

MONTHLY MARKET REVIEW AND FORECAST FOR APRIL 2020

TRUSTFUND PENSIONS LTD RESEARCH

Outline



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Outlook

GLOBAL MARKET

Coronavirus outbreak dampened market mood

Global equity market witnessed a rebound in April, as stimulus packages provided by governments, the reduction in number of new COVID-19 cases and heightened hopes of reopening the economy lifted market mood. More so, the bearish setup witnessed the previous month created room for bargain hunters to lock-in at attractive entry prices.

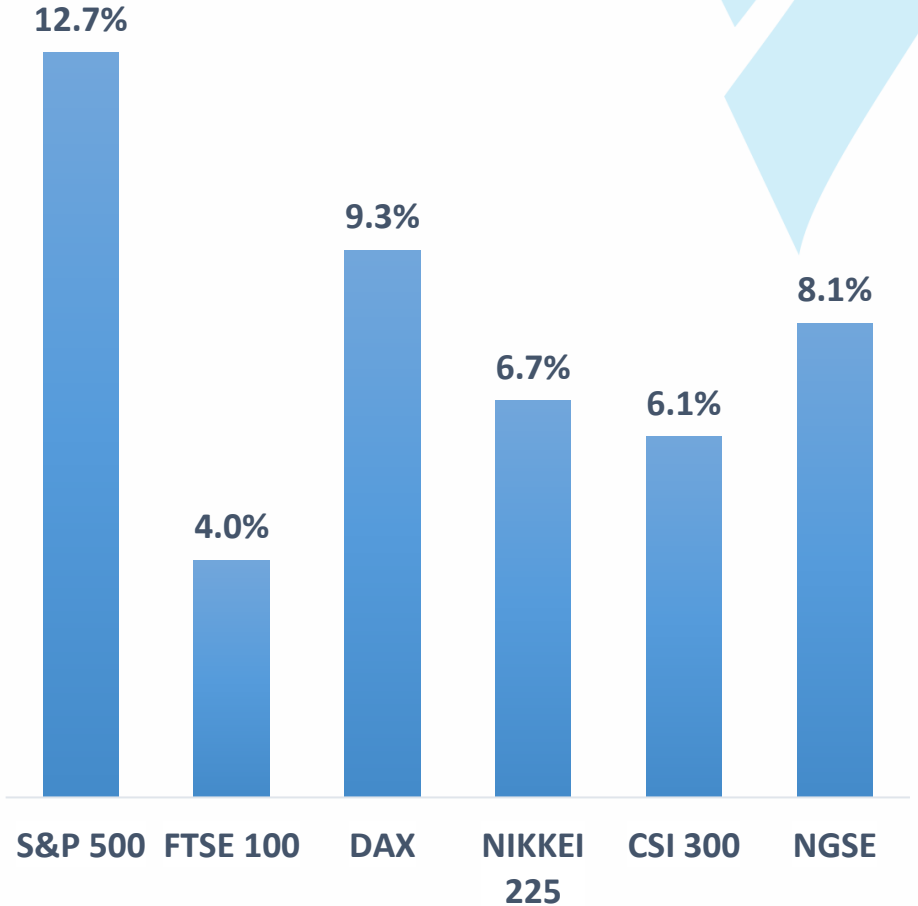
In US, despite the 20 million jobless claim reported in April and lower GDP (down 5%), S&P 500 gained 12.7% m/m as investors focused on Feds rate cuts and stimulus measures.

In Europe, both UK's FTSE 100 (+4%) and German DAX index (+9.3%) finished positive as various European countries outline measures to reopen the economy.

In Asia, both China's CSI 300 (+6.1%) and Japan's NIKKEI 225 (+6.7%) traded on a bullish note as the hope of finding a cure/vaccine for COVID-19 lifted market mood.

We expect updates from drug research labs, oil price movement and how quickly governments are able to respond to the economy to set market mood in May.

GLOBAL EQUITY RETURN FOR APRIL (%)



Source: Bloomberg/ TFP Research.

