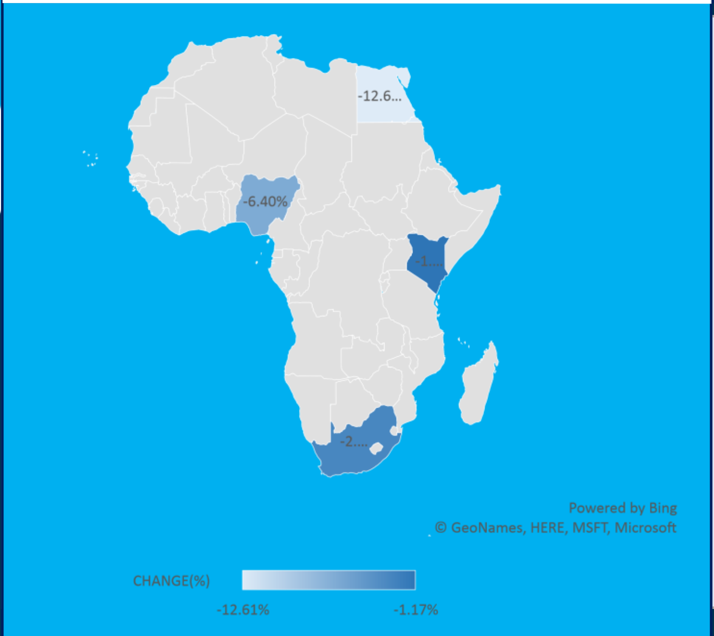


SEPTEMBER 2019

MONTHLY MARKET REVIEW AND FORECAST
FOR AUGUST '19

TRUSTFUND PENSIONS LTD RESEARCH

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

Global Economy

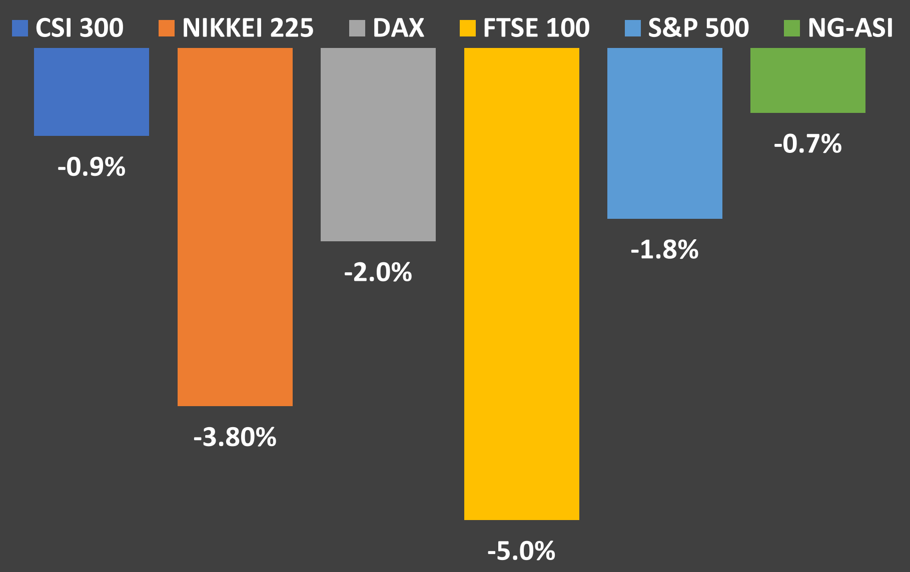
Domestic Macro Review

Equity market

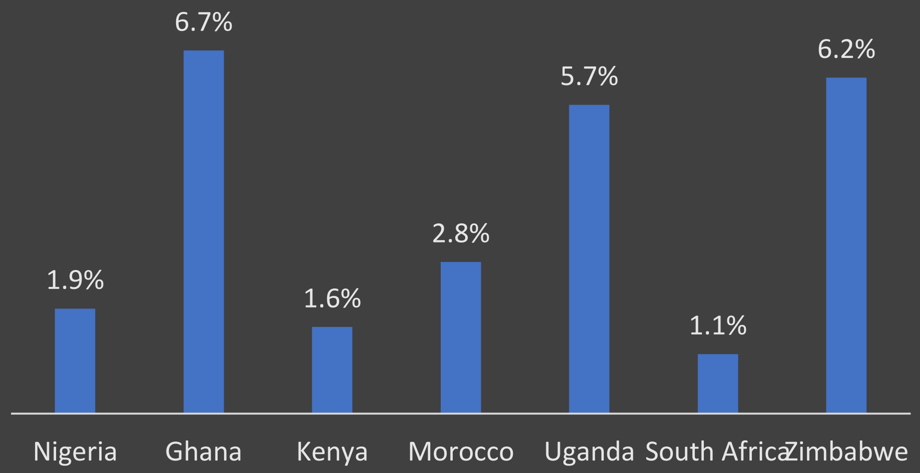
Fixed Income Market

Outlook

GLOBAL MARKET PERFORMANCE



GDP - AFRICA (%)



GLOBAL MARKET

The Equities Market remain volatile due to global growth concerns mainly from;

- The lingering US/ China trade war - Trump's recent announcement of additional 10% tariff on additional N300 billion worth of Chinese goods and China's response of Yuan devaluation further sent investors scampering for safety, however, follow up discussions and US intention of shifting its implementation till December saw stocks recoup some losses.
- Brexit - UK's plan of exiting the EU with a deal by October 31st and pressures from opposition lawmakers and rebel conservatives as the country's second quarter GDP shrinks by 0.2%.
- The Middle-east unrest, Hong Kong protests and other geopolitical concerns.

