MONTHLY MARKET REVIEW AND FORECAST
FOR AUGUST 2021

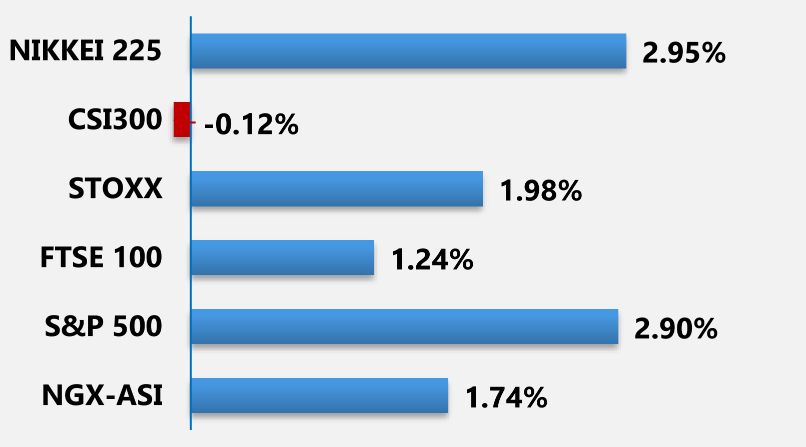
TRUSTFUND PENSIONS LTD RESEARCH

SEPTEMBER 2021

Outlines

GLOBAL MARKET REVIEW

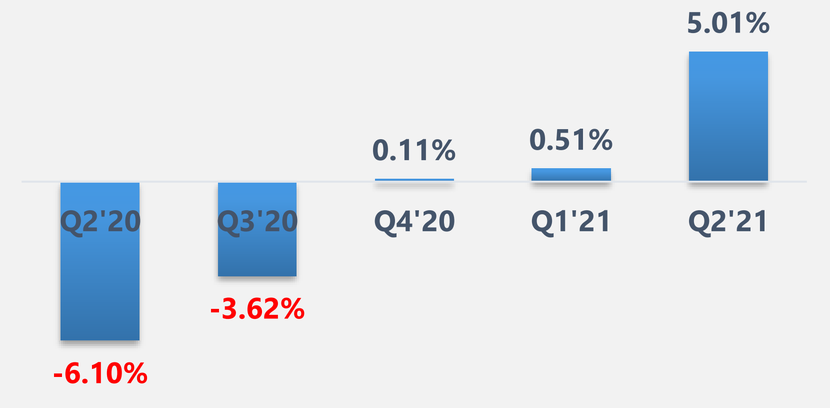
GLOBAL GROWTH REMAINED STRONG DESPITE SPREAD OF COVID-19 DELTA VARIANT



- Global economy remained strong on the back of continuous rollout of vaccines to curb the spread of COVID-19, further lifting of restrictions and central banks' dovish response to lessen the impact of interruptions experienced in the market.
- However, the unrelenting spread of the delta variant continues to threaten businesses, especially with news that the current vaccines have proven to be less effective on other variants of the virus.
- Overall, global equity market traded largely bullish in August *(see chart on the left)* except for China's CSI 300 which trended southward by 12bps due to heightened supply chain disruptions on the wake of Chinese regulatory changes.

NIGERIA'S MACRO UPDATE

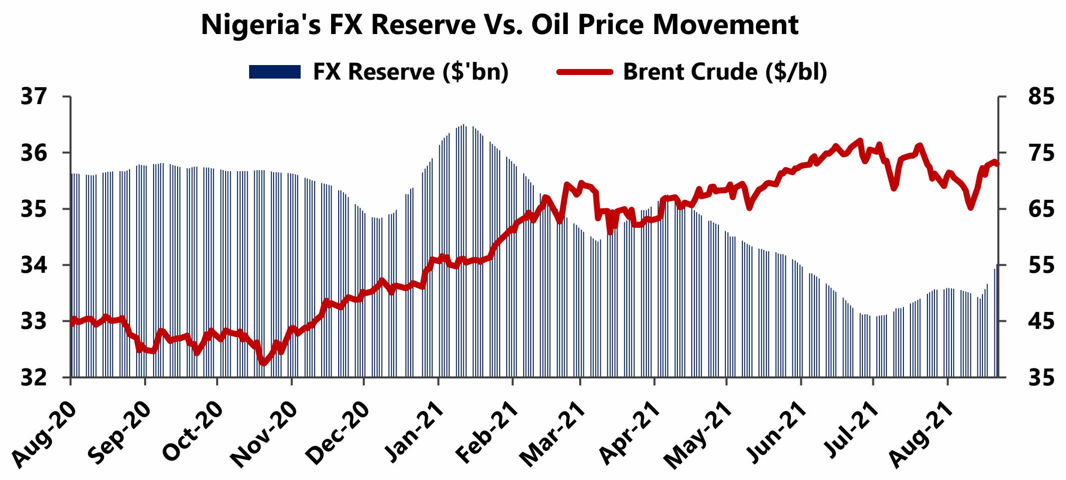
- Nigeria's Q2'2021 GDP reflected an economic growth of 5.01%, higher than 0.51% recorded in the previous quarter. This is attributed to rebound in commercial activities post-Covid-19 lockdown.
- Oil sector declined by 12.65% as oil production dropped to 1.61mbpd from 1.72mbpd recorded in Q1'2021. In contrast, Non-oil sector expanded by 6.74% in Q2'2021, reflecting improved economic activities in the quarter.
- However, PMI dropped to 52.2 in August, from 55.4 in July. This is attributed to lower purchasing power and exacerbated by CBN's discontinuation of FX sales to BDCs.
- The rapid spread of Delta variant and resultant effect on oil demand remains a major drag.



