MONTHLY MARKET REVIEW AND FORECAST FOR MARCH 2020

TRUSTFUND PENSIONS LTD RESEARCH

APRIL 2020

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

INVESTMENT RESEARCH

TRUSTFUND PENSIONS LIMITED

GLOBAL MARKET

Coronavirus outbreak dampened market mood

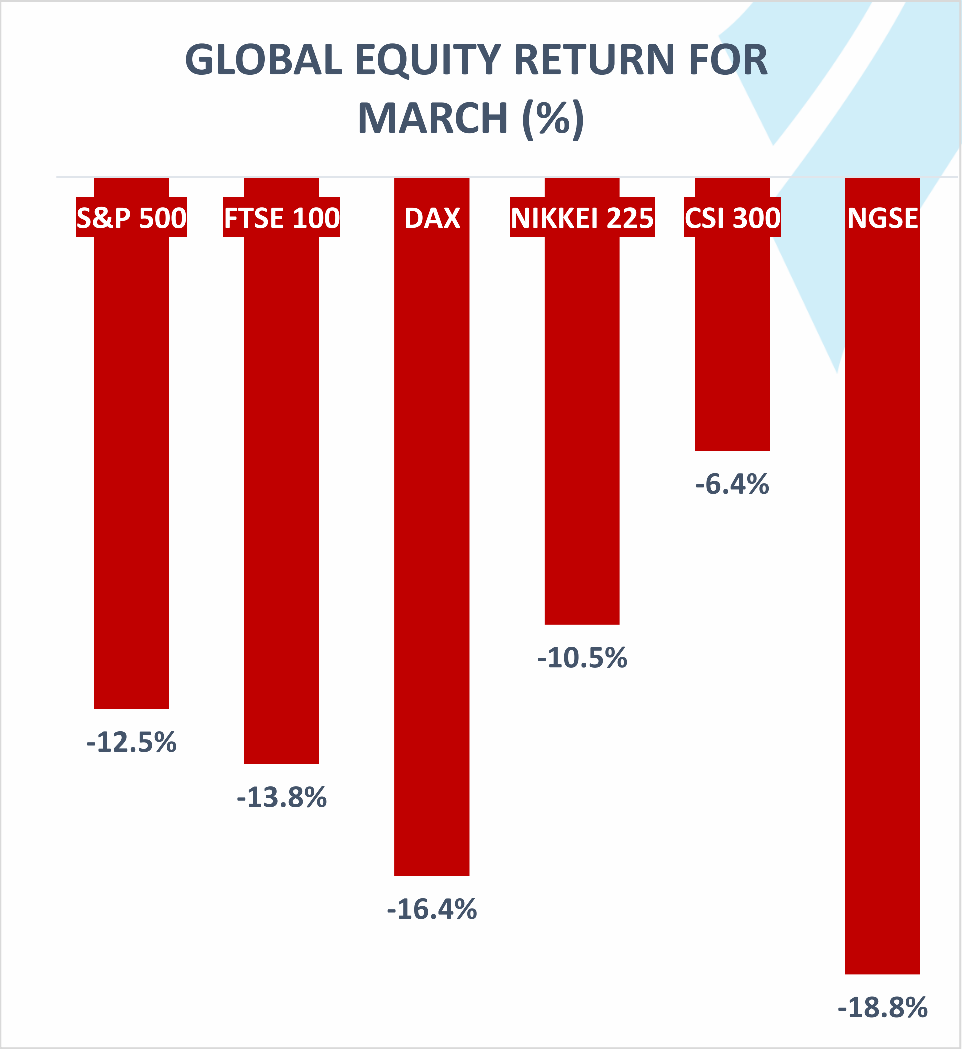
Global market traded on a historic pessimistic mood as governments enforce lockdown to cope with fast spreading COVID-19 viral infection, with global cases hitting 832,000 and 41,000 deaths. Further upsetting market mood was the escalated oil price war between Saudi Arabia/Russia which saw Brent crude fall by 27% to $26.35/barrel as Saudi Arabia over-supplied the market at discount prices following Russia's prior disagreement to a production cut.

In US, S&P 500 declined significantly by 12.5% to close at 2,584.6 index points, as jobless claims soured by three million in March. To cope with the economic downturn, Federal Reserve cut interest rates twice to -0.25% and provided a $2trillion stimulus package.

