MONTHLY MARKET REVIEW AND FORECAST FOR OCTOBER 2020

TRUSTFUND PENSIONS LTD RESEARCH

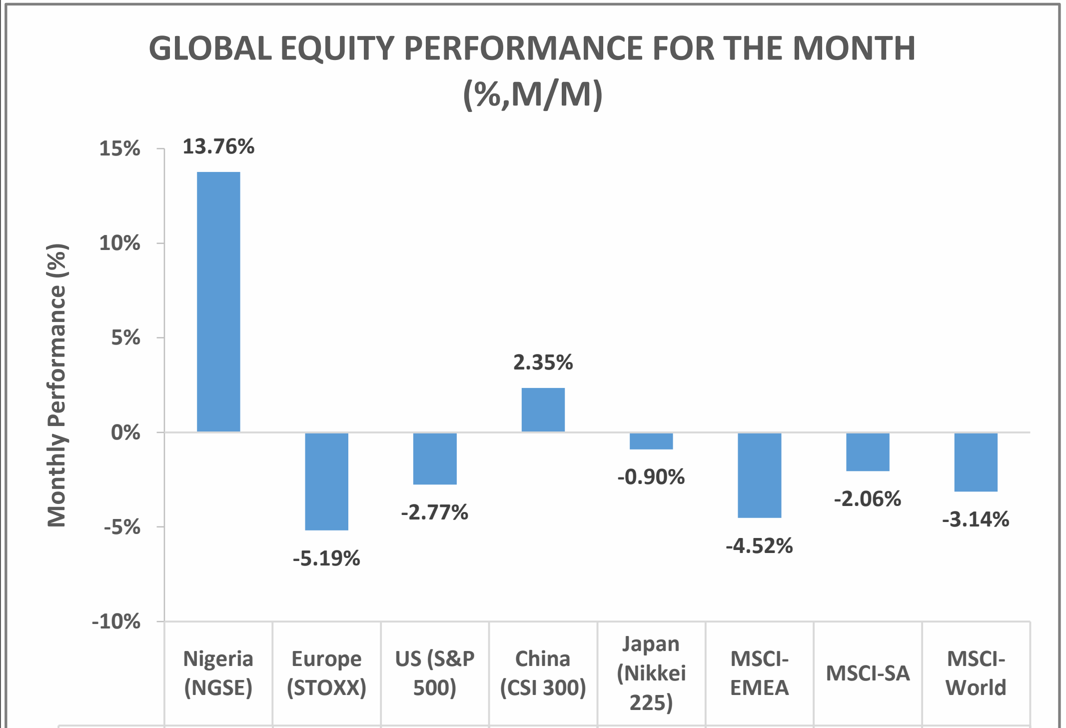
NOVEMBER 2020

Outline

INVESTMENT RESEARCH

TRUSTFUND PENSIONS LIMITED

GLOBAL MARKET REVIEW



	Nigeria (NGSE)	Europe (STOXX)	US (S&P 500)	China (CSI 300)	Japan (Nikkei 225)	MSCI-EMEA	MSCI-SA	MSCI-World
Series1	13.76%	-5.19%	-2.77%	2.35%	-0.90%	-4.52%	-2.06%	-3.14%

*NGSE – Nigerian Stock Exchange Mainboard Index

*STOXX Europe 600 – Index that tracks top 600 companies across Europe

*Nikkei 225 tracks top 225 large companies across sectors in Japan

*CSI300 index tracks top 300 stocks traded on the Shanghai Stock Exchange in China

*S&P 500 tracks top 500 companies in USA

*MSCI-EMEA –stands for MSCI Emerging Markets Europe Middle East and Africa Index

*MSCI South Africa - This is Morgan Stanley's tracker for large and mid-cap stocks in South Africa