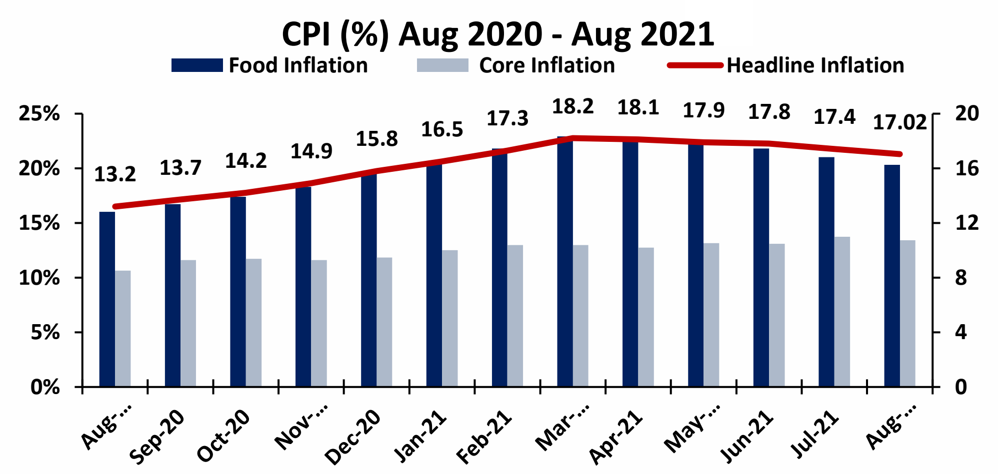
Nigerian Macro Review

Headline	PREVIOUS	CURRENT	%Change	Remark
Monetary Policy Rate (MPR)	11.50%	11.50%	0.00%	The CBN retained MPR at 11.5% at its July meeting as it continues to favor economic recovery over its singe-digit inflation target. We expect economic recovery to gather pace in the second half of 2021 with possible rate hike towards the end of the year.
Inflation	17.38%	17.01%	-0.37%	According to National Bureau of Statistics, Headline Inflation tapered by 37bps to 17.01% in August, from 17.38% recorded the previous month. This is attributable to lower food inflation which dropped from 21.03% to 20.30% and higher base effects. We expect lower inflation in the coming month sustained by lower food inflation owing to the harvest season.
Exchange Rate (NGN/USD)	₦409.60	₦409.82	-0.05%	FX remained stable at N409.82/$ in August as the apex bank adopts the I&E FX Window as the official exchange rate and halted the sale of dollars to BDCs. We expect naira to remain stable through Q3 owning to SDR inflow of $3billion from IMF.
External Reserves (USD'bn)	$33.40	$34.02	+1.84%	Foreign reserve increased by 1.84% to $34.02 in August despite decline in the prices of crude oil (-4.38%). The increase is attributed to CBN's decision to cut supply of dollars to BDCs. We anticipate pressure on FX reserve to ease in the third quarter as the central bank adopts the NAFEX rate and cut supply of dollars for all food and fertilizer imports.

