MONTHLY MARKET REVIEW AND FORECAST

TRUSTFUND PENSIONS LTD RESEARCH

MAY 2019

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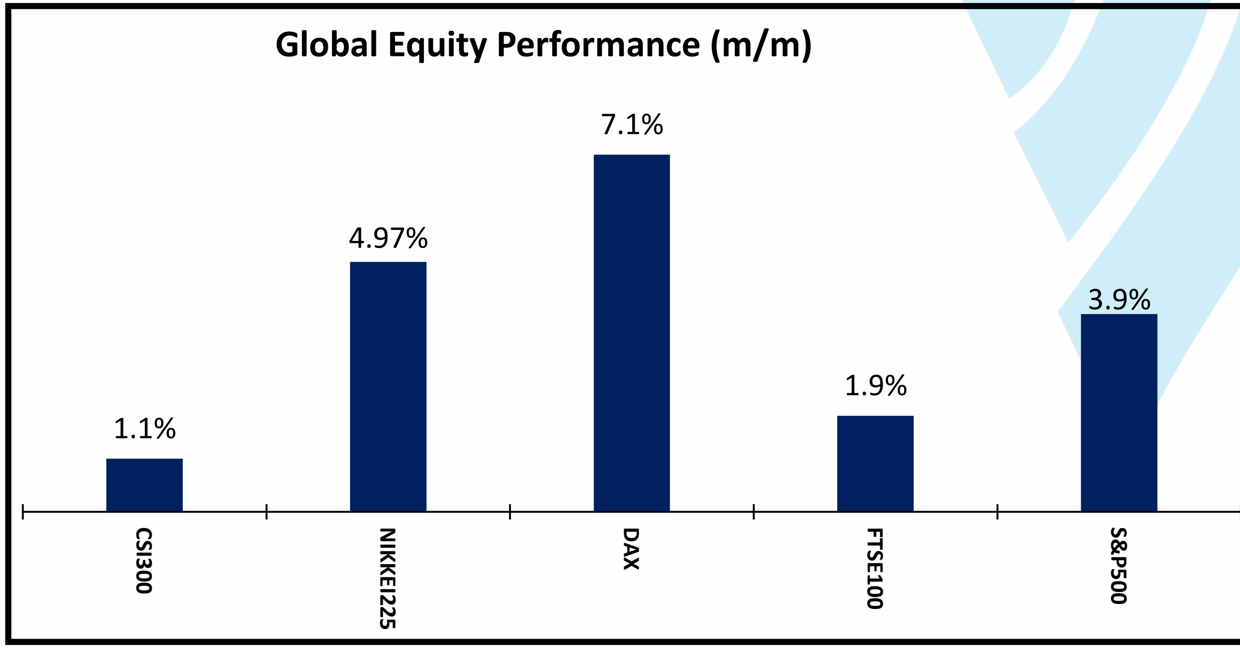
MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

- Global Economy
- Domestic Macro Review
- Equity market
- Fixed Income Market
- Outlook

