MONTHLY MARKET REVIEW AND FORECAST

FOR AUGUST 2020

TRUSTFUND PENSIONS LTD RESEARCH

SEPTEMBER 2020

Outline

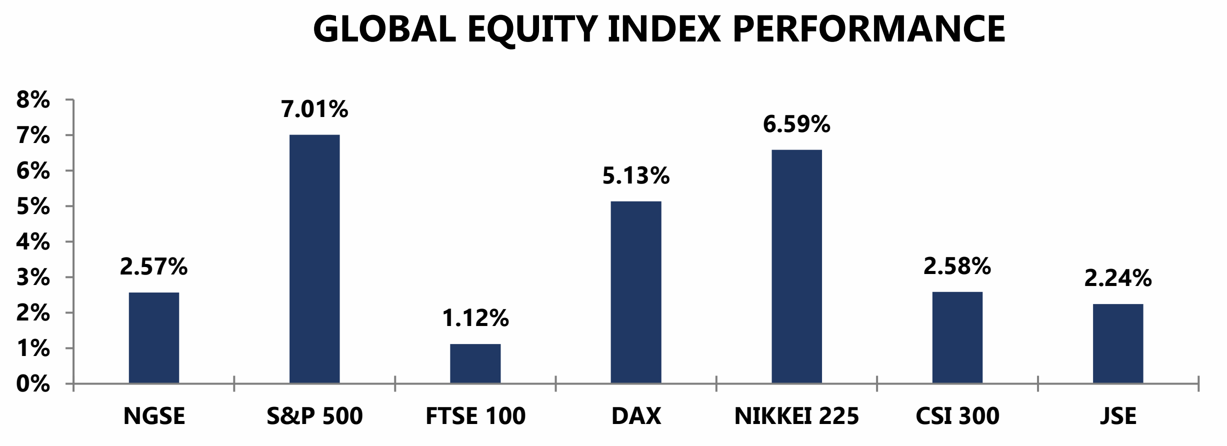
3.	Global Market Review
4.	Nigerian Macro Review
5.	Equity Market Review
6.	Fixed Income Market Review
7.	Market Outlook and Strategy

GLOBAL MARKET REVIEW

The global market indices turned in a strong performance for the month of August, buoyed by claims of potential COVID-19 vaccines, increased oil prices and continuous fiscal support from apex banks.

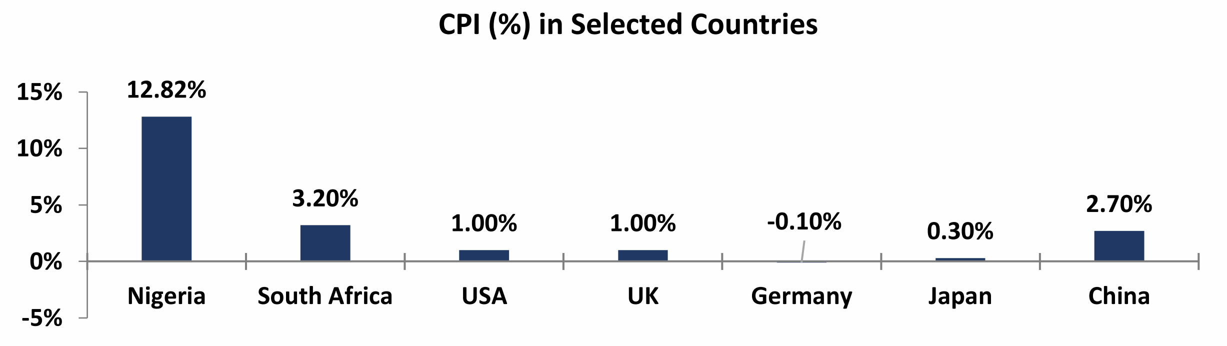
Furthermore, lower rates in the fixed income space and the US Feds' announcement that it does not intend to raise interest rates in the near term even if inflation ticks up may have contributed to the bullish mood.

Looking ahead, We anticipate that the economic recovery witnessed across the globe will continue to support buy sentiments, however, the August rally is expected to trigger profit-taking in the coming month. Hence, our expectation of mixed trading with a bearish tilt.



