



MONTHLY MARKET REVIEW AND FORECAST

JULY 2018

TRUSTFUND PENSIONS LTD RESEARCH

A U G U S T 2 0 1 8

Outline

Nigeria Macro Review

Domestic market review

Equity market outlook

Fixed Income Markets Outlook

Trustfund Unit Price Performance

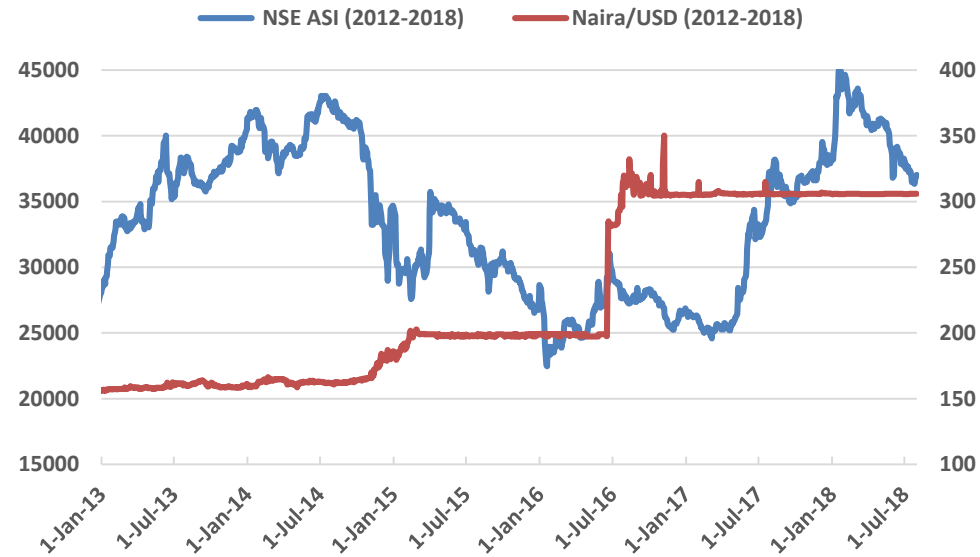
Market Outlook

Snapshot of the Current Economic Environment

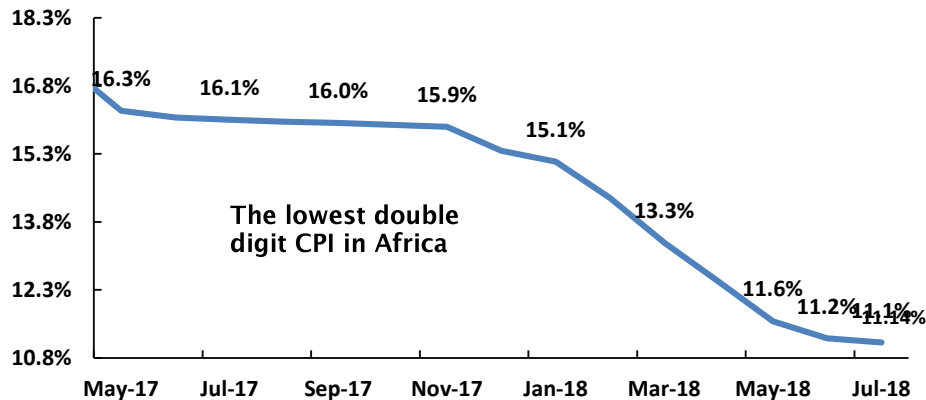
Macroeconomic Environment

- ✓ The MPC kept the MPR unchanged in July, leaving the CBN to continue with short term administrative measures.
- ✓ While no change to the CRR, the CBN intends to deploy unconventional strategies to boost credit creation and economic growth.
- ✓ Inflation attained another Ytd low of 11.14% in July driven by softening consumer prices in the food and core basket, amidst still favorable base effects
- ✓ The Naira weakened in the interbank market, depreciating 0.05% Mom to N305.9/USD. However, the local currency hovered between N359-N362/USD on the street, amidst decreased demand.
- ✓ External reserves lost a notable \$670mn Mom, signifying a weak outlook for the Naira.