Nigerian Macro Review

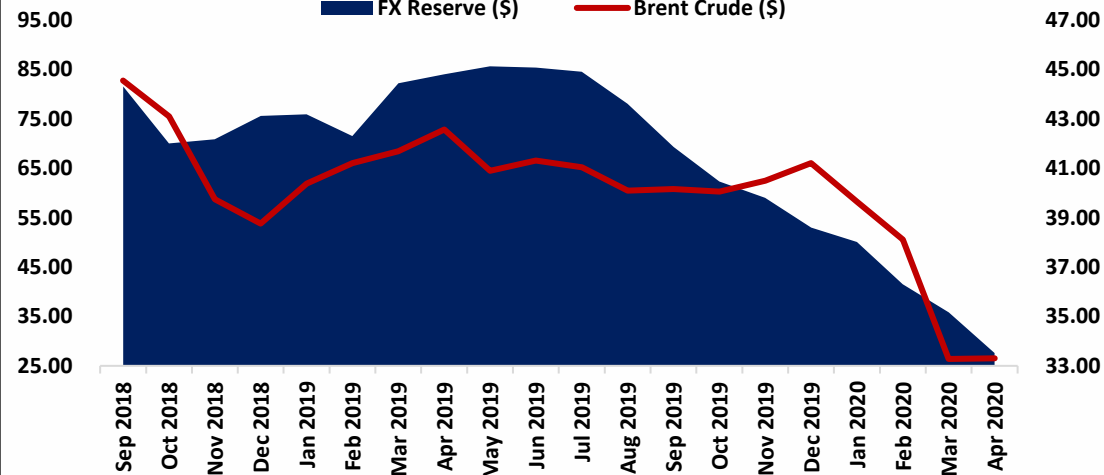
Headline	MAR'2020	APR'2020	%Change	Remark
Monetary Policy Rate (MPR)	13.5%	13.5%	0.00%	MPR remain stable at 13.5% despite the low-rate environment.
Inflation	12.26%	Not released	0.00	Inflation rate increased by modest 6bps to 12.26% in March, from 12.2% recorded in February as the impact of COVID-19 pandemic began to trickle in. We expect the full impact of the panic buying of food and other essential items to stoke inflation rate higher in April.
Exchange Rate (NGN/USD)	₦361	₦361.00	+0.00%	The official exchange rate remained relatively unchanged as business activities slowed down amidst the COVID-19 pandemic.
External Reserves (USD'bn)	\$35.16	\$33.52	-5.00%	External reserve fell by \$1.6 billion in April as crude oil prices pummeled by over 60% ytd from \$66.67 to \$26.50 amidst price war between Saudi Arabia and Russia. This is the 11 th consecutive month/month decline in reserve.

External Reserve dipped by \$1.6 billion in April

Inflation currently at 12.26% y/y is expected to spike in April

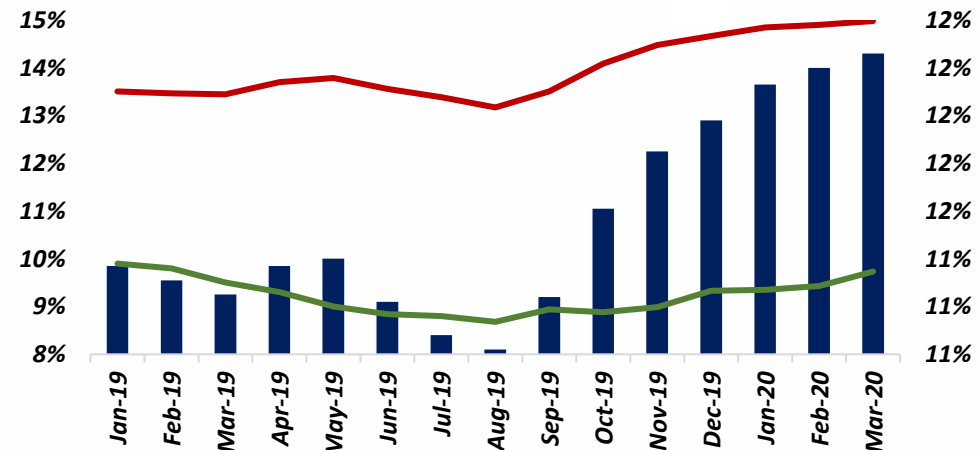
Nigeria's FX Reserve Vs. Oil Price Movement

■ FX Reserve (\$) — Brent Crude (\$)