COMMODITIES							
Commodity Indexes	1 Month Change	12 Month Change	Year to Date Change	Commodity Prices	1 Month Change	12 Month Change	Year to Date Change
Commodity Price Index	4.06%	-11.98%	-13.14%	Crude Oil; Brent	7.21%	-33.11%	-32.69%
Crude Oil Price index	5.66%	-32.10%	-32.42%	Crude Oil; WTI	6.40%	-29.16%	-29.16%
Com Agricultural Index	1.41%	-1.37%	-3.33%	Cocoa beans	-5.83%	-13.22%	-19.23%
Com Food Price Index	0.22%	1.80%	-5.82%	Wheat	0.00%	1.13%	-11.62%
Com Industrial Inputs Index	4.47%	-6.14%	1.36%	Maize (corn)	3.08%	-19.46%	-11.20%
Com Metals Price Index	7.34%	-2.40%	1.79%	Rice	-7.69%	15.38%	6.43%

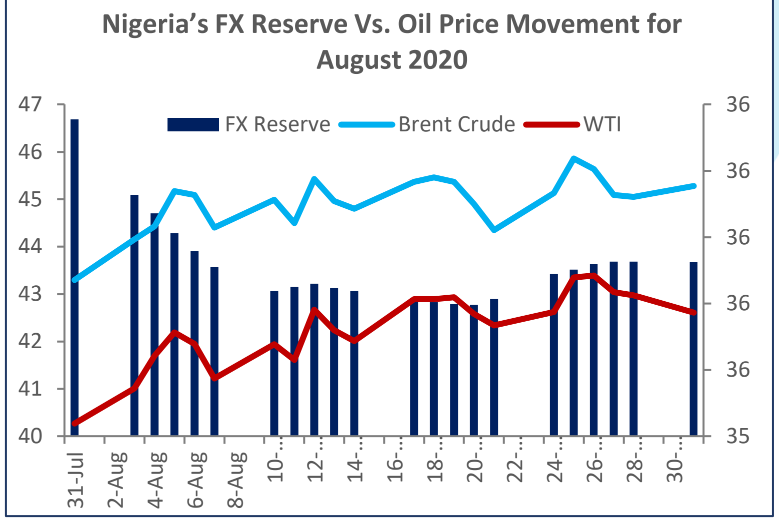
Source: TFP Research/indexmundi



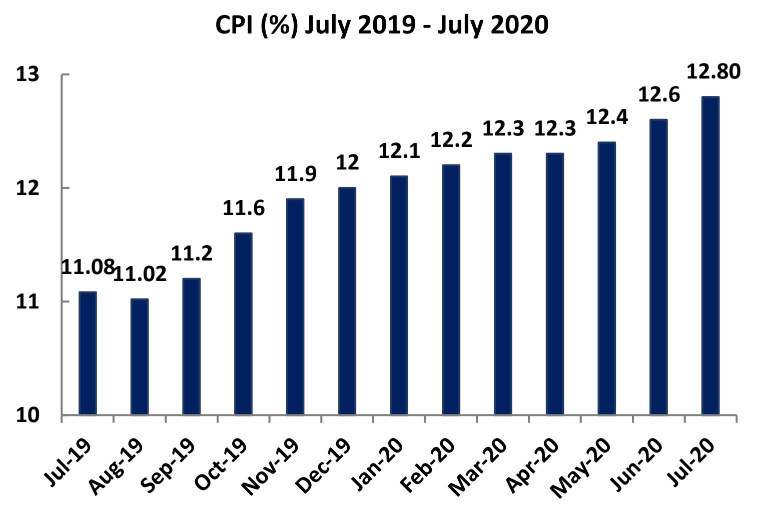
Nigerian Macro Review

Headlines	PREVIOUS	CURRENT	%Change	Remarks
Monetary Policy Rate (MPR)	12.50%	12.50%	0.00%	Despite continuous increase in inflation, the CBN left MPR unchanged at 12.5% at its last MPC meeting, to allow the full impact of stimulus measures permeate through the economy.
Inflation	12.82%	13.22%	+0.40%	Inflation rate accelerated by 40bps to 13.22% in August (the highest since October 2019), with both Food Inflation (up 42bps to 10.52%) and Core Inflation (up 52bps to 16%) contributing to the uptick. We expect inflation higher in the coming months due to continuous increase in food prices triggered by higher operating cost, FX shortages and FGN's planned extension of dollar restriction on all food items.
External Reserves (USD'bn)	$35.88	$35.66	-0.60%	FX reserves declined by 0.60% or $307.64 million in August to close at $35.66 billion despite the increase in oil prices. This is due to the CBN's resumption of dollar sales to support the local currency.
Purchasing Managers Index (points)	44.9	48.5	+3.6	Though PMI reading for August reflected a contraction in the manufacturing sector for the fourth month, there was an improvement when compared to the previous month. We expect economic activities to continue to recover in the coming months, however, FX shortages, increased electricity tariff and higher fuel prices remain major concerns.
GDP GROWTH	+1.87%	-6.10%	-7.97%	GDP contracted by 6.1% YoY in Q2-2020 reflecting the full economic impact of COVID-19 related lockdown, lower oil prices, devaluation of naira and more FX restrictions on food items. We expect further contraction in Q3-2020 as the outlined factors continue to linger.

