MONTHLY MARKET REVIEW AND FORECAST

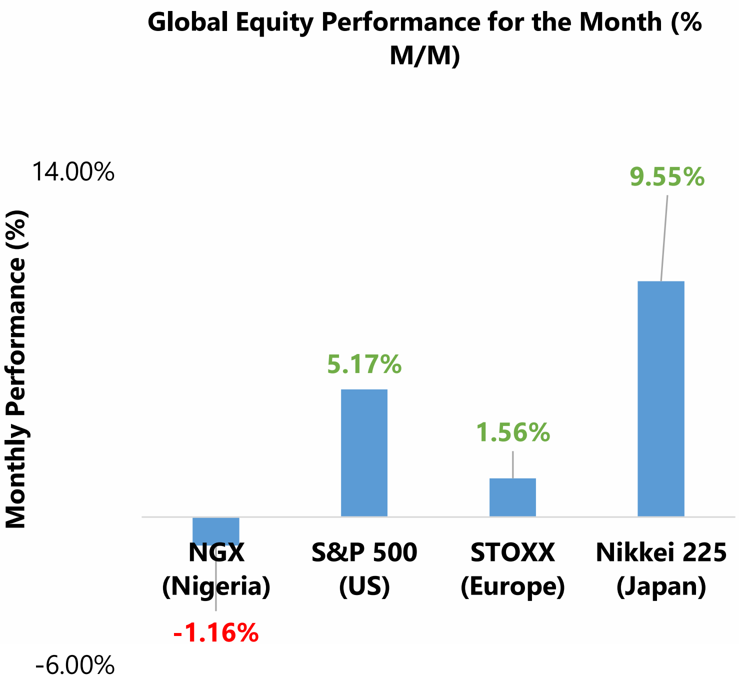
FOR FEBRUARY 2024

TRUSTFUND PENSIONS LTD RESEARCH

MARCH 2024

INVESTMENT RESEARCH
TRUSTFUND PENSIONS LIMITED

GLOBAL MARKET REVIEW



**NGX – 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*

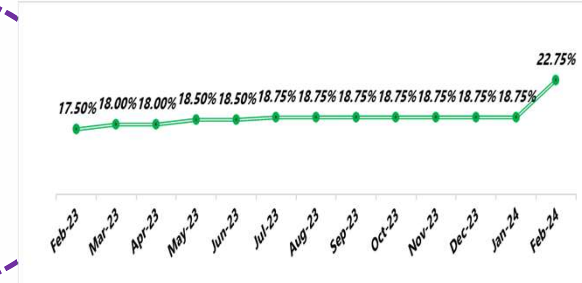
GLOBAL MACRO MOVERS FOR THE MONTH

- Save for the NGX, global stock markets recorded gains in February 2024 mainly driven by positive corporate earnings releases.
- U.S shares saw gains supported by impressive corporates earnings results, particularly from Alphabet (GOOGL; GOOG), Amazon (AMZN), Apple (AAPL), Meta Platforms (META), Microsoft (MSFT), NVIDIA (NVDA), and Tesla (TSLA), popularly dubbed as the "Magnificent 7".
- In Europe, market gains were also buoyed by positive earnings results largely from the consumer discretionary sector- mainly luxury and automotive companies and the Information Technology (IT) sector. With regards to the IT sector, enthusiasm surrounding AI potentials have significantly influenced demand.
- Modest inflation and corporate governance reforms drew strong positive sentiments from global investors to the Japanese market, hence the 9.55% return for the month. In addition, strong earnings results from some car manufacturers and large cap financial companies raised investor sentiments and supported the market rally.
- In Nigeria, the high yield fixed income environment coupled with a few unimpressive earnings results due to FX losses spurred selloffs in the equities bourse.

Source: Schroders, (2024), (2024) Trustfund Pensions Research, (2024)

NIGERIAN MACRO REVIEW

MPR

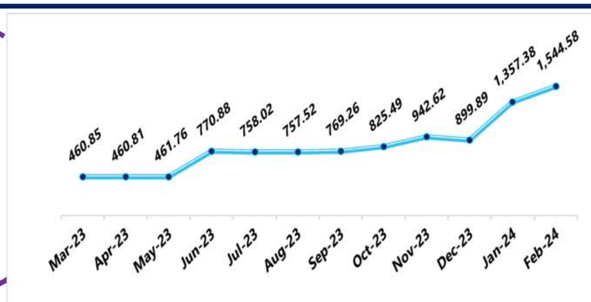


The apex bank adopted a hawkish stance in its MPC meeting in February by maintaining a 400bps hike in the MPR to 22.75%. The committee cited the need to curb inflation and manage liquidity as the basis for its hawkish decision.