CPI (%) MAR 2019 - MAR 2020

■ Headline Inflation — Food Inflation — Core Inflation



EQUITY MARKET

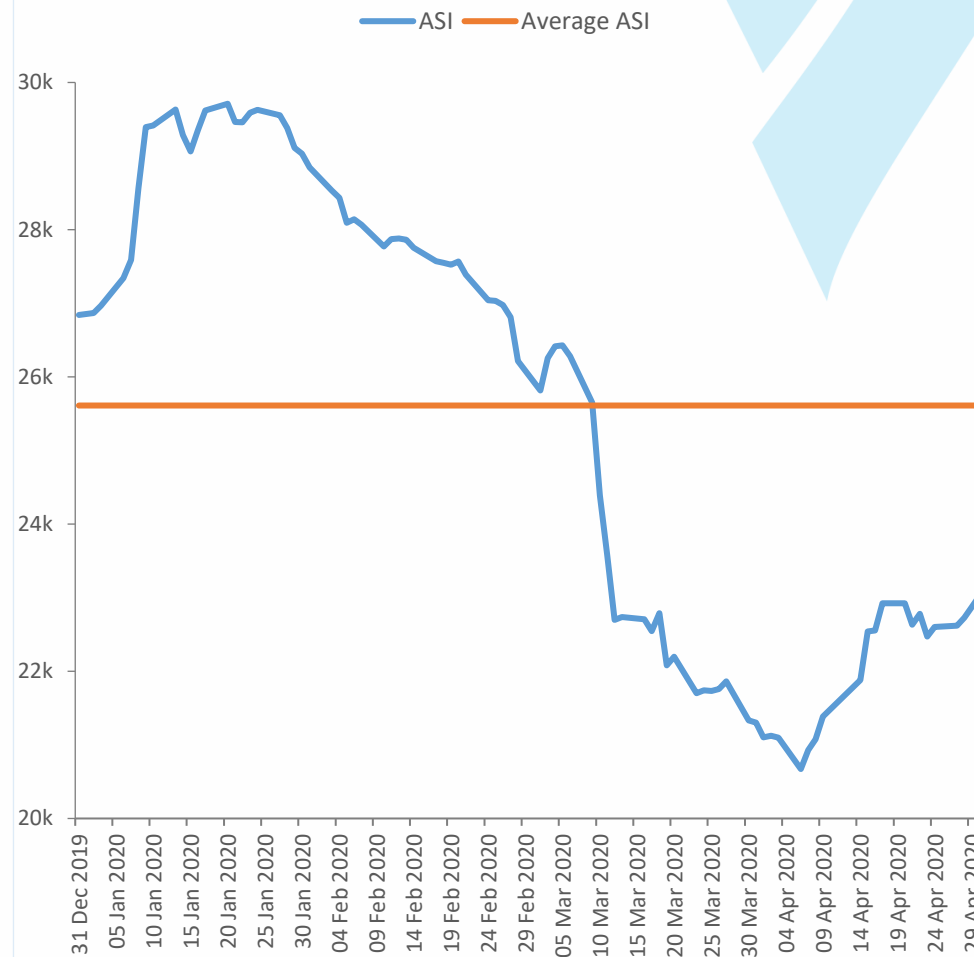
The local bourse traded on an optimistic note in April as the 19% loss (mostly sell-off from foreign players) recorded in the previous months provided bargain hunting opportunities for local investors. Likewise, investors jostled to take last-minute position to qualify for FY2019 dividends in selected tickers while others took position for Q1-2020 earning season.

Consequently, the broad index gained 8.1% to close at 23,021 index points, moderating Ytd. return to -14.24% and market capitalization at N12 trillion.

The stocks that contributed the most to the advance are MTNN (+24.4%), NESTLE (+20.3%), GUARANTY (+18.6%), ZENITHBANK (+22.2%), WAPCO (+28.3%) and OANDO (+21%). On sector front, impressive gains from Banking (+15.14%) and Consumer goods (+14.02%) indexes far outweighed losses from Oil/Gas (-2.84%) and Industrial goods (-2.66%) indexes.

We expect market players to remain cautious amidst global growth concern triggered by viral spread and lower oil prices. However, we anticipate the lower stock prices to spur bargain hunting as investors cherry-pick stocks with strong fundamentals for long-term investment and position for dividends.

