY, PRESCO.

## Equity

Investors are projected to be bullish on equities in the near term on compressing yields on fixed income instruments and the commencement of the Multi-fund structure on the 1<sup>st</sup> of July 2018 as directed by PENCOR. Hence we see a more excited equity market, even as we step into the build up to the 2019 elections.

## Bonds

We see profit taking opportunities in the bond market. With average yield at 12.95% (Ytd lows), it's strategic to lock-in gains especially on longer duration instruments. This is crucial because the current low yield might be sustainable in view of the downsides of excess liquidity and declining inflation rate.

## Money Market

The CBN has demonstrated weaker appetite for open market operations due to implied monetary easing policy. Thus, money market rates (especially Overnight Rates) should remain unattractive in the month ahead on the back of excess liquidity.

**We will continue take profit on some FGN bonds and redirect the proceeds to other bonds with higher return to improve the portfolio return. Our preferred stocks are qualified by dividend yield of at least 5% and competitive growth outlook.**