MONTHLY MARKET REVIEW AND FORECAST
FOR FEBRUARY 2020

TRUSTFUND PENSIONS LTD RESEARCH

M A R C H 2 0 2 0

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

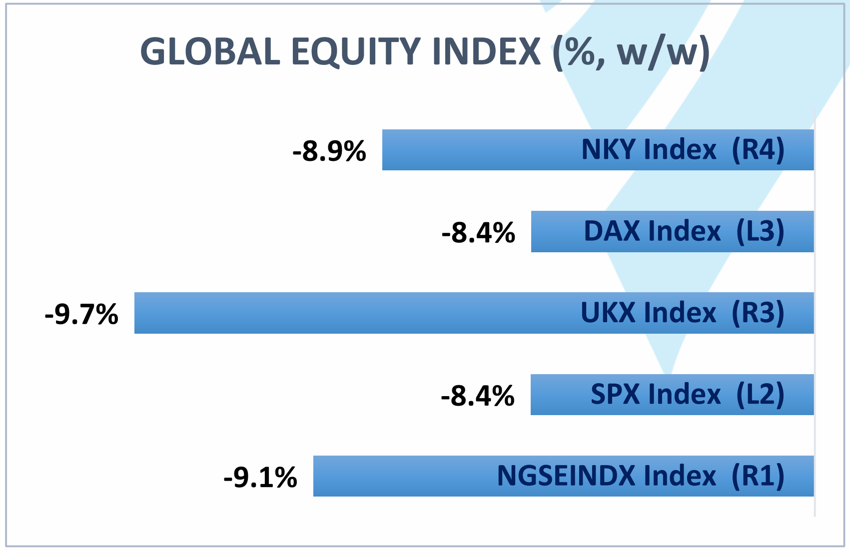
GLOBAL ECONOMY

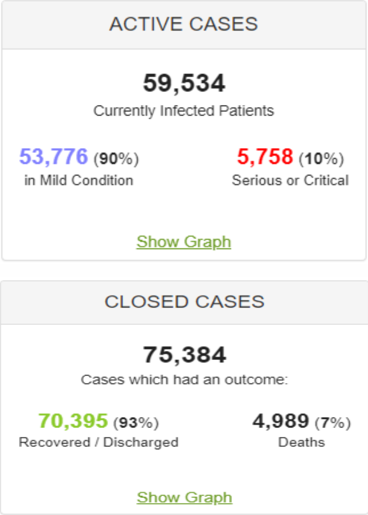
March 19, 2020

HOW COVID-19 IS IMPACTING GLOBAL ECONOMY

- Brent crude and WTI dropped by 25% to $49.67 and $44.76 respectively.
- India suspends visa issuance for one month to curb the spread of COVID-19.
- US Federal Reserve and Bank of England slashed interest rate by 50bps to 1-1.25% and 0.25% respectively. While ECB plans to cut its -0.5% interest rate further down the redline.
- WHO declared coronavirus pandemic.
- Airlines, tourist destinations and hotels are the worst hit.
- NBA suspends season after a Utah player got infected. Grand Prix and Football are not spared – Arsenal coach contracted the virus. Tom hanks and wife are also infected.

Considering the above, investors were seen scampering for safety by selling offshore investments. Traditionally, rate cuts from central bank should drive the stock market, however, uncertainties around the extent at which COVID-19 is going to distort economic activities saw market players seek haven in gold and US Dollars.

