MONTHLY MARKET REVIEW AND FORECAST
FOR DECEMBER 2022

TRUSTFUND PENSIONS LTD RESEARCH

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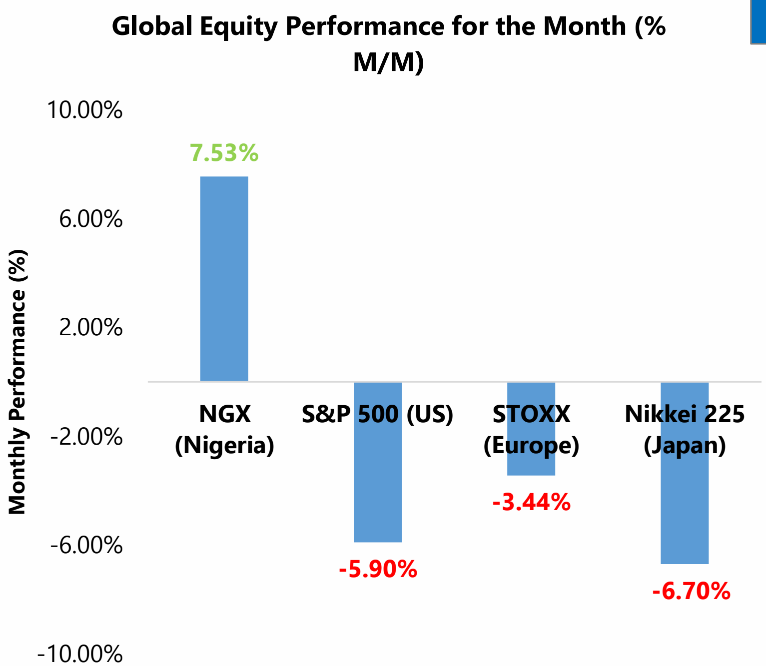
GLOBAL MARKET REVIEW



**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*
***S&P 500 tracks top 500 companies in USA*

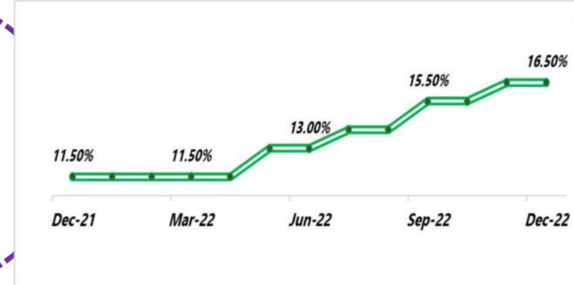
GLOBAL MACRO MOVERS FOR THE MONTH

- In 2022, widespread elevated inflation, aggressive hawkish stances by global monetary authorities, the lingering Russia-Ukraine crisis and the effects of the Covid-19 pandemic, especially in China were among the turbulent headwinds that confronted the global economic landscape.
- Consequently, markets were broadly negative throughout 2022 as investors turned to haven instruments offering relatively attractive yields and capital preservation.
- However, positive sentiments returned to the global space in November due to renewed investors' confidence following the U.S's slower inflation rate. In addition, China's easing of its lockdown rules and the Biden-Xi Jinping meeting eased geopolitical tensions between the U.S. and China and garnered support for the equities space as it meant an improvement in economic activity, thus providing some relief to investors.
- Inevitably, these sentiments retreated in December mainly due to weaker export data and lockdown restrictions imposed by China following the emergence of a novel Covid-19 variant in the country.
- Surprisingly, the Nigerian bourse defied the odds by outperforming its developed counterparts with a 7.53% M/M return in December 2022.

Source: Schroders, (2022)

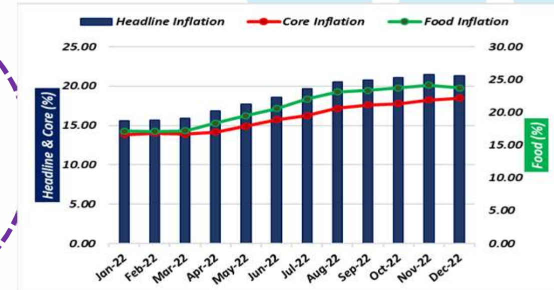
Nigerian Macro Review

MPR



The outcome of the final MPC meeting for the year saw an additional 100bps increase in the MPR to 16.50%. The committee justified this as a means to tackle increasing inflation. It evidenced the positive results of its hawkish stance by highlighting the slower inflationary growth rate.