External Reserve declined further in August



Headline Inflation is expected higher in August



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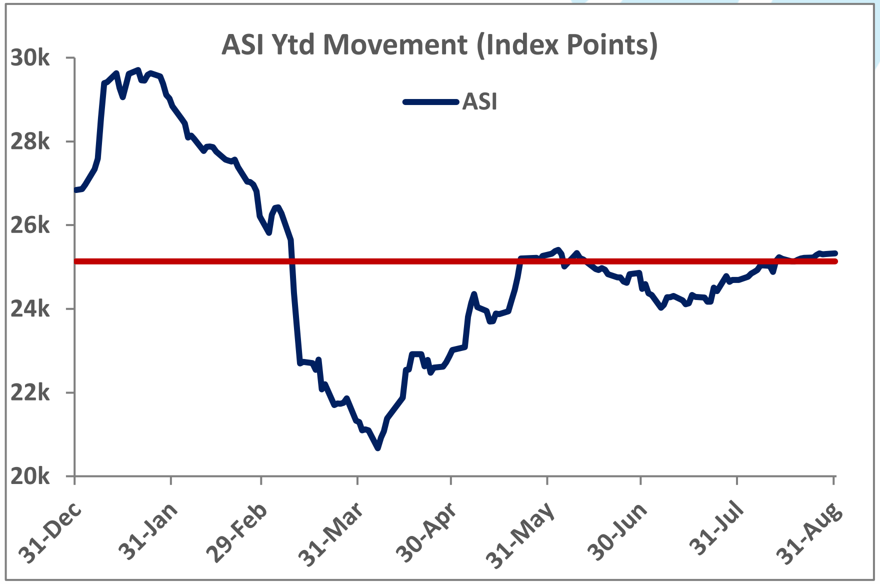
EQUITY MARKET

The bulls dominated market activities in August as the release of half year corporate results and interim dividend announcements sustained the optimistic sentiment. Also supporting the optimistic trading was the body language gotten from companies that were involved in share buy-back activities, with market players taking it as a cue for expectation of better-than-expected results in FY2020. On the other hand, some analysts maintain that companies with international presence that are unable to repatriate their funds are reinvesting in their own shares, thus reducing their outstanding shares in the market (this will result in higher EPS for such companies).

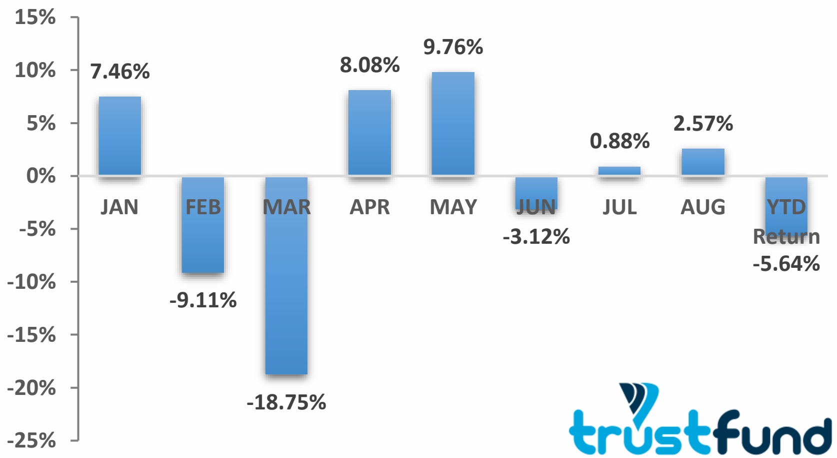
Consequently, the NSE All Share Index gained 2.57% MoM to close at 25327.13 index points and market capitalization at N13.21 trillion, making it the fifth month of positive return in 2020. The year-to-date loss moderated to 5.64%. The stocks that contributed the most to the advance for the month in terms of weighting on the bourse are AIRTELAFRICA (+9.2%), GUARANTY (+13.33%), MTNN (2.94%), STANBIC (+20.17%), NB (+19.35%) SEPLAT (+24.11%) and BUACEMENT (+1.78%).

That said, investors' decisions were further supported by improved macros as oil price increased by 4.04% month-on-month to close at $45.28/barrel in August. The signal of recovery in the manufacturing sector which was echoed by the August PMI further encouraged bargain hunting witnessed in August.