External Reserve increased by $615m million in August

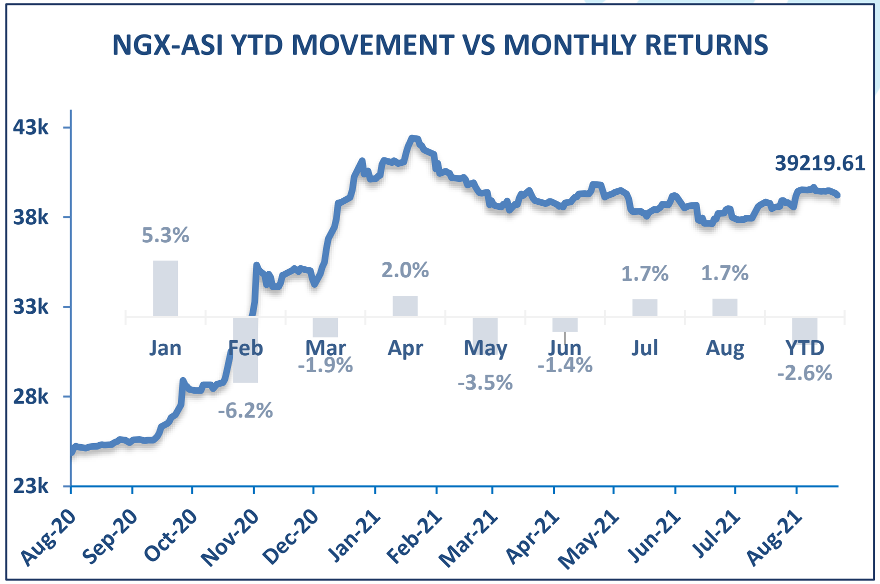


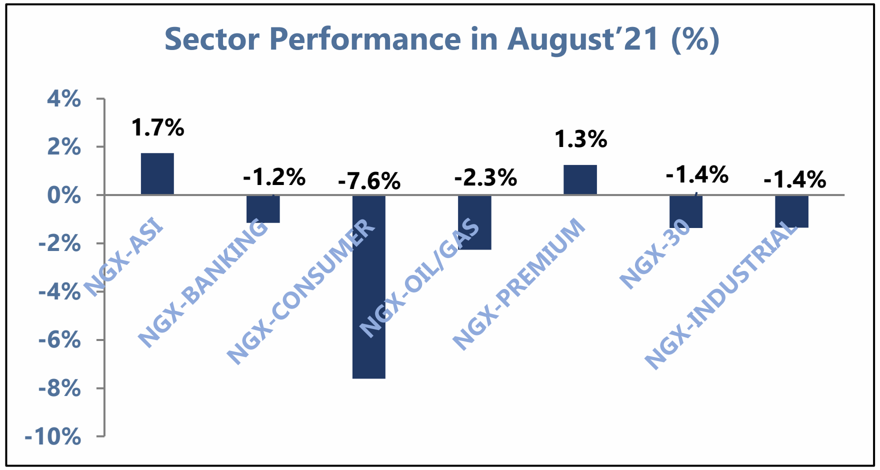
Headline Inflation dipped for the fifth consecutive session



EQUITY MARKET

- Despite the downbeat mood largely witnessed in August (market breadth closed negative with Advancer/decliner ratio at 0.87x). , rally from two bellwether stocks swayed the local bourse northward.
- Consequently, the NGX-All Share Index advanced by 1.74% to 39,219.61 index points in August, tempering the year-to-date loss to 2.6%. The main-board index's 30-day price volatility averaged 7.90% over the past month while the total market capitalization closed at ₦20.3 trillion
- Notably, AIRTELAFRICA (+21.95%) and MTNN (+7.31%) emerged as market movers for the month, while decline from NESTLE (-9.09%), DANGCEM (-2.06%), NB (-14.00%) and GTCO (-4.04%) narrowed the gains.
- On sector front, advance from NGX PREMIUM Index (+1.25%) overrode negatives from Consumer goods (-7.61%), Oil/Gas (-2.3%), Industrial goods (-1.36%) and Banking (-1.15%) indexes.
- Looking ahead, we expect that attractive market valuation (P/E Ratio @10.4x Div. Yield @5.3%) will continue to drive demand for stocks, however, dollar scarcity and improving yields in the fixed income market remain major concerns for investors.