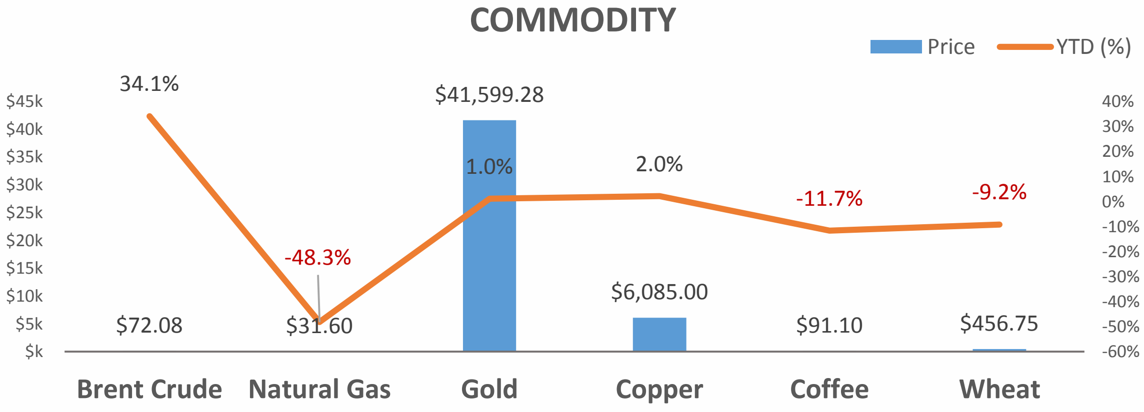
GLOBAL MARKET

Global market mood for April was largely dictated by release of first quarter earnings report, macro economic figures as well as updates on the lingering US/China trade dispute. Although the month started on a bearish note, investors were encouraged by the more stable policy environment, especially as Trump stated that Chinese President Xi Jinping would soon visit Washington, presumably to sign an agreement. Investors may have also been relieved by the European Union's decision to grant the British government a six-month extension to develop a new Brexit plan. That said, the positive economic data released in April was encouraging. According to the U.S. Bureau of Labor Statistics, the Consumer Price Index (CPI) on a yearly basis in April rose to 2% from 1.9% but fell short of the market expectation of 2.1%. The core CPI, which excludes volatile food and energy prices, came in at 2.1% annually in April. On a monthly basis, the CPI and the core CPI rose 0.3% and 0.1%, respectively.



Source: Bloomberg/TFP Research

Thus, S&P 500 rose by 4% in April on the back of better than expected first quarter corporate earnings. China's CSI 300 (+1.1%), Japan's Nikkei 225 (+5%), UK's FTSE 100 (+2%) and German's DAX (+7.1%) also closed higher on improvements in the outlook for global growth and corporate earnings. Looking forward, we expect updates from US/China trade negotiation and news from US/Iran Nuclear sanction to largely dictate market mood in May. That said, we advise that investors should continue to diversify their portfolio to ensure maximum return.



Source: Bloomberg/TFP Research

DOMESTIC MACRO REVIEW

Oil

Crude oil prices rose by 6.63% to close at a six-month record high of $72.06 in April on the back of potential supply crunch coming from US sanction on Iran oil and move to sanction countries who buys from Iran. With the developments in Iran inching towards war situation and US refusal to grant India and China a 6-month exemption request to purchase Iranian crude oil, prices are expected to find a higher low as the disruption in supply remains a major concern.

External Reserve

External Reserve increased by $365 million or 0.82% (m/m) to close at $44.79 billion in April. This can be attributed to the rally in crude oil prices spurred by the US/Iran sanction and unrest in the middle east.

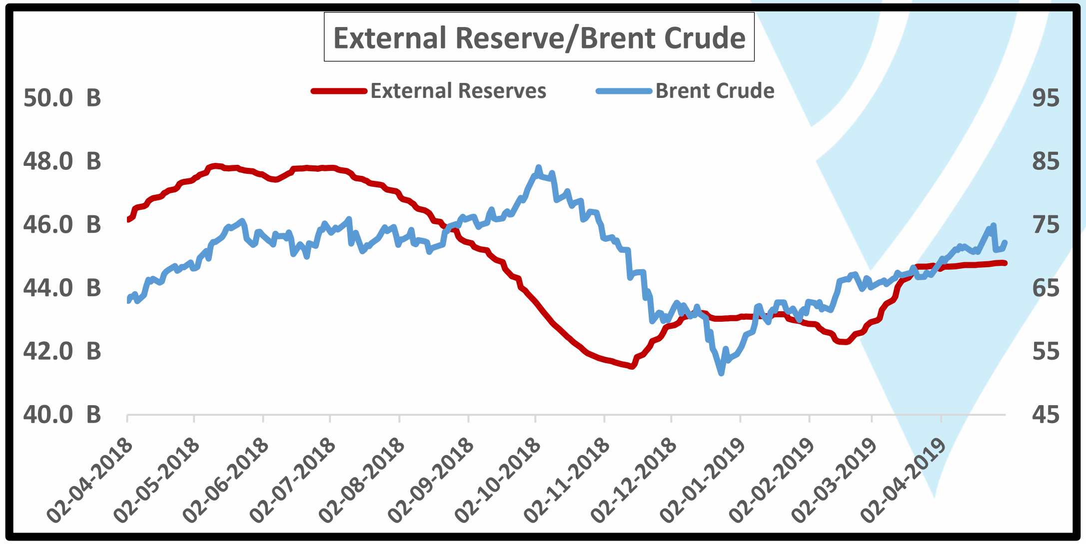
Thus, Exchange rate remains relatively stable at ₦306.9-₦307/$ while the parallel market is traded at ₦360.63/$.