GLOBAL MACRO MOVERS FOR THE MONTH OF OCTOBER

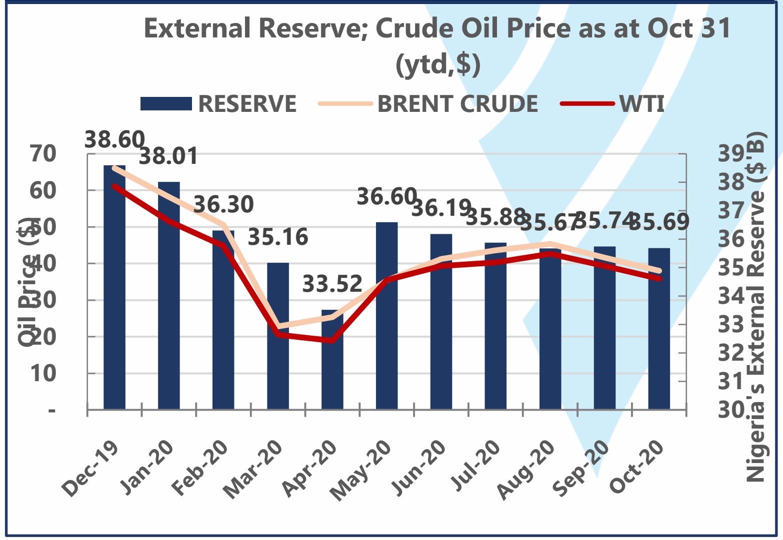
Forex	Sovereign Bonds	Commodities	Sovereign CDS
Japan Yen +0.94 % 104.66 c -0.99	Netherlands 2Y -9.4 bp -0.782 c	KC Wheat CBT +13.88 % +541½ c +66	Italy CDS -9.23 bp 124.92 c
Sweden Krona +0.76 % 8.8977 c -0.0685	Germany 2Y -8.5 bp -0.803 c	Nat Gas NYM +34.70 % 3.389 c +0.873	Netherlands CDS -0.90 bp 10.10 c
Canada Dollar +0.46 % 1.3321 c -0.0062	Italy 2Y -11.8 bp -0.351 c	Steel SHF +3.90 % 3699 c +139	Germany CDS -0.58 bp 11.35 c
British Pound +0.64 % 1.2947 c +0.0082	Belgium 2Y -5.5 bp -0.762 c	Wheat MGE +5.29 % +552¼ c +27¾	Japan CDS -0.55 bp 17.41 c
Euro -0.83 % 1.1647 c -0.0098	United States 5Y +13.0 bp 0.384 c	WTI Crude -8.64 % 35.72 c -3.38	Belgium CDS +0.57 bp 13.67 c
BBG USD Index -0.64 % 1172.46 c -7.54	Canada 30Y +17.0 bp 1.248 c	Brent Crude -7.53 % 37.94 c -3.09	Canada CDS +0.61 bp 27.83 c