NGSE-ASI YTD MOVEMENT



Source: Bloomberg/TFP Research

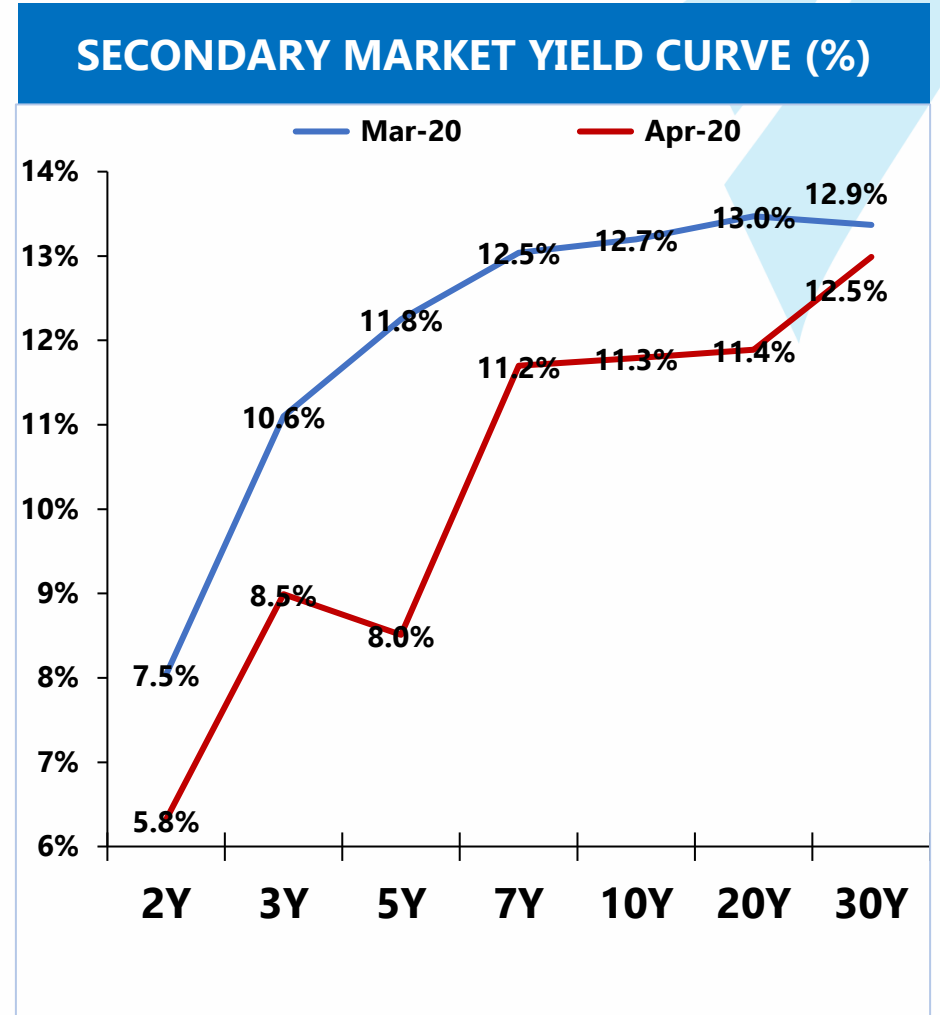
FIXED INCOME MARKET

The fixed income market was largely bullish as yields in all segments of the market moved downwards. To illustrate, average yields on benchmark bonds shed 180bps to 10.06%, while average discounted rates on OMO bills and NTBs decreased by 457bps and 94bps to 9.35% and 2.67% respectively.

It can be agreed that the bullish sentiments witnessed in the bond market was due to increased local investor demand, given the low yield rates on fixed deposit and NTB instruments. Notably, the instruments that recorded the highest demand were the MAR 2025 and JAN 2026 issuances, which shed 375bps and 307bps off their previous levels.

Additionally, the DMO conducted a strongly subscribed bond auction in which N60.00 billion was offered across the 12.75% FGN APR 2023, 12.50% FGN MAR 2035 and 12.98% FGN MAR 2050 instruments. However, the auction was oversubscribed with subscription levels being at roughly N275.67 billion, with up to N176.06 billion eventually sold to investors.

In the NTB space, yield levels were brought to new lows as demand was evident throughout despite the low rates within that space. Furthermore, there were three NTB auctions conducted during the month in which the DMO rolled over a total of N285.70 billion worth of bills, despite the high subscription of N564.64 billion across all three auctions. It is worthy to note that stop rates this month closed lower than in March.