PMI

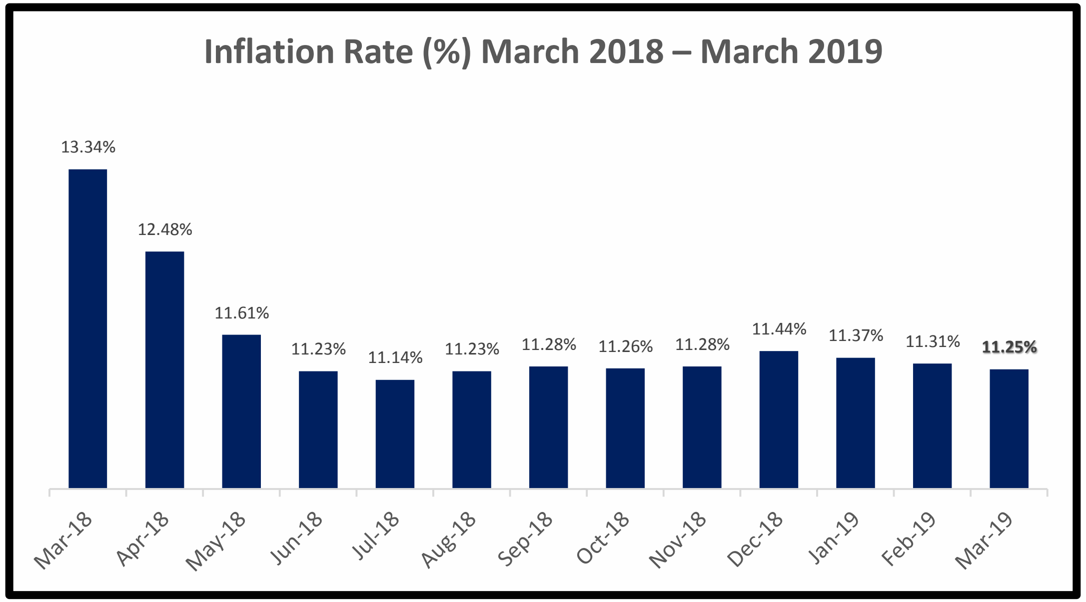
Manufacturing PMI for April stood at 57.5 index points, indicating 25th consecutive month of expansion in the Manufacturing sector. Supporting the growth are electrical equipment; plastics & rubber products; cement; petroleum & coal products; transportation equipment; food, beverage & tobacco products.

Inflation

Inflation rate increased by 11.25% in March, which was 6bps lower than 11.31% recorded in February. Though we expect lower inflation figure for April on the back of decreased consumer spending, the sign off by the executive of the 63% increase in minimum wage and the expansion of the ban on textile products to access foreign exchange remains a major factor will likely stoke an increase inflation to about 12.5% *(est.)*.



Source: Bloomberg/TFP Research



Source: Bloomberg/TFP Research

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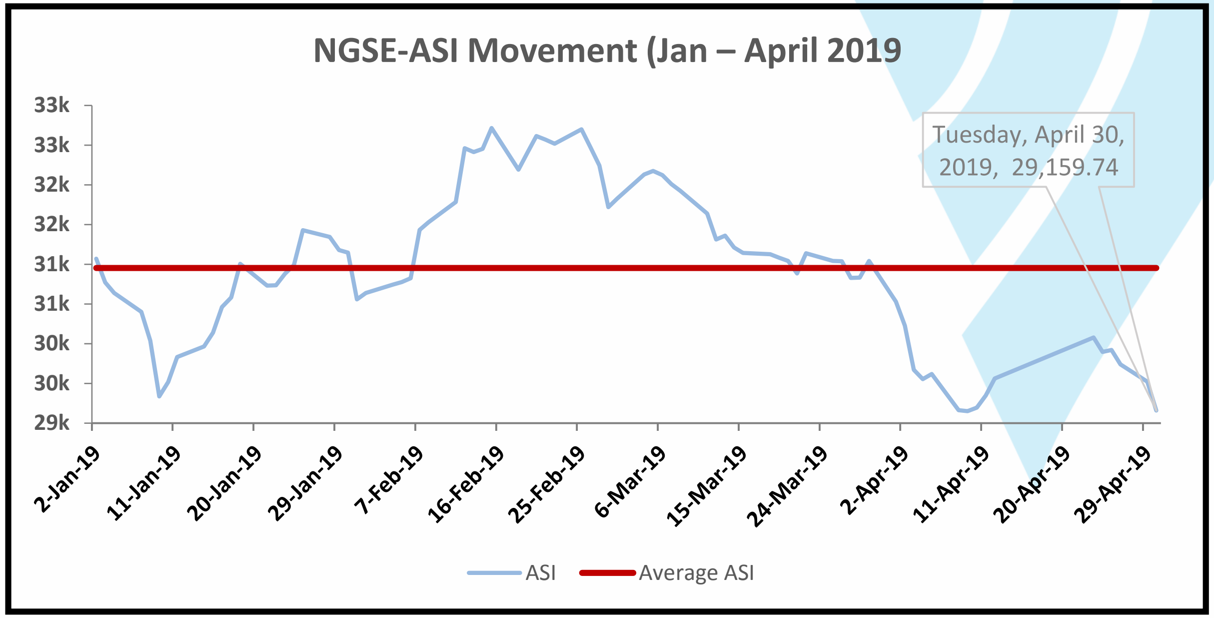
EQUITY MARKET IN APRIL