CPI



Headline inflation recorded a 13bps y/y decline to 21.34%, the first decline for the year. This insinuates that prices of goods and services increased at a slower pace compared to the previous month., supply chain disruptions and import cost hikes remain as significant factors to rising inflation levels.

FX RATE

The CBN official exchange rate sustained an upward trend to close at N449.05. This translates to a 1.12% increase from the previous month's rate. This was due continuous demand for dollars amid short supply resulting from dwindling revenue from oil theft.

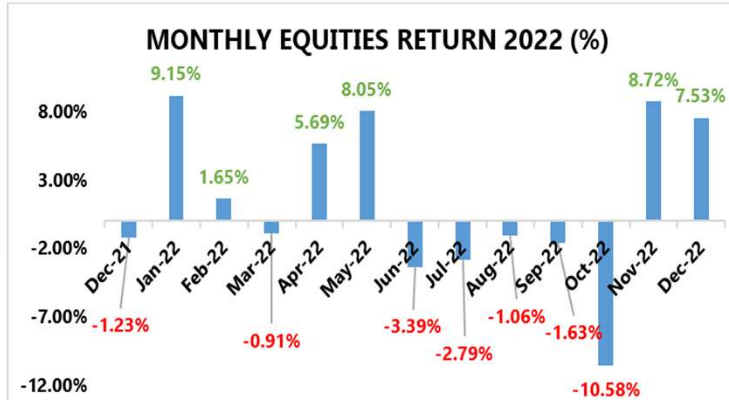
RESERVE

The External Reserve retreated slightly, shedding 8bps from the previous month to $37.08bn in December . This was due to a regression in the declining rate of crude oil prices and increased support in various auction windows during the period.

EQUITY MARKET

NGX ALSI DEFIES CONTINUOUS MPR HIKES

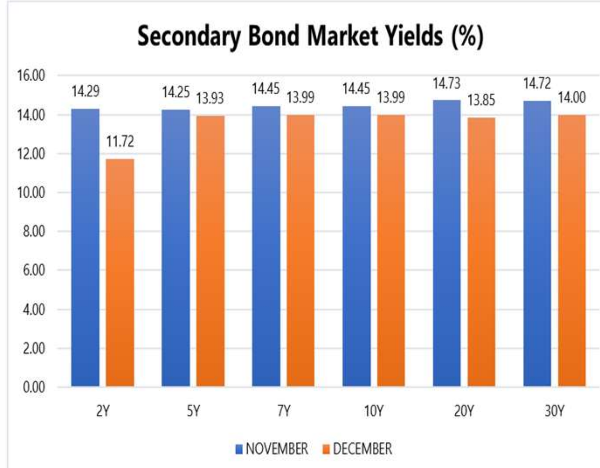
- ✓ The equities market advanced by 7.53% to close the month and year at 51,251.06 points.
- ✓ This performance was propelled by year end rebalancing activities by portfolio managers which saw upticks in the prices of BUACEMENT (+26.95%) AIRTELAFRI (+12.76%) NESTLE (+14.12%) GTCO (+15.00%) and ZENITHBANK (+9.59%).
- ✓ A cursory look into the performance of the sectors under coverage revealed that all the sectors closed in bullish territory.
- ✓ The NGX Industrial goods index led the table with a gain 12.45% largely supported by renewed interests in BUACEMENT (+26.95%) and WAPCO (+8.84%).
- ✓ Furthermore, price accretions on NESTLE (+14.12%) and BUAFOODS (+2.52%) were responsible for the positive performance witnessed on the NGX Consumer Goods sector.
- ✓ In addition, the NGX Banking and Insurance indices were lifted by 5.24% and 5.79% resulting from year end portfolio rebalancing hinged on gains from ZENITHBANK (+9.59%), GTCO (+15.00%), STANBIC (+9.49%), UBA (+4.83%), AIICO (+9.26%) and MANSARD (+5.26%).
- ✓ Lastly, NGX Oil and Gas index advanced by 4.36% on the strengths of SEPLAT (+4.76%) and ARDOVA (+32.37%).