Source: Bloomberg Terminal

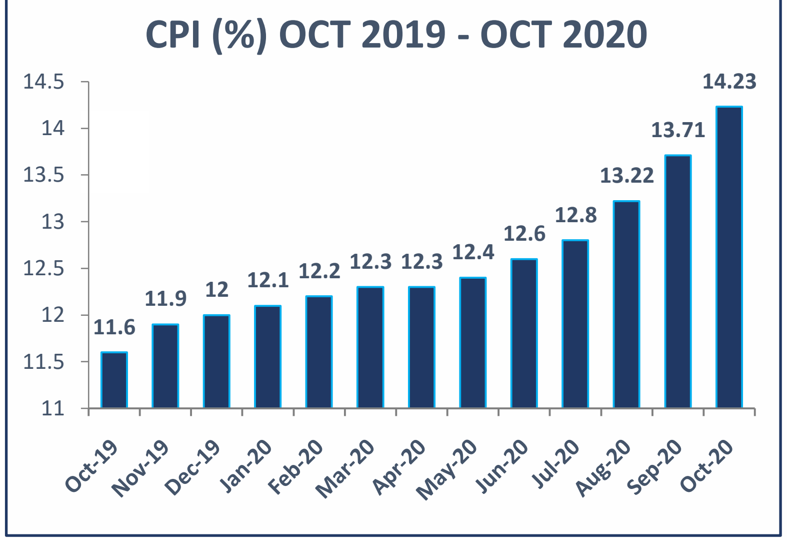
Nigerian Macro Review

Headlines	PREVIOUS	CURRENT	%Change	Remarks
Monetary Policy Rate (MPR)	12.50%	11.50%	-1.00%	The central bank cut the Monetary Policy Rate (MPR) by 100bps to 11.5% in September in a bid to accelerate growth in the real sector and shorten the recession period. We expect the central bank to maintain its dovish stance despite the spiking inflation rate.
Inflation	13.71%	14.23%	+0.52%	Headline inflation soared by 52bps to 14.23% in October, making it the 14th consecutive increase in Inflation figures, with food inflation contributing the most to the accretion (Food Inflation rose by 72bps m/m to 17.38% while Core Inflation increased by 56bps to 11.14%). The spike in food inflation is attributable to higher cost of petrol, electricity, protests and flooding which affected the harvest season. We expect the inflation rate to continue its uphill movement barring in mind the government's action on border closure and the impact of the CBN's support for the Agric sector.
External Reserves (USD'bn)	$35.74	$35.69	-0.05%	FX Reserve declined modestly by 5bps to $35.69 billion due to a fall in crude oil prices (Brent crude lower by 8.7% to $37.94) and increased demand for U.S. dollars in the month of October.
Purchasing Managers Index (points)	46.9	49.4	+2.50p	The Manufacturing PMI increased by 2.5 points when compared to the previous month but remains below the 50 index points growth threshold. We anticipate further improvements in response to CBN's supportive dovish stance.
GDP GROWTH	-6.10%	-3.62%	+2.48%	Despite the 3.62% contraction in Q3:2020 due to the impact of COVID-19 on the economy and lower petrodollar receipts, we expect slight recovery in Q4 and steady recovery in H1-2021 as the apex bank continues to support growth in the real sector of the economy.

External Reserve declined further in October



Headline Inflation is expected higher in December



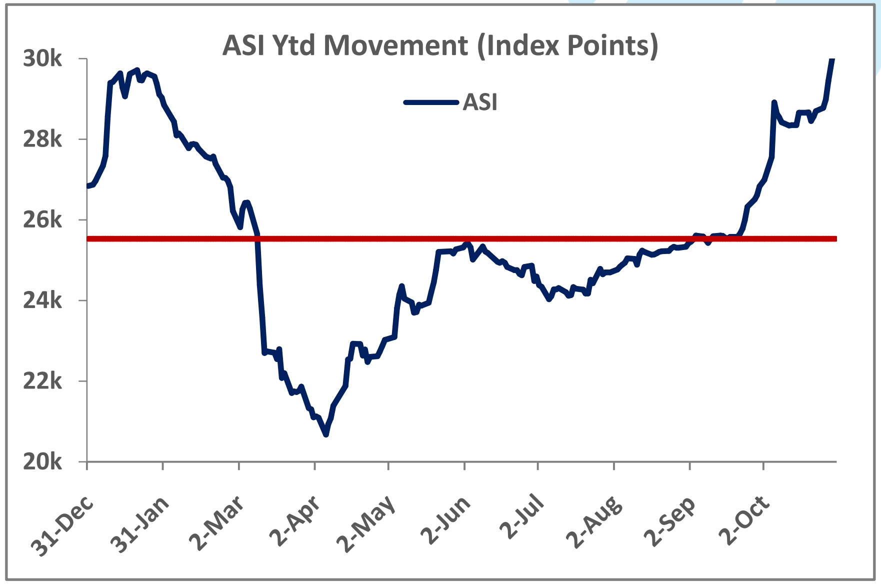
EQUITY MARKET

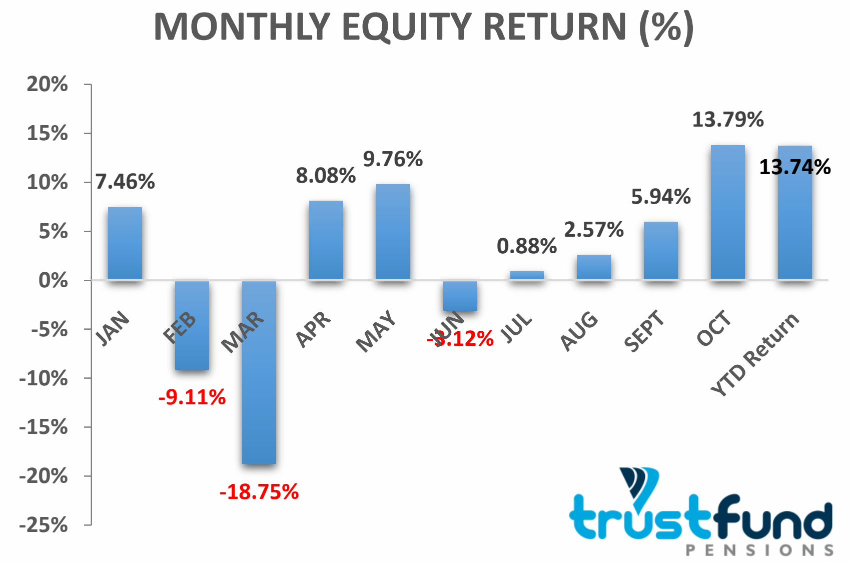
Bullish sentiments dominated market activities in the month of October as both local and foreign investors were enthused by the strength of stock market performance in recent months, and supported by low rates obtainable in the fixed income space and the release of third quarter corporate results.