Looking ahead, We anticipate that market valuation at current levels (P/E at 9.01%; Div.Yield at 7.2%) and economic recovery witnessed across the globe will continue to support buy sentiment, however, the August rally is expected to trigger profit-taking in the coming month. Hence, our expectation of mixed trading with a bearish tilt in the month ahead.



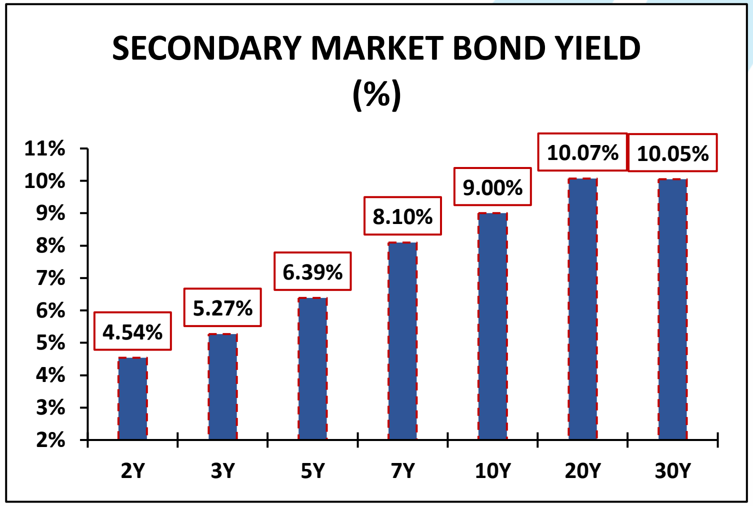
MONTHLY EQUITY RETURN (%)

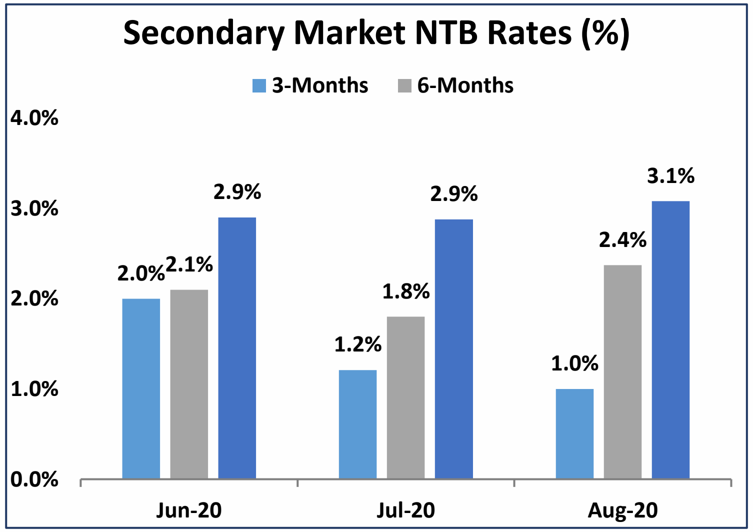


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- In August, the fixed income market traded in a mixed fashion with a bearish tilt as yield expansions were recorded in various segments of the market, except the OMO bills segment.
- For instance, average bond yields rose by 99bps to close the month at 8.09%, while discounted rates on NTBs gained 35bps on the average to settle at 2.09%.
- It can be agreed that these bearish sentiments were supported by investors' profit taking activities in these segments during the month. In addition, the increase in bond yields in the secondary market can be said to be reflective of the outcome of the bond auction conducted during the month.
- At the bond auction, up to N150.00bn was offered to investors across the 12.50% FGN JAN 2026, 12.50% FGN MAR 2035, New FGN JUL 2045 (Reopening) and 12.98% FGN MAR 2050 instruments. Subsequently, the DMO sold a total of N116.65bn at the auction, which comprises N25.42bn of JAN-26 at a stop rate of 6.70%, N21.45bn of MAR-2035 at a stop rate of 9.35%, N16.09bn of JUL-2045 at a stop rate of 9.75% and N53.69bn of MAR-2050 at a stop rate of 9.90%. Also, an additional N9.50bn in non-competitive bids: N8.0bn of JAN-2026 and N1.5bn of MAR-2035 was allotted.
- Additionally, about two NTB PMAs were conducted in August, whereby a total of N254.38bn across the 91DTM, 182DTM and 364DTM instruments was allotted to market players at respective average stop rates of 1.18%, 1.60% and 3.27%.
- Furthermore, it seems the overall bearish performance of the fixed income market last month was driven by low investor confidence, given weakened macroeconomic data. It was revealed in the Q2'2020 GDP report by the NBS that Nigeria's GDP had plummeted to -6.10%, which ended the 3-year trend of low but positive growth rates that had been recorded since the 2016/2017 recession.