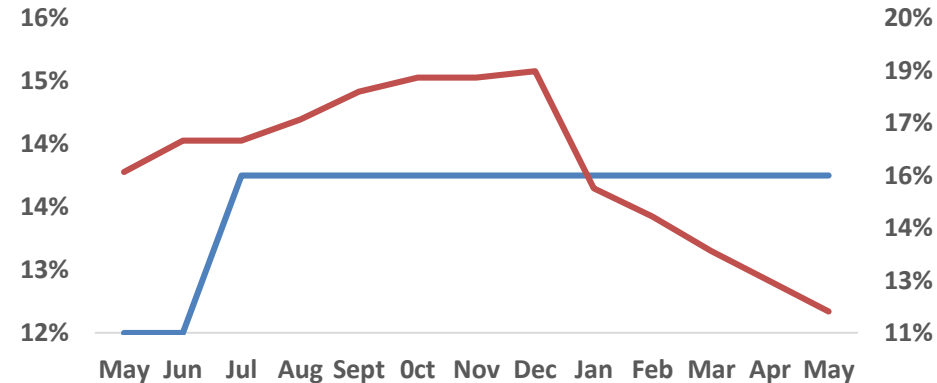
NSE-ASI Vs NGN/\$: FX stability propelled ASI to 45,000 levels in 2018-H1



Headline Inflation Rate (%)

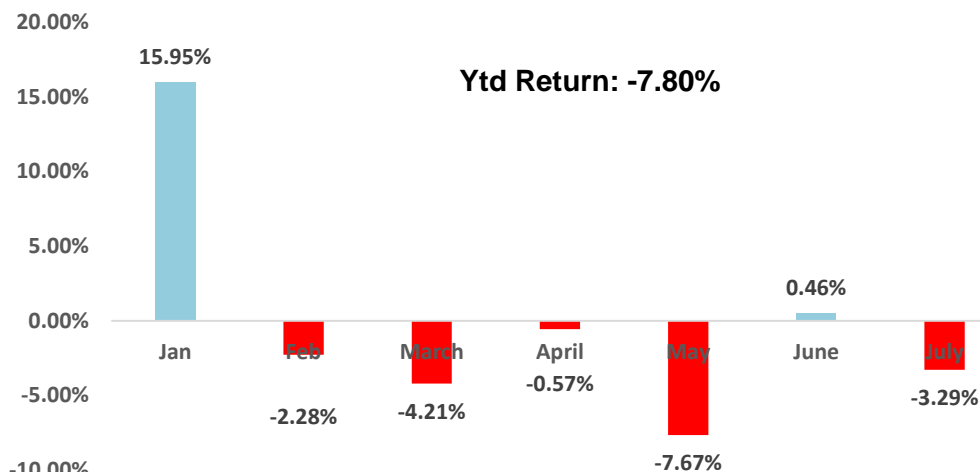


Real investment return now positive at 2.86%, an impetus for more foreign participation in the local market



July Equity Market Round-up

Stock Market Monthly Performance Trend



Sector Performance Summary

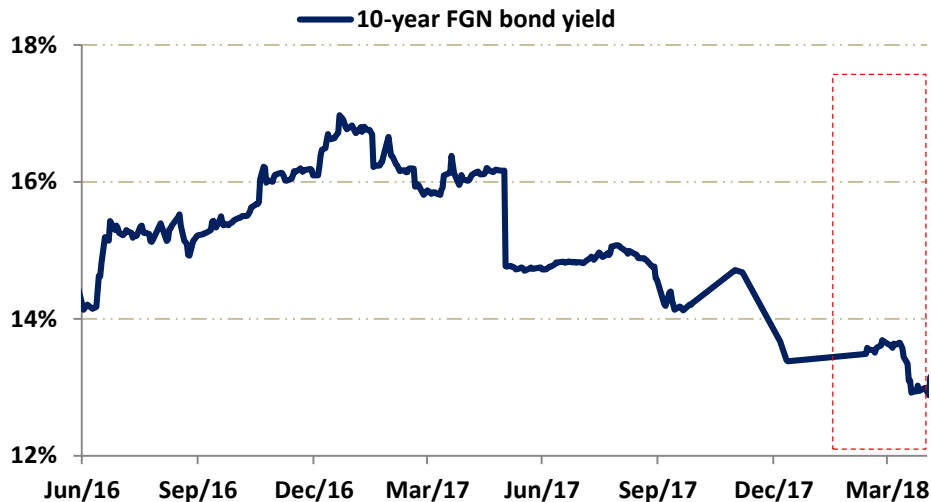
Sector Indexes	Today's Return	YTD Return	P/E (x)	Dividend Yield
FINANCIAL SERVICES	-2.78%	-5.5%	6.9x	2.2%
CONSUMER GOODS	0.00%	-14.1%	20.3x	2.1%
OIL AND GAS	0.00%	-2.7%	8.7x	6.0%
INDUSTRIAL GOODS	0.00%	-11.1%	18.5x	4.1%
SERVICES	0.0%	-8.9%	2.1x	834.4%
AGRICULTURE	0.0%	-2.3%	17.7x	2.2%
HEALTHCARE	0.0%	-12.7%	0.0x	1.7%
CONSTRUCTION/REAL ESTATE	0.0%	-11.4%	6.8x	5.1%