In Europe, both UK's FTSE 100 and German's DAX index fell by 13.8% and 16.4% respectively as weaker macros dampened market mood amidst escalated number of COVID-19 cases in the region.

In Asia, Japan's Nikkei 225 and China's CSI 300 slipped by 10.5% and 6.4% respectively, as china efficiently contained the spread of covid-19 in Wuhan.

We expect governments' ability to contain the viral outbreak, policy stimulus and oil price rebound to set market mood in April.

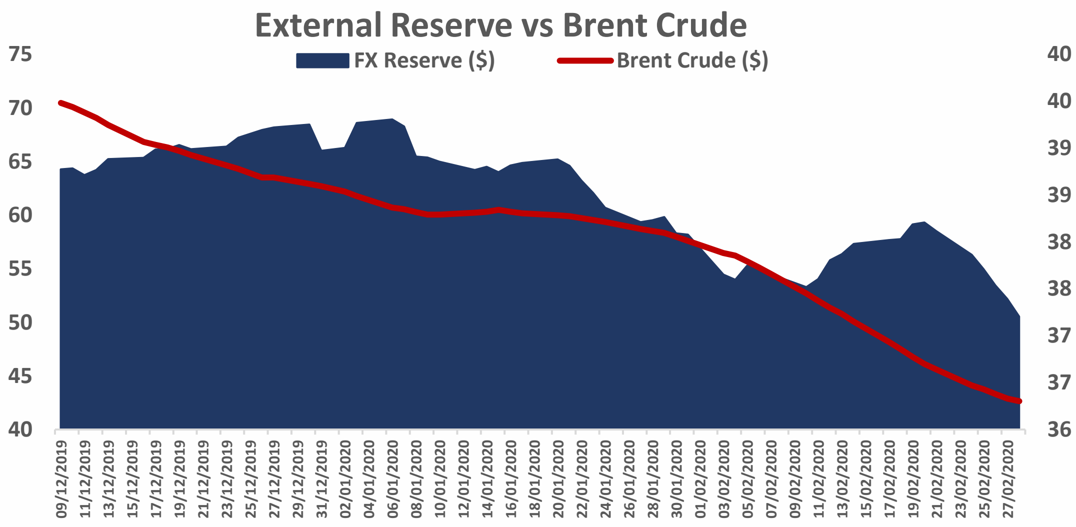


Source: Bloomberg/ TFP Research.

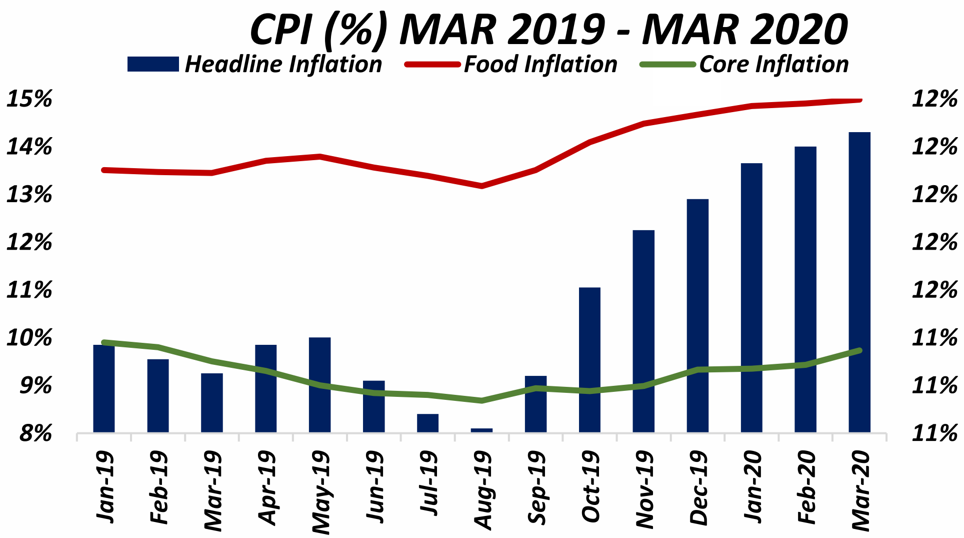
Domestic Macro Review

Headline	FEB'2020	MAR'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%	+5.00%	The increase in CRR was to control liquidity level in the system and inflation.
Inflation	12.2%	12.26%	+0.06%	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)	N306.95	N361.00	+17.6%	As we have anticipated in February report, CBN eventually bowed to dwindling fx pressures as it officially devalued naira by 17.6% to ₦361/$ and I&E Fx window pegged at ₦385.55/$.
External Reserves (USD'bn)	$36.30	$35.16	-3.14%	There was 3.14% decline in external reserve following the fall in crude oil prices. Brent crude fell sharply by 47%MoM to close at $26.35 in March as Saudi Arabia flooded the market with excess crude at lower bargains, following production cut disagreement with Russia.