The Nigerian Equities market traded the month on a decidedly down mood, suffering its worst month-on-month loss since May 2018 when the bourse witnessed over 7% loss, as 2019:Q1-Earning season and improved macro-economic figures failed to renew investor confidence. Thus, the NSE-All Share Index lost 6.06% in April to close at 29159.74 to further push Ytd loss to 7.22%. Attributable to this are economic worries coming from both local and global front. Most concerning may have been Buhari's delay in announcing his cabinet for the new tenure which continues to increase the uncertainty in the market with no clear signals for which to make informed decisions. On the global front, fading hopes that a U.S.-China trade deal would soon be announced, US sanction of Iranian oil and heat up between Iran and Saudi Arabia also seemed to weigh on sentiment for the month,



Source: Bloomberg/TFP Research

Index	MTD Return (%)	YTD Return (%)	P/E (x)	Div. Yield
All Share Index	-6.06%	-7.22%	7.1x	5.94%
Pension Board	-6.40%	-7.91%	5.3x	5.87%
Premium Board	-4.37%	-3.99%	6.7x	6.57%
Banking	-5.51%	-4.32%	3.5x	8.70%
Consumer Goods	-5.78%	-10.50%	15.6x	4.11%
Industrial Goods	-12.98%	-12.85%	16.3x	7.80%
Oil & Gas	-3.40%	-7.14%	6.7x	8.21%
Insurance	-3.74%	-4.12%	4.5x	8.24%

Source: Bloomberg/TFP Research

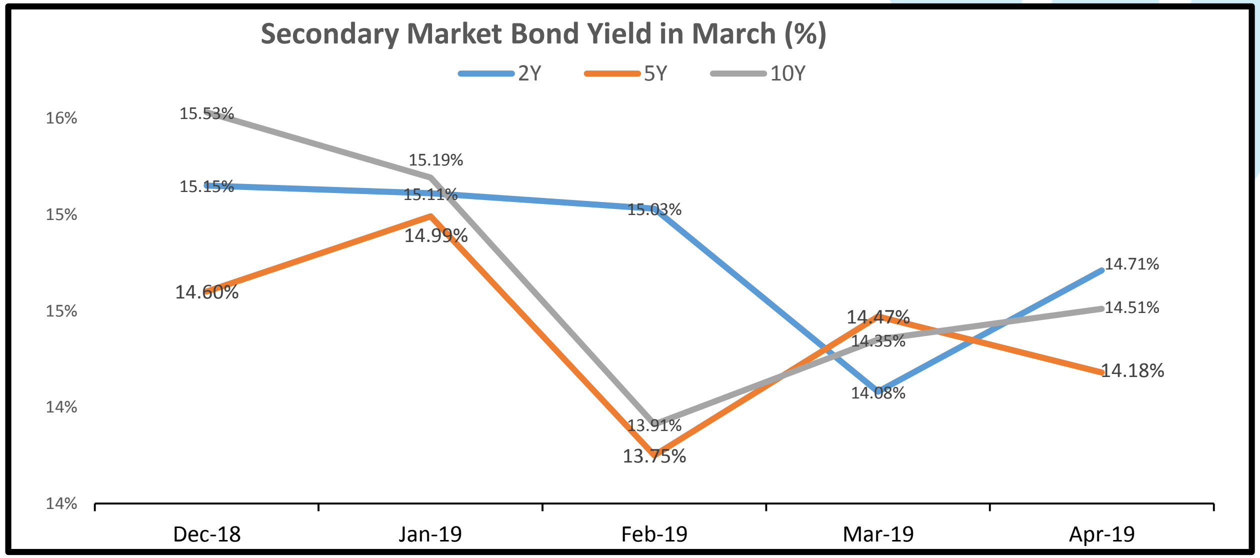
In the absence of positive triggers, we expect the market to remain bearish in May as investors continue to seek for signals to support investment decisions. Nonetheless, we anticipate some BUY sentiment around stocks with strong fundamentals as investors seek to take advantage of the cheap pricing on oversold stocks (Div. Yield:8.6%, P/E 10x). Particularly, investors will pay attention to attractive names such as GUARANTY, UBA, ZENITH, STANBIC, NESTLE, NB and DANGFLOUR.

Meanwhile, we strongly advise cautious trading amidst market volatility.