*YTD means Year-to-Date; WTD means Week-to-Date. Sector P/Es are adjusted for companies with negative trailing earnings

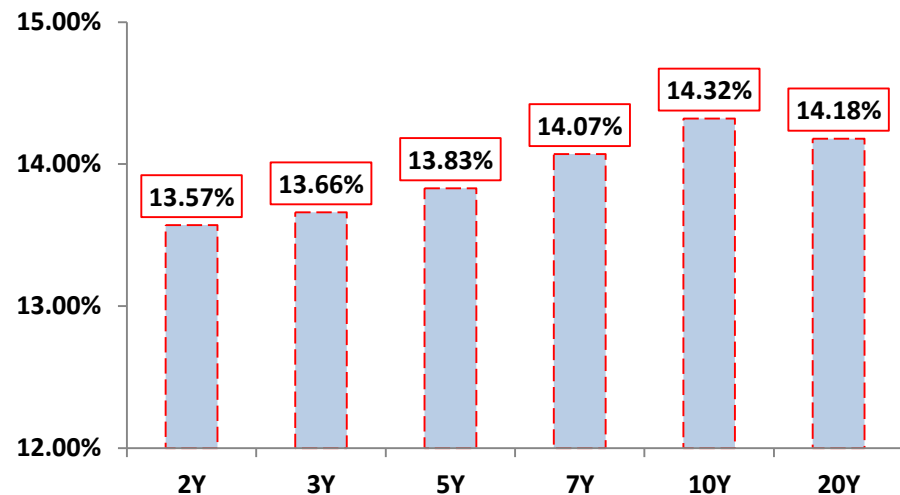
- Defying our view that Nigerian stocks bottomed out in June, the NSE ASI consolidated on previous month loss, falling a notable -3.29% in July.
- Equity woes was aggravated by the current political power tussle between the ruling party and the main opposition with a fiscal logjam that has put the effective implementation of the 2018 budget in doubt and eroded investor confidence.
- We maintain our outlook for weak market sentiment through the 2018-Q3, with little hope of broad-based and sustained recovery through 2018 year-end.
- Likewise, political uncertainty around the upcoming elections and monetary policies normalization in the developed market are key factors to keep foreign investors at bay and spurred capital flight from emerging markets like Nigeria
- That said, the sustained upbeat in the nation's macro-economic indices, such as the dropping inflation reading, improving PMI and the sustained liquidity in the FX market, will be supportive of the equities market in the months ahead.
- Within this realities, we will continue to explore stocks with good fundamentals that will add value to the long term performance of the portfolios.