External Reserve dipped by $1.4 billion in March



Inflation currently at 12.26% y/y is expected higher in April



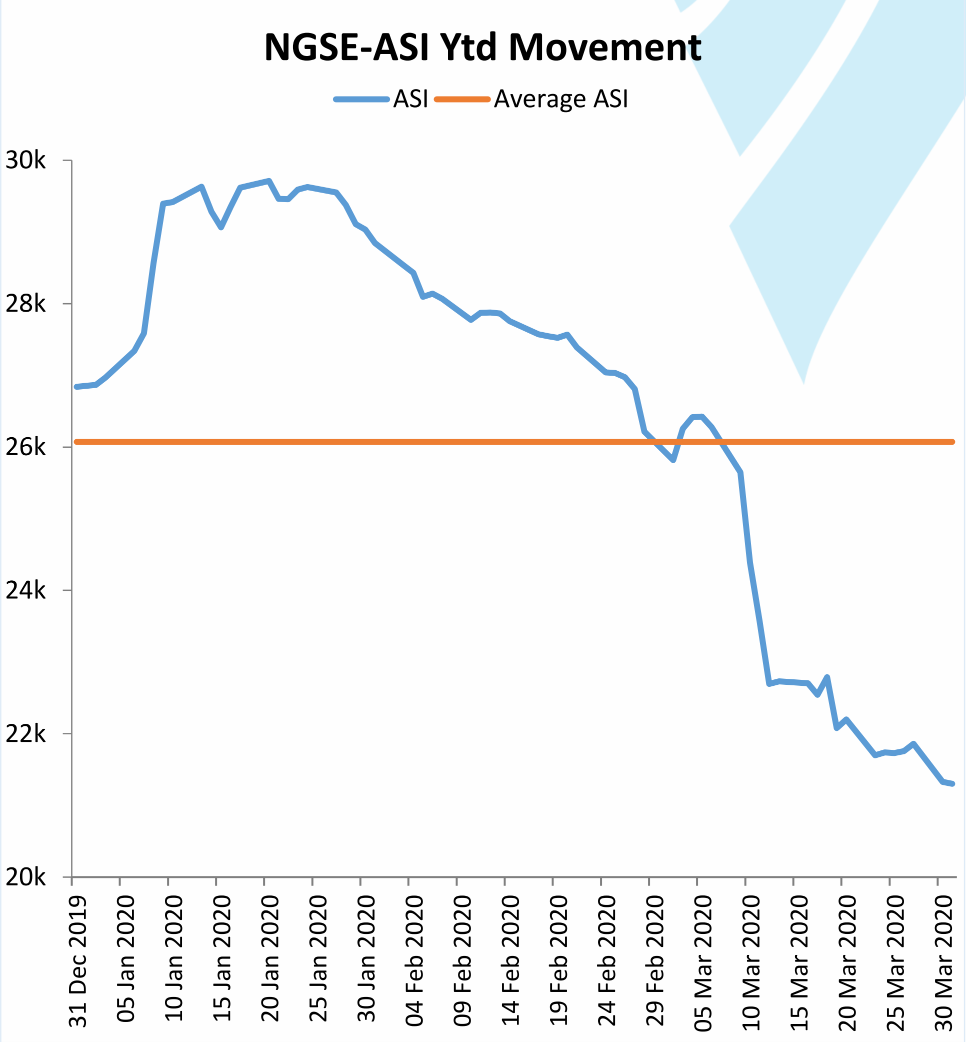
EQUITY MARKET

In March, the full impact of the viral outbreak triggered high uncertainties in the global economy, a situation that saw foreign players dump their shares on the local bourse while scampering for safety. Further upsetting the market is the weakening of the local currency as external reserves declined by $1.4b to $35.1b amidst the dwindling oil prices.