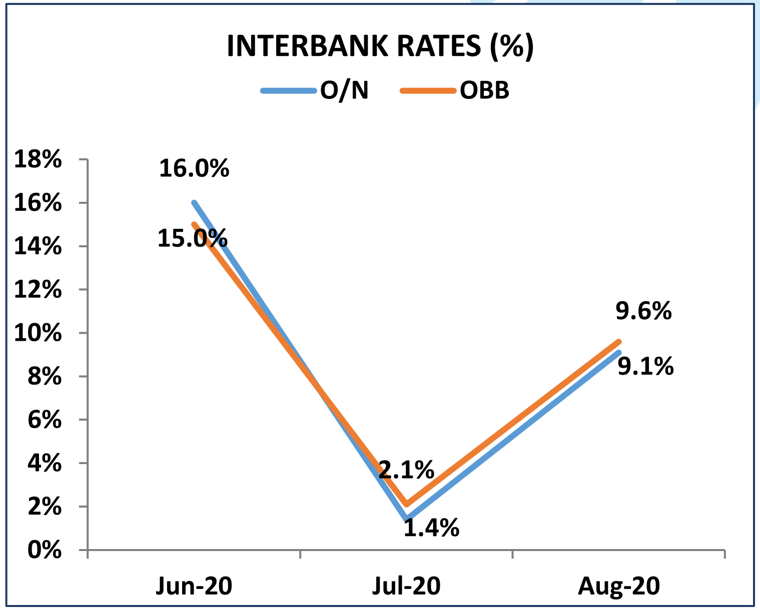


FIXED INCOME MARKET

- On the other hand, the OMO bills segments was quite bullish, with discounted rates decreasing by an average of 110bps and settling at 3.06%. this is most likely as a result of market participants' re-investment activities as a total of N729.35bn worth of T-bills maturities filtered into the system in August with minimal intervention by the apex bank to mop up this excess liquidity.
- Meanwhile, there was a rise in interbank rates at the end of the month when compared with July's close as interbank rates closed at 9.10%, which is 770bps higher than July's close of 1.40%. This was most likely due to a drop in system liquidity from debits for auction settlements.
- In other news, the CBN recently announced that moving forward, savings deposits will be subjected to a 1.25% (minimum of 10% per annum of MPR) interest rate from the previous regulatory minimum of 3.75% (minimum of 30% per annum of MPR). This move comes at a time when market interest rates are trading a much lower levels than the MPR, which justifies its importance. In addition, it is believed that this directive is line with the apex bank's dovish stance, which could also assist banks in cutting cost of funds and improve their interest rate margins.

MARKET OUTLOOK

- In the coming month, we expect the market to trade in a relatively calm manner at the start of the month, with more attention placed on the FGN bond market given its attractive yield levels relative to T-bills yields.
- However, as inflows from T-bills maturities begin to trickle in from the middle till the end of the month, we anticipate bullish sentiments to filter into the market as market participants strive to re-invest these maturities at competitive rates.
- Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.



Foreign Exchange (Spot & Forwards)	
Tenor	**Rate ($/N)**
##CBN Official	379.00
CBN SMIS Window	380.69
I&E FX Window	385.67
1M	386.52
2M	387.46
3M	388.45
6M	391.97
1Y	403.36

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MARKET OUTLOOK AND STRATEGY

We expect market uncertainties to remain heightened through H2'2020 after taking into consideration oil price volatility and the effect of OPEC+ production cut, pressure on FX demands and how quickly the lockdown is going to ease out or reinforced in view of higher number of infections. Furthermore, IMF's forecast of 5.4% economic contraction and Bloomberg's expectation of 4% shrink in GDP for FY2020 signals a possible recession. We however believe the impact of government's N2.3 trillion stimulus plan and oil price recovery will mitigate the effect of the viral outbreak.

EQUITY

Market valuation remains attractive at the current levels (P/E ratio at 8.65x & Dividend Yield at 7.54%).

Our focus will remain on defensive stocks with adequate free float and potential for attractive dividends to buffer our portfolio position.

FIXED INCOME

Bond – we will continue to monitor exposure and realign our portfolios to increase the quantum of high coupon bonds at yields not less than 12%, while we tactically downscale our position in low coupon instruments.

Corporate Bonds – we will be on the look out for "A" rated 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 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

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