Source: Bloomberg/ TFP Research

INVESTMENT RESEARCH

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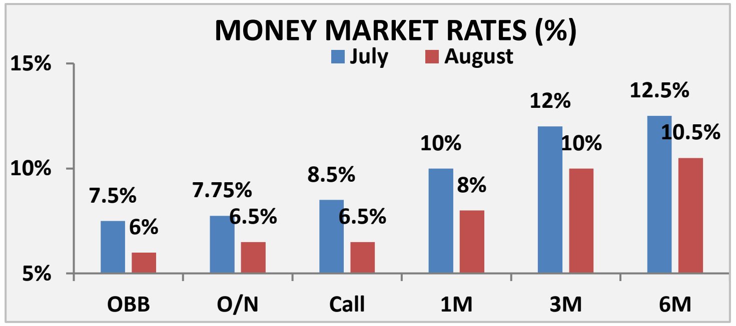
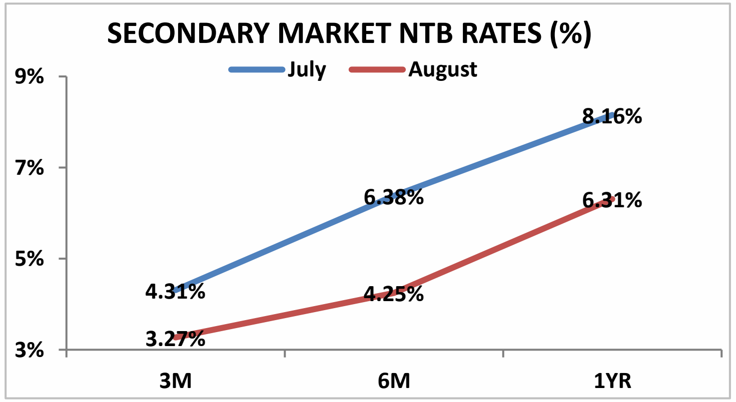
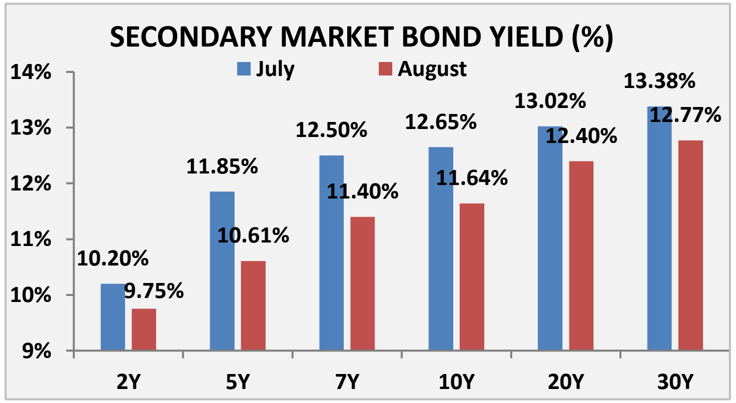
FIXED INCOME MARKET

FIXED INCOME MARKET TRADED BULLISH IN AUGUST

- In the Bond market, yields dropped across the curve by 91bps to close at 11.15% in August, with the biggest drops witnessed on the 2022, 2026 and 2027 instruments which shed 185bps, 124bps and 120bps respectively. On the long end of the curve, demand for 2034 and 2036 instruments saw their yields contract by 86bps and 70bps respectively.
- Similar trend was also observed in the Treasury bills space as average discounted NTB rate contracted by 133bps MoM to close at 4.45%, with demands concentrated on the mid- to long-end of the curve. Likewise, OMO bills rate dipped by 248bps to close at 5.96%.
- We expect bearish sentiment to playout in the fixed income market as CBN steadily push for rate hike amid dearth of foreign portfolio investors. Furthermore, investors are expected to increase position in fixed income instruments to create a ballast to portfolio's growth asset allocation amid the downbeat sentiment playing out in the equities market.
- Our expectation is anchored on the foregoing, bearing in mind any liquidity shock to system liquidity.







MARKET OUTLOOK AND STRATEGY

IMF reviewed Nigeria's growth for FY2021 from 1.5% to 2.5% on the back of easing OPEC's production cuts, COVID-19 vaccine rollout and lift of lockdown restrictions which is expected to further support output. Nonetheless, portfolio inflow is expected to remain depressed as exchange rate shortages and capital controls will continue to deter much needed investment in critical sectors of the economy. Also, oil price volatility, rising food prices and continued restrictions on foreign currency remain major concerns.

EQUITY

We anticipate mixed sentiment with mild uptick to prevail in H2-2021 as the economy recovers from COVID-19 impact. However, attractive yield environment in the fixed income space will continue to stifle demand for stocks.

Hence, we will continue to take profit on rallied tickers and cherry-pick attractive stocks when suitable opportunities are identified.

FIXED INCOME

Bond – We will maintain our position in FGN Bonds and continue to seek opportunities to optimize portfolio return.

Corporate Issuances – At current yield level (avg. 12%), we anticipate more corporate issuances at attractive yields, hence, we will take position in investment grade instruments.

Treasury Bills – we expect yields to continue to hover around 7% as high inflation rate continues to spur negative sentiment .

Money Market – We will max out positions on the short end of the curve with rates expected at 11% avg.

We will continue to take advantage of market opportunities with focus on corporate issuances and infrastructure instruments to improve investment returns. As such, asset exposure may vary over time.

THANK YOU