That said, in a bid to manage the economic impact of COVID-19, Federal government reduced petrol pump price from ₦145/litre to ₦125/litre. In the same vein, NERC suspends electricity tariff increase that ought to kick in yesterday, while the government shared food items to poorest of the poor. However, heightened global market uncertainties and falling oil prices remain a major drag to the economy.

Consequently, the broad index nose-dived by 18.8% to close at 21,300 index points, pushing Ytd return to -20.6%. The stocks that contributed the most to the decline are DANGCEM (-23.7%), WAPCO (-40.6%), NB (-36.7%), MTNN (-18.2%), GUARANTY (-25.6%), ZENITHBANK (-36.8%) and STANBIC (-25.2%).

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.



Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

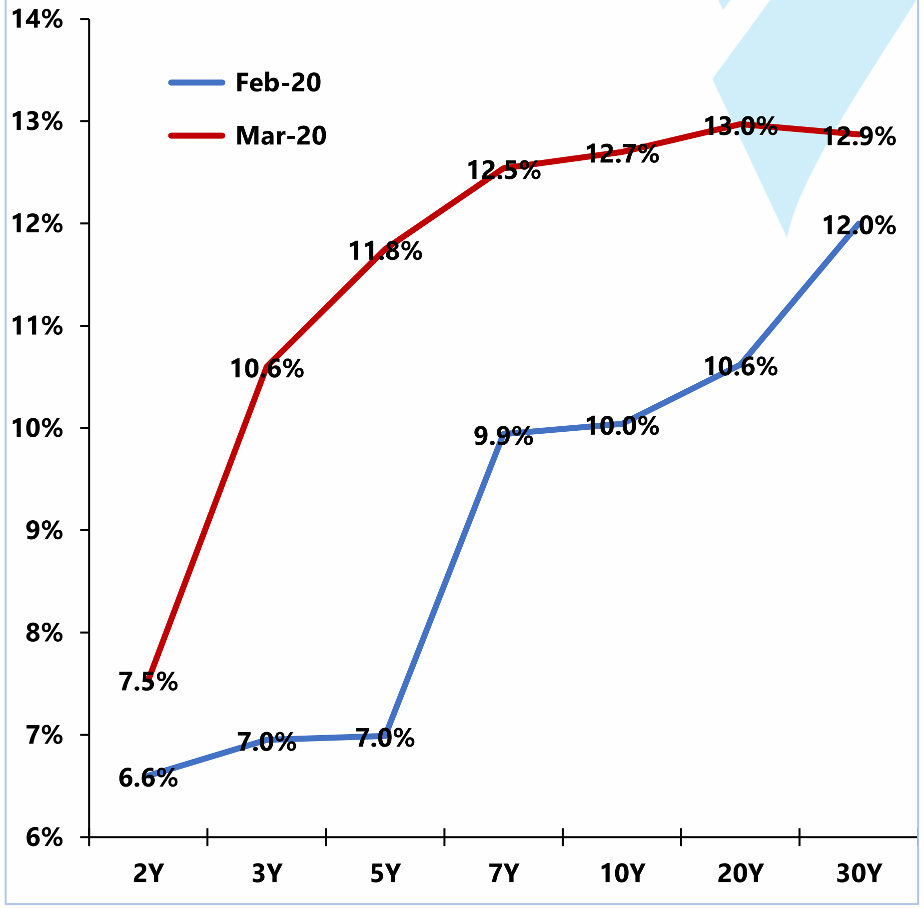
The fixed income market was largely bearish as yields in the bond and OMO bills segments of the market moved upwards. To illustrate, average yields on benchmark bonds gained 203bps to 11.85%, while average discounted rates on OMO bills increased by 329bps to 13.92%. On the other hand, the NTBs market was bullish MoM as discounted rates declined by 31bps on the average to 3.60%.

Undeniably, the bearish trend stems from offshore selloffs due to global uncertainties surrounding the Covid-19 pandemic, as well as investors' confidence in the country's fiscal capabilities following the drop in oil prices. In addition, the continued pressure on global oil prices was further furled by the price war between Russia and Saudi Arabia, which prompted Saudi Arabia to increase their oil production by up to 3 million bpd and cut prices by 20%.

In an attempt to mitigate the impact of these macroeconomic pressures, the CBN announced stimulus measures worth approximately N3.50 Trillion. These measures are as follows;

- A one-year extension of moratorium on all principal repayments, with effect from 01 March 2020.
- A reduction of interest rates on all existing CBN intervention facilities from 9% to 5%.
- The creation of a targeted credit facility of N50 billion for all households and SMEs affected by the Covid-19 pandemic.
- Credit support to the healthcare industry.