CPI

Headline Inflation accelerated further due to the continued pressure on the green back, cascading into food and energy prices. Hence, the Index climbed 180bps to 31.70% from 29.90% printed in January 2024. Food and Core inflation closed at 37.92% and 25.13% respectively.

FX RATE



The Naira depreciated by 13.79% at the official window, exchanging a dollar at N1,544.48 from N1357.38 recorded at the end of January 2024. This was attributed to persistent demand for dollars amid low supply.

RESERVE

The External Reserve increased by $0.33bn to close the month at $33.68bn from $33.35bn printed in January 2024. This was due to increased inflows resulting from an uptick in crude oil production during the period.

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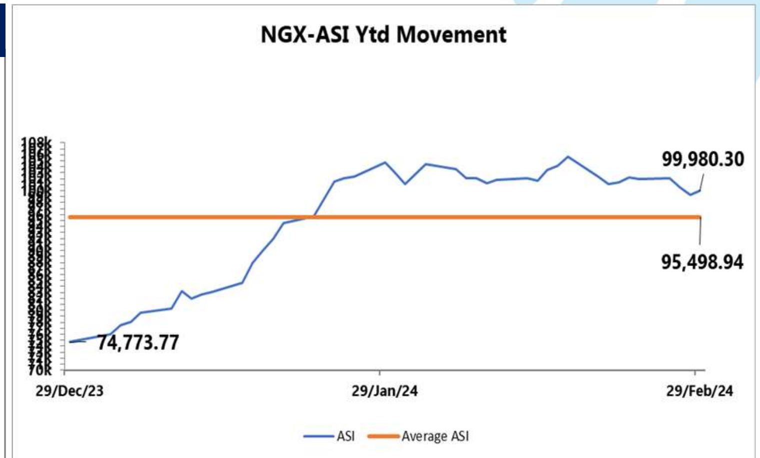
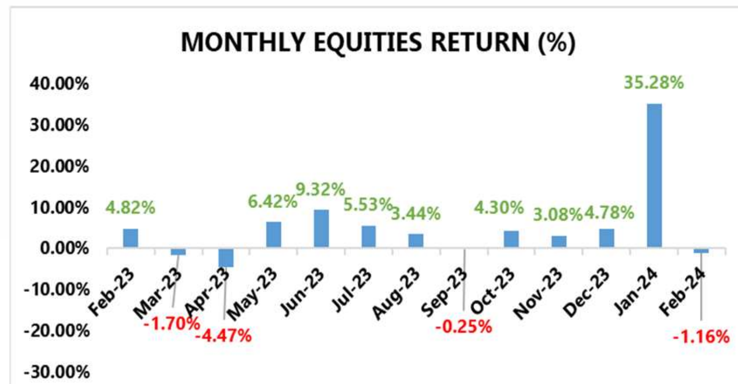
EQUITY MARKET

ALSI Succumbs to Sell Pressures Due to 400Bps MPR Hike

- ✓ Following yield advancements in the fixed income space, the equities space expressed bearish sentiments as the NGX ALSI shed 116bps to close at 99,980.30 index points. Consequently, YTD return moderated to 33.71%.
- ✓ The performance was largely hinged on profit taking activities on DANGCEM (-10.00%), BUACEMENT (-18.92%), MTNN (20.68%), NESTLE (-17.43%) and STANBIC (-15.77%).
- ✓ Furthermore, it can be agreed that weaker than expected 2023FY corporate earnings releases as a fall out of foreign exchange losses influenced the negative sentiments witnessed in the market.
- ✓ From a sectorial standpoint, performance was mixed with positive closes in the Consumer goods and Oil & Gas sectors, whilst the Industrial goods and Banking indices closed negative.
- ✓ The consumer goods (+16.45% MoM), and Oil and Gas (+4.14% MoM) both closed positive buoyed by gains in BUA FOODS (+39.77% MoM), VITAFOAM (+10.73% MoM), SEPLAT (+9.61% MoM) and MRS (+7.14% MoM).
- ✓ Conversely, the industrial goods and Oil and Gas indices were dragged by losses in BUACEMENT (-18.92% MoM), LAFARGE (-11.25% MoM), WEMABANK (-26.20% MoM), STERLINGNG (-19.75% MoM).