Market Round-up :July Bonds

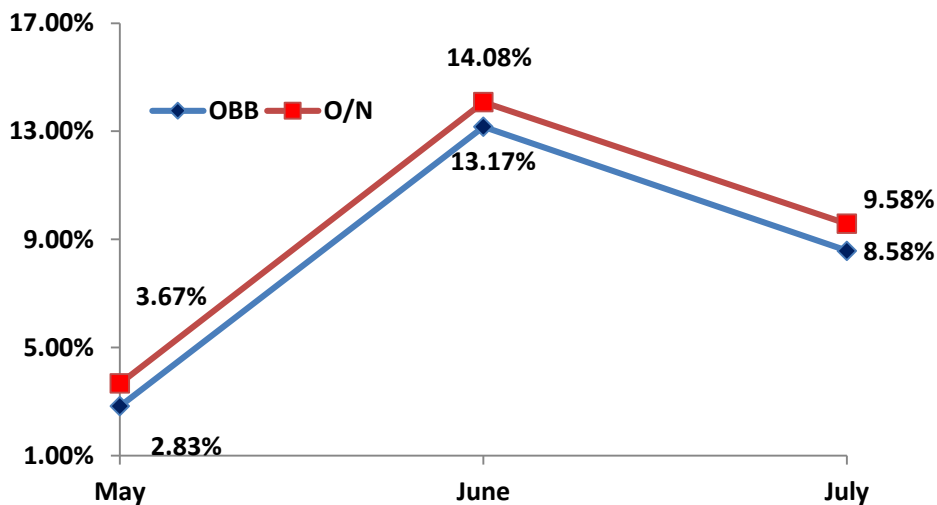
2018 Ytd 10 year average Bond Yield trend



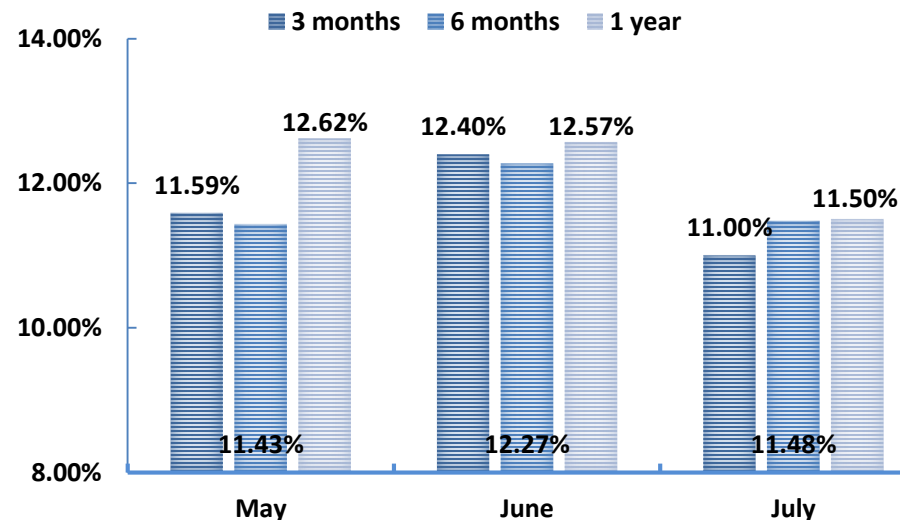
Secondary Market Bond Yield in July (%)



Short term Inter-Banks Placement Rates



Secondary Market Treasury Bills Rates



Market Outlook and Strategy

The forecasts of key macroeconomic indicators point to positive economic growth in the second half of 2018. The expectation is premised on the implementation of the 2018 budget, sustained stability in the foreign exchange market, as well as increase in crude oil production and prices. However, the downside risks to the growth outlook include: delay in the implementation of the 2018 budget; worsening farmer-herdsmen conflicts in some parts of the country and nonpayment of workers' salaries and pensions in some states.

Equity

We believe the equity market is approaching an oversold position. There may be a reversal of the downward trend as the economic fundamentals now support a recovery in the equity market. Key drivers will include: FX stability, bargain hunting on current low prices and portfolio rebalancing by PFAs. We will gradually enter the equity market through cost averaging investment strategies.

Bonds

Yields on FGN Bonds may inch up from the current levels, as government increases its borrowing from the Bond market to finance the 2018 budget and as yields in the international market increase due to monetary policy normalization. Amid this reality, we will restructure our bond portfolio by selling down the in-the-money low coupon bonds and reposition in the higher coupon bond to support NAV growth.

Money Market

A net inflow of about N1.53trn is estimated to hit the Money market in August. We expect the CBN to use OMO to manage liquidity in the market, hence, yields on short-tenored fixed income securities may trend marginally lower in August, couple with lower inflation rate. While we expect yields on T-bills to trend higher 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.