SECONDARY MARKET YIELD CURVE (%)



FIXED INCOME MARKET

- Regulatory forbearance, i.e., approval of leave for DMBs to consider restructuring loan tenors and terms for businesses and households most affected by the pandemic.
- Strengthening of the CBN LDR policy by further supporting the funding levels of the industry to maintain DMBs lending capacities.

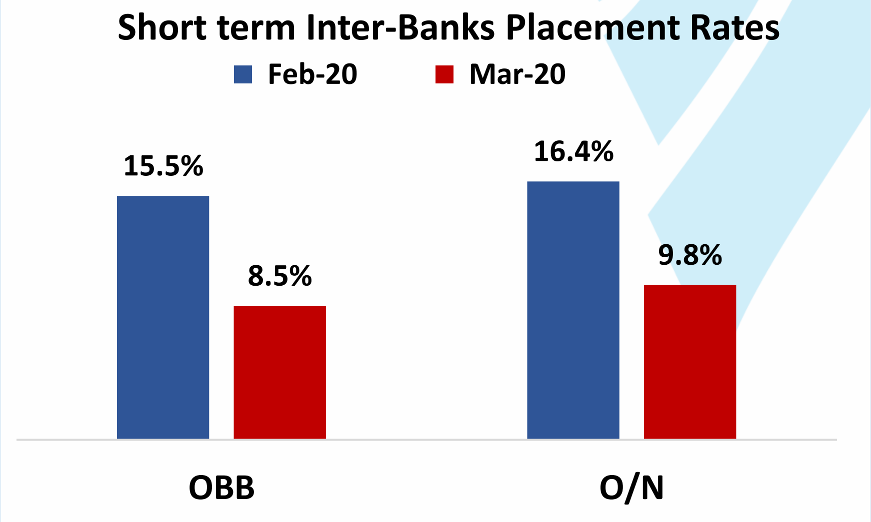
It is believed that these measures would ensure low lending rates and encourage corporate borrowing.

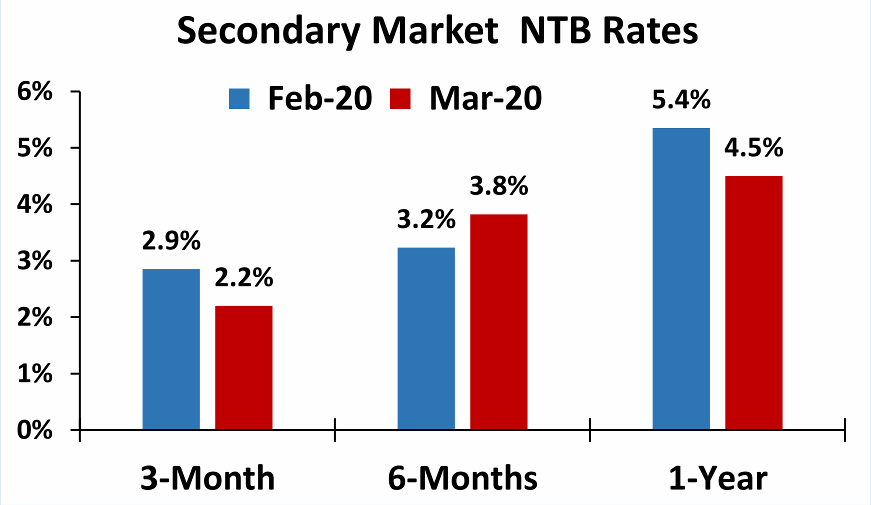
MARKET OUTLOOK

In the coming month, we expect the Federal Government to take advantage of domestic financing due to reduced revenue expectations resulting from fallen oil prices. As such, we expect this to influence the direction of yields in the fixed income market.

We also expect an increase in inflation in the near term as a result of the increased demand for food and stockpiling stemming from lock-down directives across the country in order to flatten the Covid-19 spread curve.

Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.





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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 the sell-off to persist in the local bourse as foreign players exit the market.

In spite of the uncertainties, we anticipate bargain hunting of underpriced bellwether stocks with strong fundamentals and potential for attractive dividends.

Nonetheless, we will remain cautious.

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 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