Trustfund

# MONTHLY MARKET REVIEW AND FORECAST

## OCTOBER 2018

**TRUSTFUND PENSIONS LTD RESEARCH**

N O V E M B E R   2 0 1 8

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

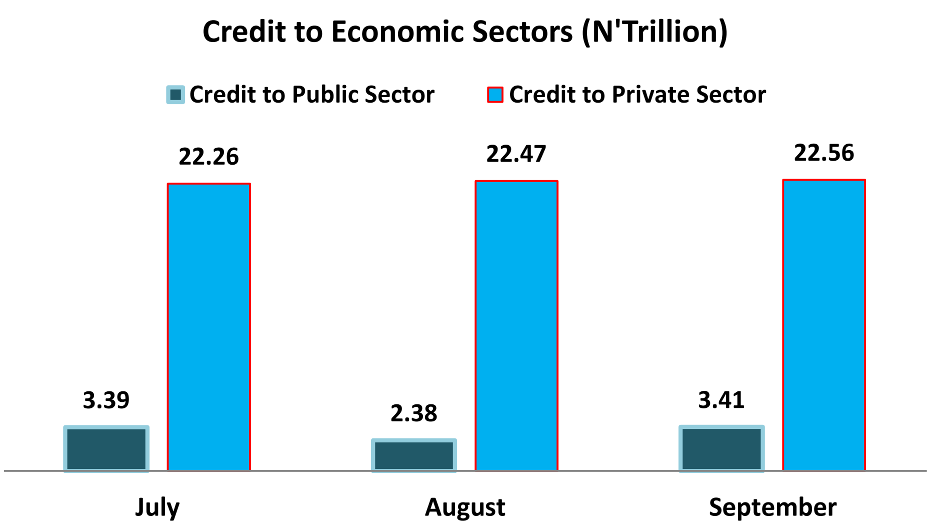
# Outline

# Nigerian Macro Review

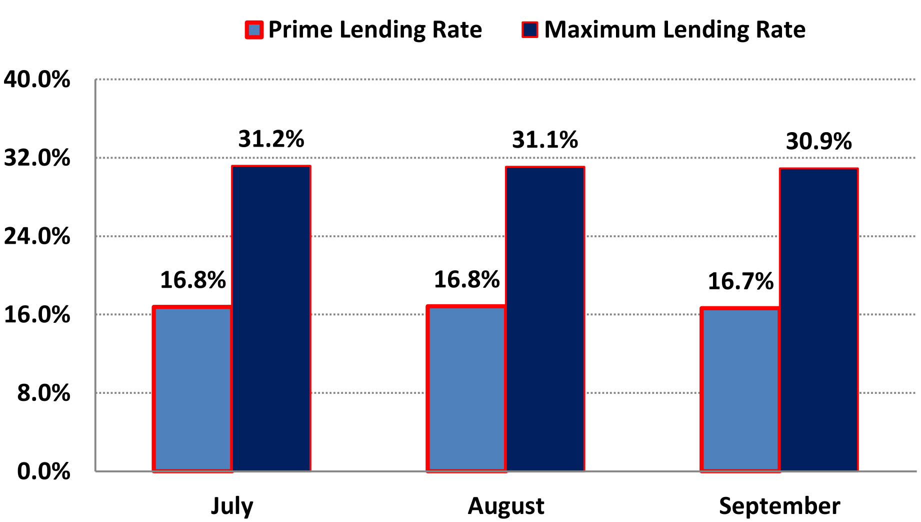
Trustfund

| Headline | September | October | %Change | Remark |
|---|---|---|---|---|
| Monetary Policy Rate (MPR) | 14% | 14% | +0.0% | The benchmark policy rate remains at 14% and is expected to be sustained at the next meeting as inflation outlook means that monetary policy stance will remain tight. |
| Cash Reserve Requirement (CRR) | 22.5%/22.5% | 22.5%/22.5% | +0.0% | Likewise CRR was sustained at the previous threshold and no adjustment is expected at the next MPC meeting to ensure sufficient system liquidity for year end. |
| Inflation | 11.28% | 11.28% | 0.00% | Headline inflation increased for two consecutive months and is projected to rise further in October to 11.35% on account of high food prices, largely due to a drop in food supply. |