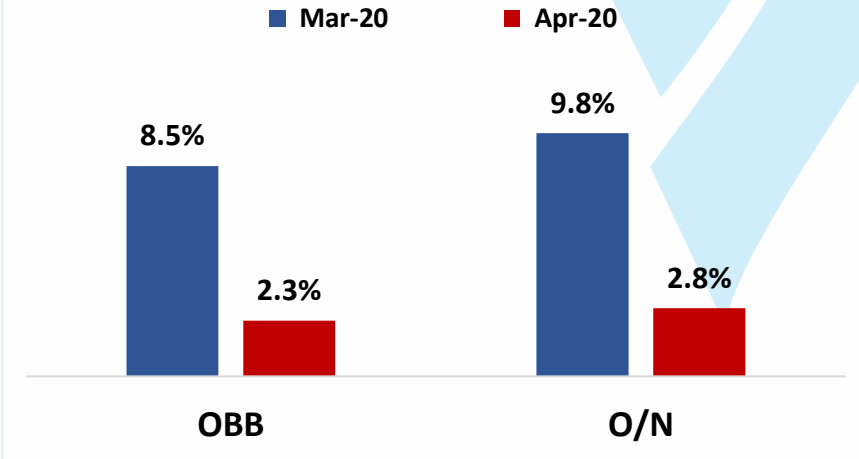
FIXED INCOME MARKET

In the OMO bills space, there was a rebound in trading activity as demand seemed to skyrocket in April. Further research revealed that this trading pattern was most likely as a result of FPIs re-investing in OMO bills pending when the FX market picks up after being unable to repatriate proceeds from bond sales.

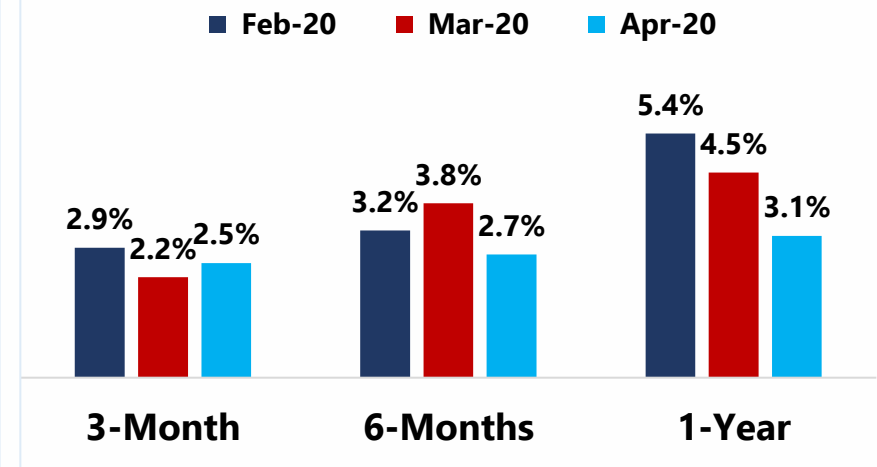
MARKET OUTLOOK

- In the coming month, the DMO is set to conduct a primary bond auction on 20th May 2020, where about N30.00 billion to N60.00 billion across the APR 2023, MAR 2035 and MAR 2050 instruments will be offered to investors through re-openings.
- As a result, we expect to see a mild uptick in yield levels due to an increase in supply of instruments stemming from the FG's plan to increase its domestic borrowing.
- In addition, we believe that the relatively low maturity profile of the month of May will support higher yields, especially on short tenor instruments (where we believe majority of investor interest will be due to the uncertainty surrounding the long term outlook on market conditions).
- In essence, we expect a bullish month overall in the fixed income market for the month of May.
- Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.

SHORT TERM INTER-BANKS PLACEMENT RATES



SECONDARY MARKET NTB RATES



MARKET OUTLOOK AND STRATEGY

The relentless spread of COVID-19 halted the bullish momentum witnessed earlier in the year as WHO reclassified the viral infection as *pandemic*. Also, IMF's projection of -3.4% GDP contraction and downgrades from rating agencies are expected to keep market uncertainties heightened through Q2'2020.

E Q U I T Y

We expect market sentiment to remain tepid as investors scan for catalyst to boost market mood amidst the uncertainties.

In spite of the above, we anticipate bargain hunting of underpriced bellwether stocks. Hence, we will take position in stocks with strong fundamentals and dividend payment history.

F I X E D I N C O M E

Bond – We will continue to monitor exposure to government securities while seeking opportunity for bond portfolio rebalancing.

Corporate Bonds – Our focus will be on available "A" rated corporate bonds at attractive yields to further boost portfolio return.

Treasury Bills – NTB yields are likely to remain at current level (average of 3%).

Money Market – We will be strategic and continue to deal at best market rates to sustain our liquidity laddering plan.

We will be aggressive on stocks with significant inflow on the bourse, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.



THANK YOU