Thus, NSE mainboard index gained an impressive 13.76% m/m to close above the 30,000 band (trading below the 30,000 band since June 14, 2020) at 30,530.69 index points, pushing the year-to-date return to 13.74%.

On sector front, all the major sectors finished positive accordingly; Consumer goods (+20.33%), Banking (+20.05%), Industrial goods (+11.24%) and Oil/Gas (+10.35%). The premium index advanced by 13.99% m/m while the Pension index gained 17.53% m/m. The index movers for the month are mostly bellwether stocks, namely, MTNN (+11.63%), DANGCEM (+11.97%), NESTLE (+21%), ZENITHBANK (+23.81%), GUARANTY (+15.86%) and BUACEMENT (+8.98%).

We expect the impact of CBN's dovish stance on returns in the fixed income space to sustain the current bullish trajectory in the equity market. However, considering the sustained optimistic momentum since July with most of the stock prices nearly reaching their 52-weeks highs, we expect to witness some profit-taking in the month ahead. Hence, our expectation of

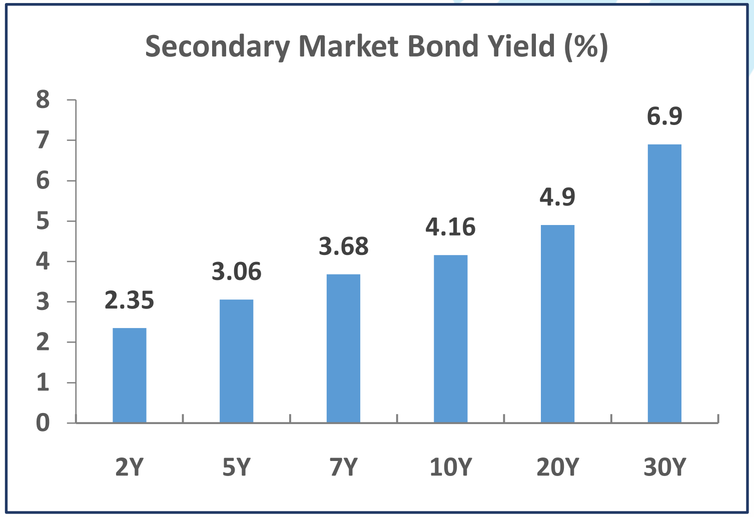


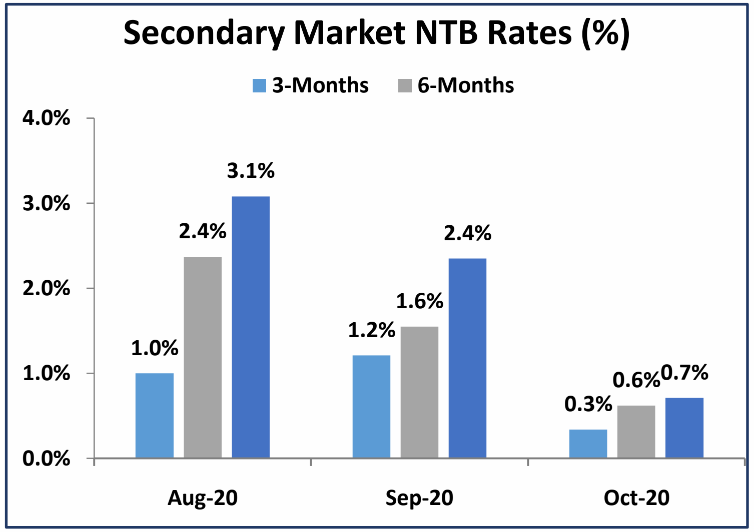


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

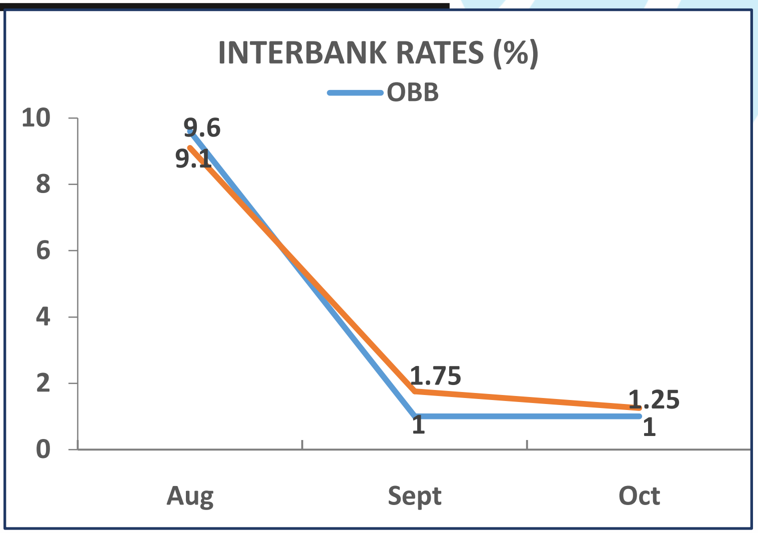
- Overall, the fixed income market was quite bullish in October as non-bank local institutional investors fully rotated out of the OMO bills market, leaving the system awash with liquidity and limited investment outlets.
- As such, average bond yields fell by 276bps to end the month at 4.08%. it can also be asserted that the outcome of the bond auction during the month influenced the direction of yields.
- At the bond auction, the DMO initially offered up to N30.00bn to be split equally between the MAR 2035 (N15.00bn) and the JUL 2045 (N15.00bn) bond instruments through re-openings. However, strong subscription levels (up to N235.9bn) saw the DMO eventually allot N45bn worth of these instruments; (N20bn of MAR-35 and N25bn of JUL-45) at respective stop rates of 4.95% and 5.95%. It is evident that rates closed lower in this when compared to the auction in September. This is most likely as a result of the surplus level of liquidity in the system.
- Similarly, T-bills rates finished lower in October also due to the flush of liquidity in the system. To illustrate, average OMO bill rates declined by 136bps to settle at 0.49%, while average NTBs settled at 0.54%, 128bps lower than last month's close.
- In addition, the CBN floated an OMO auction during the month in which, bills worth up to N100.00bn were offered as follows; N10.00 billion of the 138-day, N10.00 billion of the 180-day and N80.00 billion of the 362-day bills – at respective stop rates of 3.74% (previously 4.10%), 6.80% (previously 7.10%), and 8.00% (previously 8.45%).





FIXED INCOME MARKET