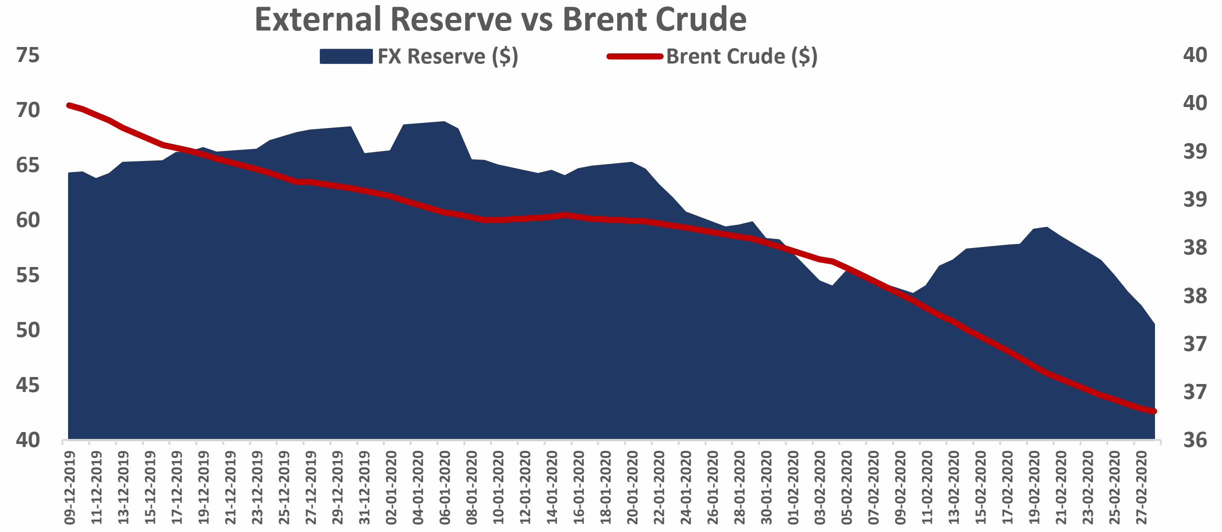




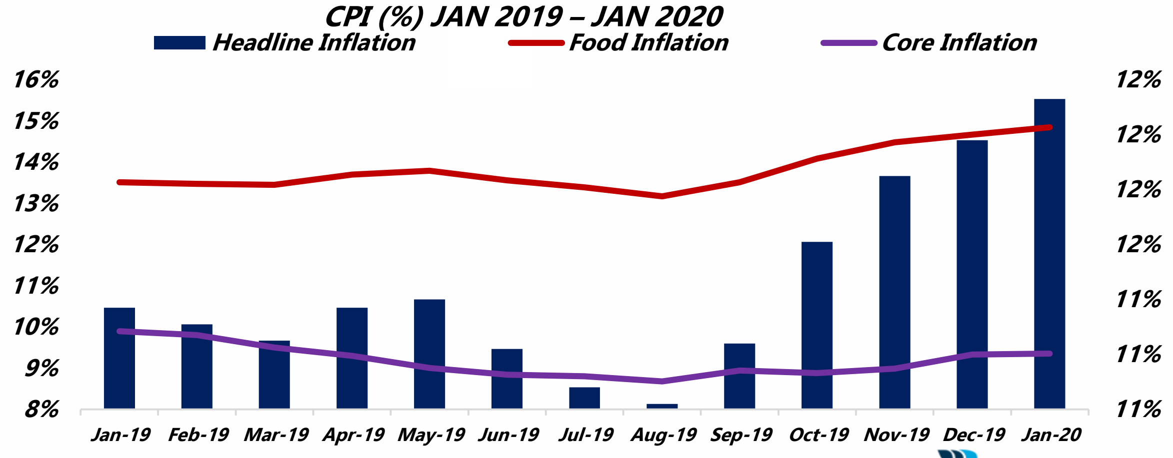
Nigerian Macro Review

Headline	JAN’2020	FEB’2020	%Change	Remark
Monetary Policy Rate (MPR)	13.5%	13.5%	0.00%	MPR remain stable at 13.5% despite the low-rate environment.
Cash Reserve Requirement (CRR)	22.5%	27.5%	+500bps	The increase in CRR was to control liquidity level in the system and inflation.
Inflation	12.13%	12.13%	+--bps	Inflation rose to 12.13% in January due to higher food prices, albeit with minimal expected impact on fixed income yields
Exchange Rate (NGN/USD)	N306.75	N306.95	+7bps	Naira value closed slightly higher in February at N306.95/$ as the apex bank’s forex interventions continue to support the local currency.
External Reserves (USD'bn)	$38.0.1	$36.3	-450bps	FX Reserve declined sharply by $1.7 billion in February MoM owning to lower oil prices and capital flight, to further amplify the likelihood of naira devaluation in 2020.