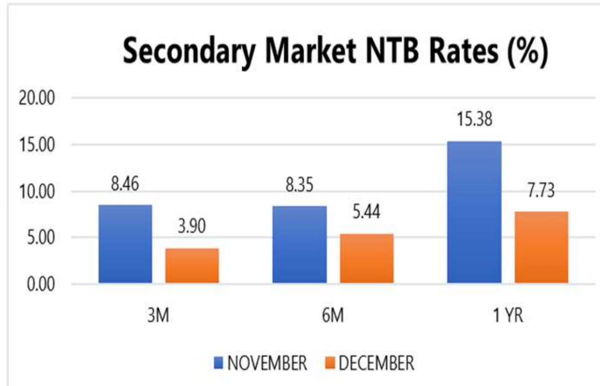


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- The secondary bonds space continued on its bullish path by the end of December 2022 when compared to the preceding month's close as buy interests were observed across the curve.
- This positive performance can be attributed to investors' (especially financial institutions) continued efforts to offload idle funds from coupon receipts and existing FAAC disbursements, in order to avoid surplus CRR debits.
- Furthermore, there was a bond auction conducted during the month where in up to N225.00bn was split equally and offered on the 13.53% FGN MAR 2025, 12.5000% FGN APR 2032 and 13.0000% FGN JAN 2042 instruments through re-openings. Eventually, about N264.52bn was sold to auction participants at respective stop rates of 14.60% (prev. 14.75%), 14.75% (prev. 15.20%) and 15.80% (prev. 16.20). It can be agreed that the lower stop rates at this auction are as a result of the less aggressive borrowing stance of the FGN due to its limited liquidity needs towards the end of the year.
- In addition, a financial system awash with liquidity meant that the FGN could afford to borrow funds at a low rates. This is evidenced from the N532. 20 bond subscription.
- Subsequently, investors who lost out at the auction scurried to recover lost bids at the secondary market, hence, contributing to the bullish trading pattern. Consequently, average bond yields closed 131bps lower at 13.31%.





FIXED INCOME MARKET

- Similarly, NTB discounted rates trended 585bps lower on the average at 5.10% in response to lower rates obtained at the conducted PMAs .
- At the NTB PMAs, a total of N121.79bn was offered to investors on the 91DTM, 182DTM and 364DTM bills with approximately N171.79bn being sold to investors at respective average stop rates of 4.62% (prev. 6.50%), 7.58% (prev. 8.05%) and 13.05% (prev. 14.42%).
- On the other hand, average discounted rates in OMO bills remained at 10.44% due to inactivity within that market segment, owing to relatively unattractive obtainable yields during the month.
- In the coming months, it is believed that elevated inflation levels (currently 21.34%) would keep yields at double digit levels as investors make efforts to reprice instruments in their position with the aim of attaining real returns above inflation. However, we also expect yields to taper slightly (but remain at double digit levels) as profit seeking investors book gains on "in the money" bonds in their position. We also expect some cautious trading at the beginning of the year as investors monitor the developments of the upcoming election and await its outcome. Nonetheless, these expectations are barring any radical global macroeconomic shifts/ liquidity shocks to the system/interventions by the apex bank.

MARKET OUTLOOK AND STRATEGY

In H1'23, we foresee higher inflationary pressures albeit at a slower pace as evidenced in the narrowed inflationary rate in Q4'22. As such, we expect the apex bank to taper on its policy rate hikes during the first half of the year. Additionally, we anticipate an upward trajectory of yields in H1'23 as the FGN seeks to fund a budget deficit of N11.13trn. However, we expect a reversal in this trend in H2'23 as a clearer direction of policy from a newly sworn in administration could cascade into an ease in inflationary pressures, reduced pace of borrowing and a shift from a hawkish stance to a dovish stance by the CBN.

EQUITY

We envisage a bullish run in this market owing to a possible decline in fixed income yields during the year. As such, return seeking investors are expected to turn to the variable income space with their funds. In addition, a pro market administration would mean favorable market policies for businesses to drive profits, leading to greater investor patronage of these tickers in the stock market. However, the lingering Russia-Ukraine war and China's Covid-19 status pose as significant headwinds. Hence, "Cautiously optimistic" is the phrase of the day with regards to our outlook for the equities space.

FIXED INCOME

Bond – We will book profits on the rallied instruments in our position and deplore the sales proceeds into alternative assets with attractive returns.

Corporate Issuances – our focus will be on available "A" rated corporate bonds at attractive yields to further boost portfolio return.

Treasury Bills – with yields currently at low single digit levels, we continue to monitor its trend and take position in yields not less than rates obtainable in money market.

Money Market – We will be strategic and maximize positions on the short end of the curve to support our liquidity laddering strategy.

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