| Exchange Rate (NGN/USD) | N306.35 | N306.60 | 0.08% | Naira was relatively stable in the interbank market with a marginal uptick of 0.08% to N306.60/$USD from N306.35/$USD previously. |
| External Reserves (USD'bn) | $44.31 | $42.00 | -5.00% | CBN intervention in the FX market was sharply higher - 45% at $1.51bn in October, leading to increased depletion of the external reserves to $42.00bn |

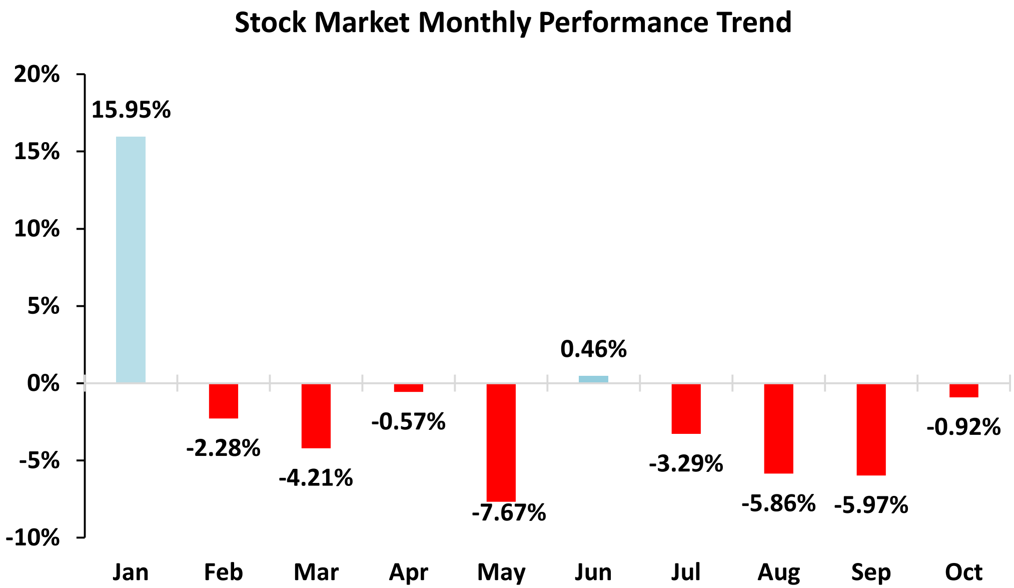
**Credit to private sector increased mildly by 0.4% to 22.56% in Sept.**




**Commercial lending rates was mildly lower for all borrowers**



# September Equity Market Round-up




## Sector Performance Summary

| Sector Indexes | Today's Return | YTD Return | Dividend Yield | P/E (x) |
|---|---|---|---|---|
| FINANCIAL SERVICES | -4.27% | -13.7% | 2.4% | 6.3x |
| CONSUMER GOODS | 0.50% | -24.5% | 2.4% | 17.9x |
| INDUSTRIAL GOODS | -0.06% | -13.6% | 4.2% | 17.9x |
| OIL AND GAS | -0.05% | -5.2% | 6.4% | 8.2x |
| CONGLOMERATES | -3.89% | -39.0% | 11.4% | 5.6x |
| SERVICES | -0.86% | -11.9% | 804.4% | 2.2x |
| HEALTHCARE | 0.00% | -27.7% | 2.1% | #DIV/0! |
| CONSTRUCTION/REAL ESTATE | -0.63% | -20.9% | 5.9% | 5.8x |
| AGRICULTURE | 0.00% | 2.8% | 2.1% | 18.6x |