External Reserve dipped by $1.7 billion in February



January inflation up by 15bps to 12.13% y/y.



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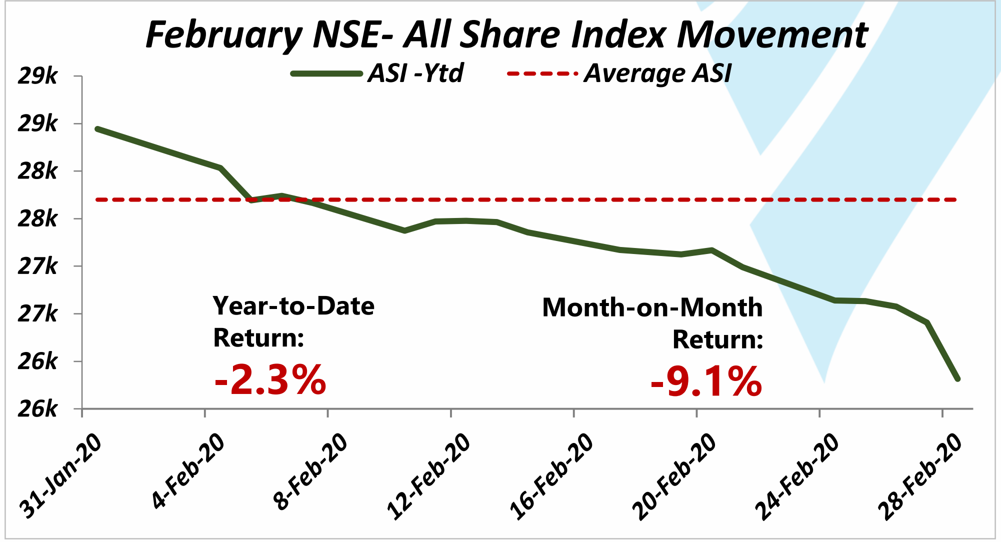
EQUITY MARKET

Thursday, 19 March 2020

- The local bourse went on a freefall in February to reflect global bearish sentiment, as the plunging oil prices stoked growth concerns, especially around the ability of the Federal government to meets its projected N2.64 trillion from oil revenue.
- The supply glut that was triggered by the viral outbreak saw oil prices slip by 23%, from $66 to $50 level, a price below FG's $57 benchmark for 2020 Budget.
- Consequently, the main index fell 9.1% in February, its worst performance since January 2016 when the index shed 16.5% month-on-month. The stocks that contributed the most to the month's decline are NESTLE -18%, MTNN -8%, GUARANTY -21%, DANGCEM -5.5%, NB -26%, ZENITHBANK -11% and FBNH -28%.
- Looking ahead, we expect the bear activities (mostly foreign players scampering for safety) to remain in the market amidst global growth concerns and speculations on whether the CBN will devalue the naira in near term (FX Reserve dipped by $1.7billion in Feb).
- Nevertheless, we expect investors to take advantage of the low-price environment vis-à-vis valuation currently at P/E ratio of 8 and dividend yield at 5.85%.
- We however maintain our cautious stance.



Indices	Month Close	Ytd. Return (%)	P/E Ratio (x)	Dividend Yield (%)
Mainboard	26216.46	-2.33%	6.96	6.52%
Banking	357.65	-11.59%	2.47	12.10%
Consumer Goods	934.02	-14.10%	21.9	6.94%
Industrial Goods	1214.6	-12.92%	8.24	3.16%
Oil & Gas	234.01	-10.87%	3.86	6.53%
Pension Index	983.71	-6.67%	4.99	6.07%
NSE 30	1148.03	-2.53%	6.18	6.88%

*Only the banking sector outperformed the market

*data obtained as at 11-03-2020

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Source: Bloomberg/ TFP Research