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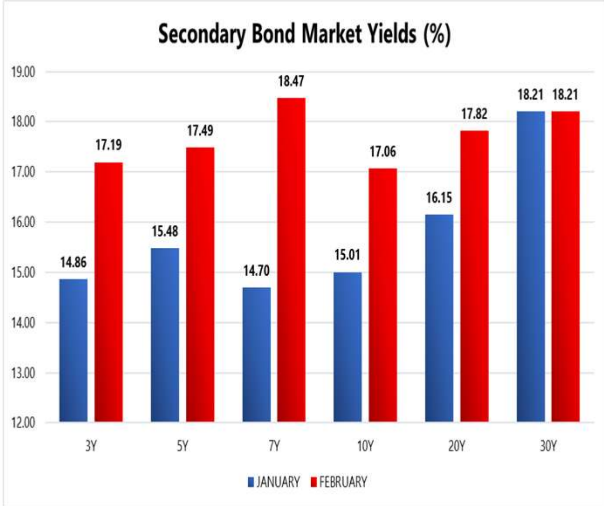
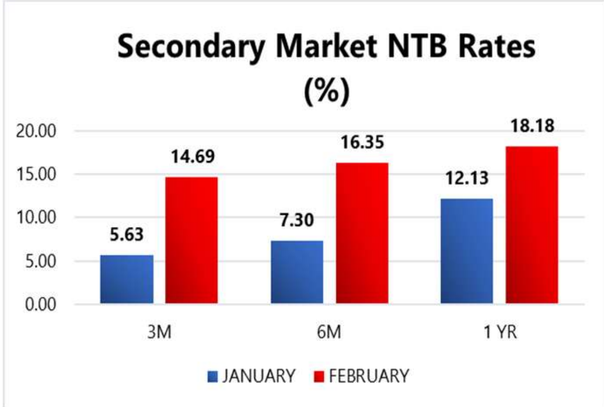
Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- In February, the fixed income market recorded a bearish close as yield expansions were observed along the bond curve and NTB curves
- For instance, average bond yields were up by 219bps to close at 19.41%, whilst discounted rates gained 70bps in the average to close at 16.41%.
- This performance can be pinned to the market's response to sustained MPR hikes (+400bps to 22.75%) in addition to higher stop rates at primary auctions.
- In February's bond auction, the DMO offered N2.50trn worth of the 18.50% FGN FEB 2031 (New Issue) and 19.00% FGN FEB 2034 (New Issue) bond instruments- N1.25trn each. Eventually, about N1.49trn was sold to auction participants at respective stop rates of 18.50% (prev. Nil) and 19.00% (prev. Nil). Notably, the auction was under subscribed with subscription levels reaching N1.90trn translating into a bid to offer ratio of 0.76x and bid to cover ratio of 1.27x.
- Regarding NTBs, the DMO held two auctions last month where a total of N1.27trn worth of the 91DTM, 182DTM and 364DTM bills were offered to auction participants. Interestingly, strong investor interest and participation led the DMO to sell approximately N2.95trn worth of these bills at respective average stop rates of 17.12% (prev. 3.12%), 17.75% (prev. 5.69%) and 19.00% (prev. 9.97%). Notably, subscription levels reached N4.22trn, translating into a bid to offer ratio of 3.34x and bid to cover ratio of 1.63x. It can be asserted that investors' desires for high returns drove the outcome of the auctions.





FIXED INCOME MARKET

- Next month, we expect traders to exercise relative caution in their trading activities as they await the release of the Mar'24 bond calendar, as well as monetary policy guidance from the apex bank, ahead of the forthcoming MPC meeting. All the same, we expect yields to remain elevated on the back of an anticipated rate hike by the MPC in its next meeting. Nonetheless, these expectations are barring any radical global macroeconomic shifts/ apex bank interventions/ liquidity shocks to the system.

MARKET OUTLOOK AND STRATEGY

The short run outlook for the economy remains bleak owing to several factors, including Naira depreciations that could pressure consumer spending and contribute to higher inflation, food insecurity and heightened energy costs that have cascaded into the prices of goods and services nationwide. However, we maintain a cautiously optimistic outlook for 2024 in the medium to long term, which is hinged on an expected average GDP growth rate of 3.3% (AFDB, 2023), to be buoyed by anticipated improved FX supply, slowed pace of inflation due to expected accelerated tightening interventions by the CBN, increased crude supply and revenue from the Dangote Refinery, as well as improved investments and overall business environment as policy direction becomes clear.

EQUITY

In the coming month, the equities space is expected to remain bearish as market participants offload their stock positions in favor of higher obtainable yields at the fixed income space. Nonetheless, these expectations are barring any radical global macroeconomic shifts/ apex bank interventions/ liquidity shocks to the system.

FIXED INCOME

Bond – We will continue to monitor market trends and take advantage when suitable opportunities are identified..

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 on the uptrend, we will 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.