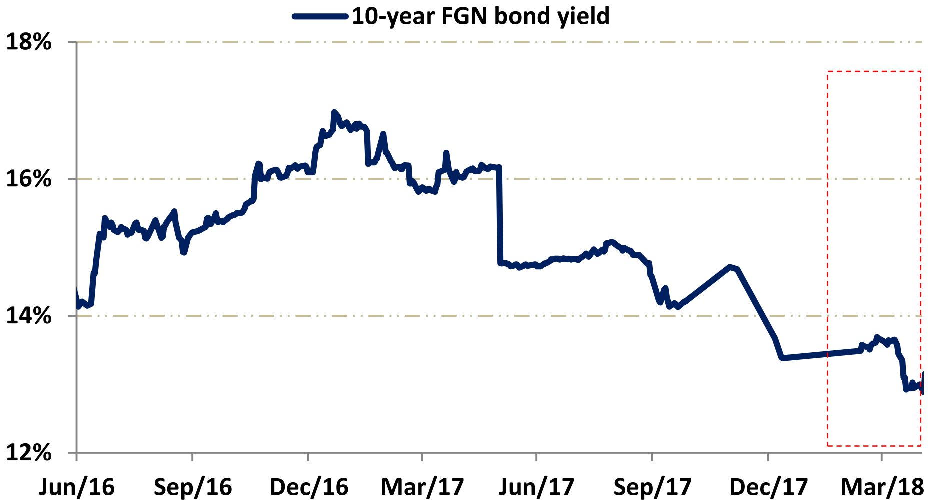
*YTD means Year-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings

- *The investors' apathy that dominated the equity market in 2018-Q3 continued in October as the lead index shed a soft 0.92% in the month.*
- *Key downsides to stocks performance include: increasing capital outflow by foreign investors and relatively high yields on fixed income instruments.*
- *Hence, Ytd loss worsen to -15.11% and is expected to sustain the low in November as confidence dip further on the economy on rising inflation rate and political risk of the forthcoming elections.*
- *This weighed on the equity return in our RSA portfolio which decreased further to -18.31% in October from -16.47% returned in the previous month.*
- *Nonetheless, we remain optimistic of a rebound in equities especially after the 2019 elections and expect the usual year end rally in December to help suppress the impact of the current loss on the portfolio.*