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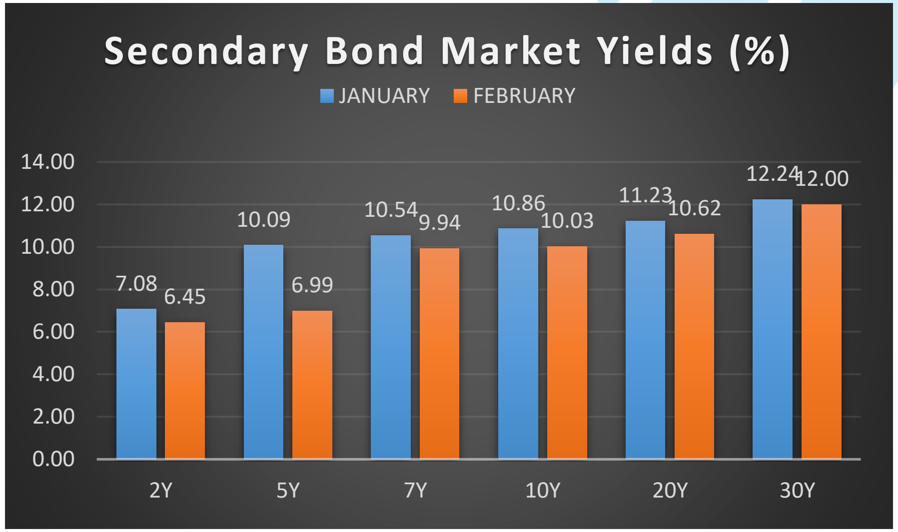
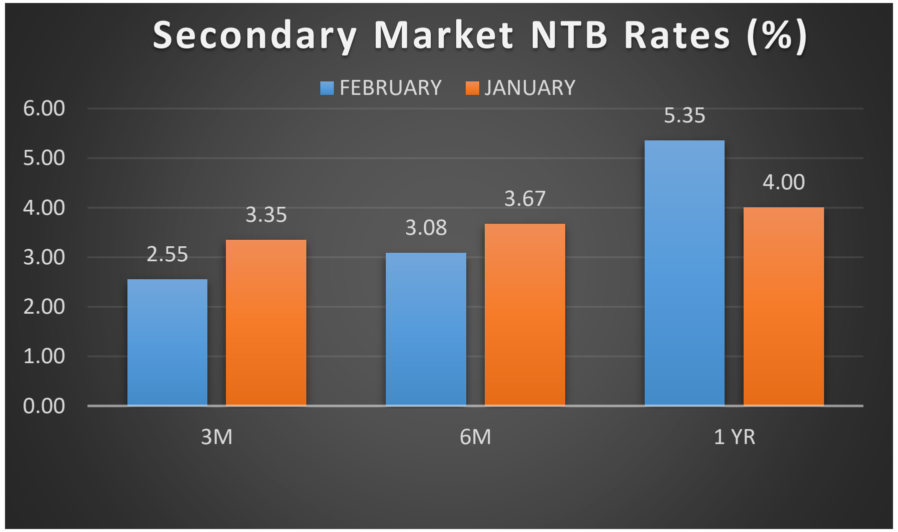
FIXED INCOME MARKET

From a Month on Month (MoM) perspective, the fixed income market experienced a bullish run as average yields on benchmark bonds fell 61bps MoM to close the month at 9.22%, while discounted rates on NTBs and OMO bills respectively shed 25bps and 168bps to settle at 3.66% and 10.63%. These bearish sentiments were largely buoyed by market players' efforts to re-invest approximately N2 trillion worth of maturities from the 15.54% FEB 2020 bond, as well as other February maturities from NTB and OMO instruments.