- Furthermore, a total of two NTB PMAs were conducted in October in which approximately N238.85bn worth of the 91, 182 and 364 day papers were offered to investors. Expectedly, both auctions were oversubscribed with total subscription for the month reaching N966.35bn. eventually, the DMO allotted about N22.8bn of the 91DTM paper at an average rate of 1.04%, N22.1bn of the 182DTM paper at an average rate of 1.25% and N214.0bn of the 364DTM paper at an average rate of 2.40%.
- Meanwhile, interbank rates were unchanged at 1.00% at the end of the month.



MARKET OUTLOOK

- As Non-bank local institution fully rotated out of the OMO bills market we foresee an upward pricing of yields was expected within that segment. However, since banks and FPIs still possess substantial OMO maturities till next year, we expect the direction of yields within this segment to be dependent on the CBN's liquidity tolerance. As such, investors may begin to pay close attention to the frequency of the apex bank's mop up activities. If the apex bank increases its OMO issuances to absorb the liquidity from the maturities, an upward yield trend should be expected. Although, if this does not happen to be the case, the high level of liquidity in the system should continue to support a downward yield trend in the overall fixed income market, especially as the DMO's issuance calendar suggests a thin supply of instruments till January 2021. However, these expectations are barring any radical global macroeconomic shifts/ liquidity shocks to the system/interventions by the apex bank.

Foreign Exchange (Spot & Forwards)	
Tenor	**Rate ($/N)**
##CBN Official	379.00
CBN SMIS Window	380.69
I&E FX Window	386.00
1M	386.25
2M	386.49
3M	386.69
6M	388.33
1Y	392.74

MARKET OUTLOOK AND STRATEGY

We anticipate a negative GDP growth in the third quarter and an expectation of a U-shaped economic recovery starting from the tail end of Q4-2020. Nevertheless, we expect CBN's dovish stance to improve activities in the equities market amid lower rate environment being witnessed in the fixed income space. However, oil price volatility, government's fiscal support and availability of COVID-19 vaccines will largely dictate market direction for the last quarter of 2020.

EQUITY

Market valuation remains attractive at the current levels (P/E ratio at 9.04x & Dividend Yield at 7.13%).

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 to government securities while seeking opportunity for bond portfolio rebalancing.

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 2% 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 continue to take position in bellwether stocks with dividend payment history, while scanning for attractive yields in the fixed income space – especially government and corporate bonds.

THANK YOU