Fixed Income Market

Treasury Bills

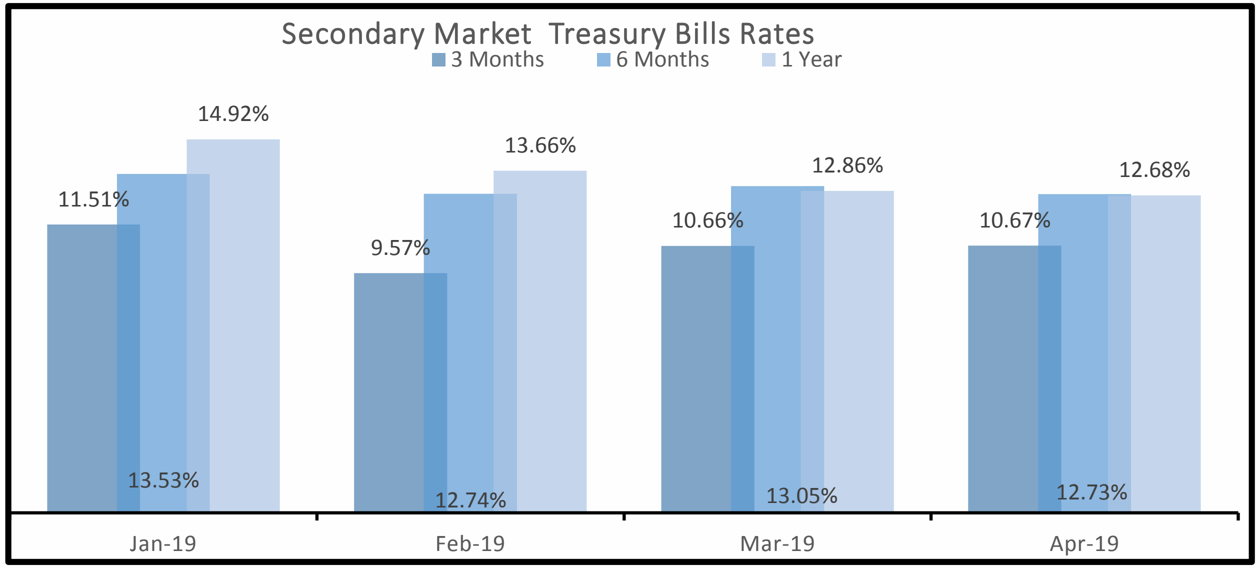
- The 90-day, 180-day and 365-day T-bills closed at 10.66%, 12.73% and 12.68% respectively. While bills at the short-end of the curve was relatively unchanged, both 180-day and 365-day bills lost 32bps and 13bps respectively.
- Considering the stance of the CBN to support the real sector which is evident in the reduction in MPR to 13.5% last month, we expect rates to moderate further in May.



Source: Trustfund Pensions Ltd Research; fmdqotc

Bond

- Average bond yield increased by 31bps to close at 14.14%, to defy DMO's plan to lower issuance yields by 100bps, as bearish sentiment forced yields higher.
- We think the 25bps increase in Inflation rate for April is not significant enough to depress bond yield, however, attention should be shifted on catalysts that might likely change foreign portfolio investors' lacklustre appetite for local bonds.



Source: Trustfund Pensions Ltd Research; fmdqotc

Market Outlook and Strategy

Available data on key macroeconomic indicators for output growth in the first quarter of 2019, and forecasts for the rest of the year, suggests continued positive outcomes. Based on recent projections, the economy is expected to grow by 2.0% (IMF), 2.2% (World Bank) and 2.74% (CBN) hinged on: the enhanced flow of credit to the real sector; sustenance of a stable exchange rate and moderating inflation rate.

Equity

Despite current low prices, the outlook for Nigerian equities remains uncertain in 2019 (especially the first quarter), as policy directions remain unclear. Given this bleak outlook for price recovery, our equity strategy for 2019 will be conservative and dividend focused. We will explore stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield.

Bonds

Taking position in long term bonds offers trading opportunity in the near term should our projection of lower bond yield materializes. More so, our preferred long term bonds are currently trading at 14% yield levels in the secondary market Hence, we will continue to take position in high coupon bonds, at low premium, to improve portfolio return

Money Market

Rates on short term instruments resumed downtrend in April and are expected to remain at the current levels on surfeit system liquidity.

While we expect yields on T-bills to trend lower from the current levels, we will be strategic and continue to deal at the best rate for liquidity and flexibility

We will be cautious on equity positions and scale down exposure to some heavyweight stocks. Proceeds will be reinvest in attractive alternatives to support NAV growth.

THANK YOU