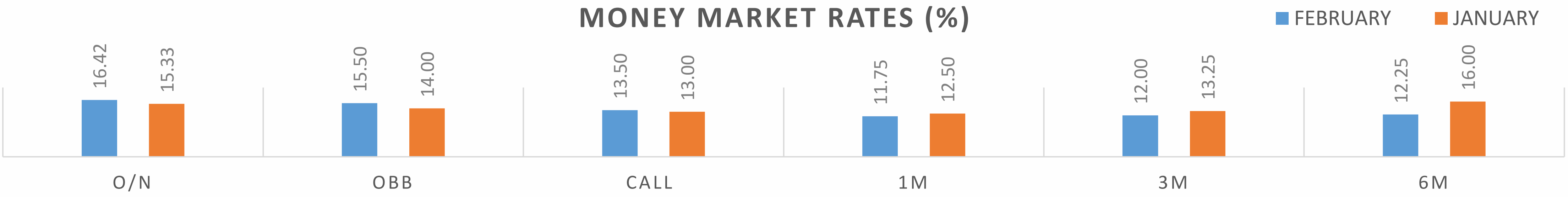
It is worthy to note that investors' demand remained prevalent along the short end of the curve, across FGN bonds and NTBs, as market participants appeared to take the precautionary step of strategically positioning themselves in shorter dated instruments. It can be agreed that this strategy was adopted by investors in order to avoid being locked in longer termed instruments in the event of any policy changes or other macro-economic factors including inflation, that could impact on the direction of yields. Moreover, the PMA auction, in which over N104 billion of the 91DTM, 182DTM and 364DTM instruments were allotted to investors at respective stop rates of 3.00%, 4.00% and 5.70%. The outcome of this auction further influenced the direction of yields in the secondary fixed income market, especially the NTBs market.

Furthermore, interbank rates finished higher MoM at 15.50% (prev. 14%), while average money market rates on 90-day fixed deposit placements for the month was 6.35%, 8bps higher than in January (6.43%). This was primarily due to the need for DMBs to meet up with their liquidity obligations following Cash Reserve Ratio (CRR) debits by the apex bank.





FIXED INCOME MARKET



MARKET OUTLOOK

In March, up to N753.96 billion in OMO and NTB maturities are expected to filter into the system. It would be expected that this influx of liquidity would drive positive trading in the fixed income space. However, as the Covid-19 outbreak continues to pervade and weigh in on global markets, we expect investors, especially foreign investors, to take precautionary steps to hedge themselves against any downside effects that could result from this epidemic. Furthermore, careful analysis revealed a decline in crude oil prices as a result of reduced economic activity stemming from the disease outbreak. To illustrate, average crude oil prices finished the month of January at an average price of $63 per barrel, while average crude oil price in February was $56 per barrel. In addition, Nigeria's foreign reserve, which currently stands at approximately $36 billion and has been losing about an average of $400 million dollars on a weekly basis may also dampen foreign investors' mood and outlook for the Nigerian economy. As a result, we expect that these factors could allow bearish sentiments to permeate the local fixed income space. Also, the pressures on crude oil prices and depletion of the nation's foreign reserves could send warning signals about a possible currency devaluation against the U.S dollar. As such, most foreign investors may be seen to hedge themselves against this devaluation risk by selling off their fixed income positions; FGN bonds and OMO bills and monitor the performance of the market amidst this disease outbreak. Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.

MARKET OUTLOOK AND STRATEGY

Amidst the growing global growth concerns triggered by the outbreak of COVID-19 and central banks' expansionary response to the shocks, portfolio managers are expected to start looking at emerging markets and alternative investment classes to optimize returns in 2020.

EQUITY

We expect the bear activities (mostly foreign players scampering for safety) to remain in the market amidst global growth concerns and speculations on whether the CBN will devalue the naira in near term (FX Reserve dipped by $1.7billion in Feb).

Nevertheless, we expect investors to take advantage of the low-price environment vis-à-vis valuation currently at P/E ratio of 8 and dividend yield at 5.85%.

We however maintain our cautious stance.

FIXED INCOME

Bond – We will continue to realign our portfolios to increase the quantum of high coupon bonds at yields not less than 14%, while we tactically downscale our position in low coupon instruments.

Corporate Bonds –We will be on the look out for corporate bonds with attractive coupon, as current yield level proffers the opportunity for Private Issuers to return to the debt market.

Treasury Bills – we expect yields to continue to hover around 3% owning to paucity of attractive investible outlets.

Money Market – We will continue to deal at best market rates to sustain our liquidity laddering strategy

We will be cautious on equity positions with focus on quality stocks, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.

THANK YOU