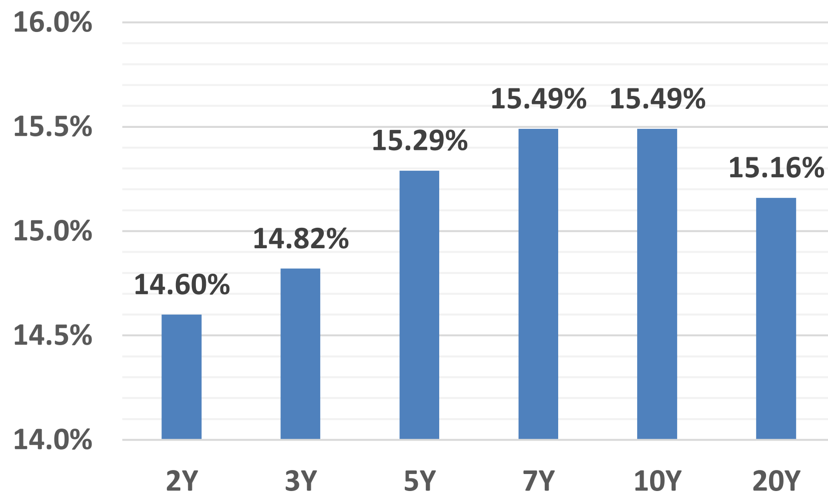
Trustfund

# Market Round-up : Bonds

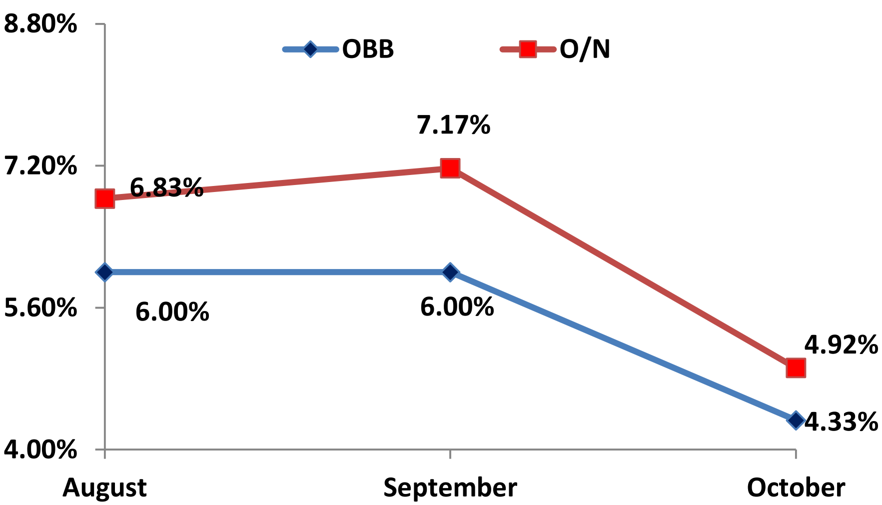
## 2018 Ytd 10 year average Bond Yield trend



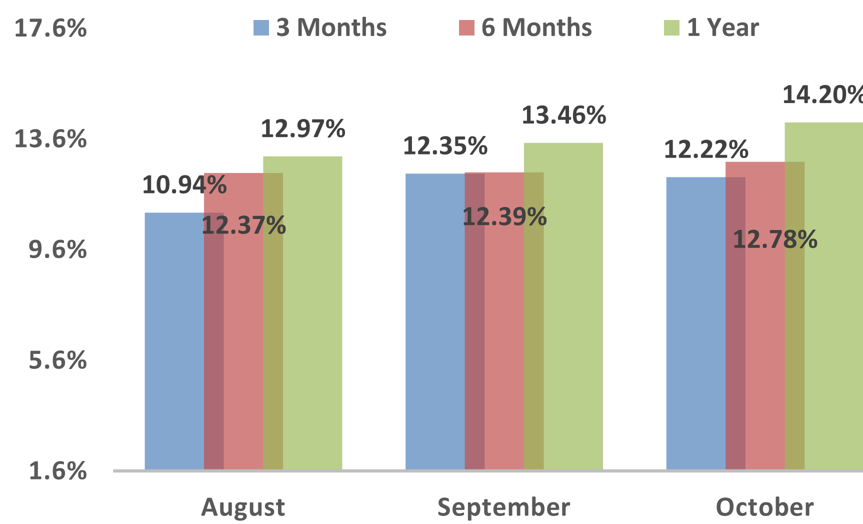

## Secondary Market Bond Yield in September (%)




## Short term Inter-Banks Placement Rates




## Secondary Market Treasury Bills Rates




Source: Trustfund Pensions Ltd Research; fmdqotc

# Market Outlook and Strategy

The outlook for the year, however, remains positive as the economy is projected to grow by 1.75% in 2018 (CBN forecast), anchored on continued stability in the foreign exchange market, sustained high price and production of oil. However, Inflation outlook suggests a mild resurgence of inflationary pressure in the economy, traceable largely to cost-push factors, election related spending, amongst other domestic factors, all of which may exert downward pressure on consumer prices in the near-term.

**Equity**

There may be further pullback by foreign investors as yields in the global economy increase and the persisting uncertainties in the Nigerian economy make the Nigerian equity market less attractive.

We will be conscious and may gradually enter the equity market through cost averaging investment strategy, with focus on stocks that have good fundamentals.

**Bonds**

Taking into account the recent increase in the Fed rate and expectations of a further increase in December 2018, together with the election considerations and weak economic performance, we envisage that the yields on fixed income securities will trend up further in the month ahead.

Hence, we will continue to take position in high coupon bonds, at low premium, to improve portfolio return

**Money Market**

Maturing government securities and FAAC injections will underpin liquidity position in November. Hence the CBN is expected to use OMO to manage liquidity in the market which will spur higher yields on short-term securities.

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.