Thus, major Equities market performed as detailed below;

- In US, the S&P 500 lost 1.8% to close at 2926.5 as China's imposition of new tariffs in August and further devaluation of yuan outweighs the positives from stronger economic data.
- In Europe, both UK's FTSE 100 (-5%) and German's DAX index (-2%) closed lower, following signals of a no deal Brexit and the brewing tension between US and EU instigated by subsidized Airbus price.
- In Asia, both Japan's Nikkei 225 (-3.8%) and China's CSI 300 (-0.9%) ended up in the negative, as Hong kong tension and the impending $300 billion additional tariff from US weighed heavily on investor sentiment.

We expect updates from the unending trade war between US and China to be the major market driver for the remainder of the year .

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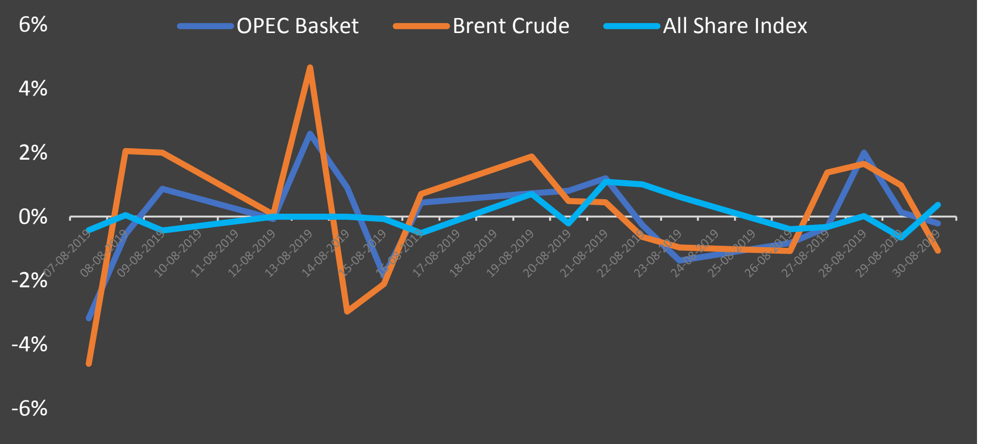
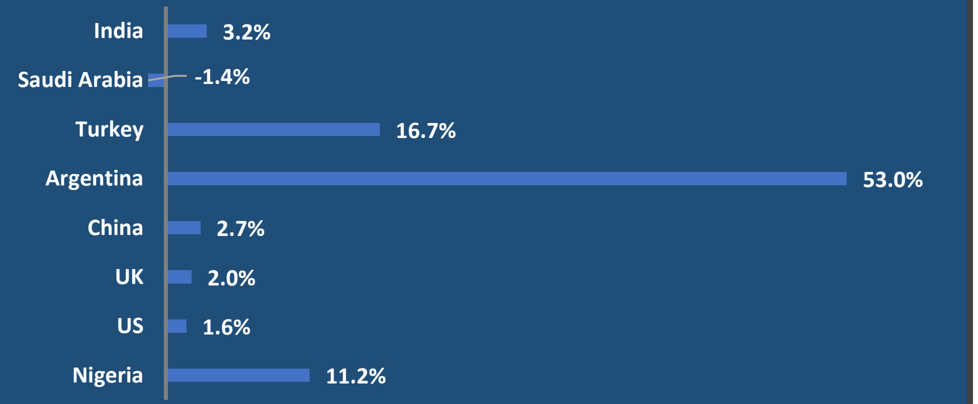
DOMESTIC MACRO REVIEW

ASI vs Oil Prive Movement (%)



GLOBAL INFLATION RATE (%)



Source: Bloomberg/TFPResearch

- **FX Reserve**- Official reserves shed $1.3 billion in August to close at $43.6 billion (from $44.9B in July).
- **Exchange Rates** – The CBN Official rate appreciated by modest 5bps to settle at ₦307 in August vis-à-vis ₦306.85 in July. While the I&E FX window appreciated by 35bps to ₦362.93/$.
- **Oil –** Brent crude declined by 9% to $59.25 as US-Iran, attributable to increased production from OPEC and relative quite from US/Iran dispute.
- **Inflation –** Headline Inflation slowed to 11.08% in July, which is 14bps lower than 11.22% recorded in June. Both Food and Core inflation were also lower month-on-month at 13.39% and 8.8% respectively. This can be attributed to weakened consumer spending for the period. We expect Inflation rate to continue to move in line with CBN's single-digit target, however, minimum wage increase, unrest in the middle-belt and the recent move by Buhari to block all food items from accessing special FX remains a major drag to CBN's single-digit inflation target.
- **PMI –** The Manufacturing PMI printed at 57.9 in the month of August which indicates an expansion in the manufacturing sector for the twenty-ninth consecutive month with growth mainly from cement and Consumer goods. We anticipate higher PMI reading in the second half of the year as CBN's efforts to grow the real sector impacts the industry.

EQUITY

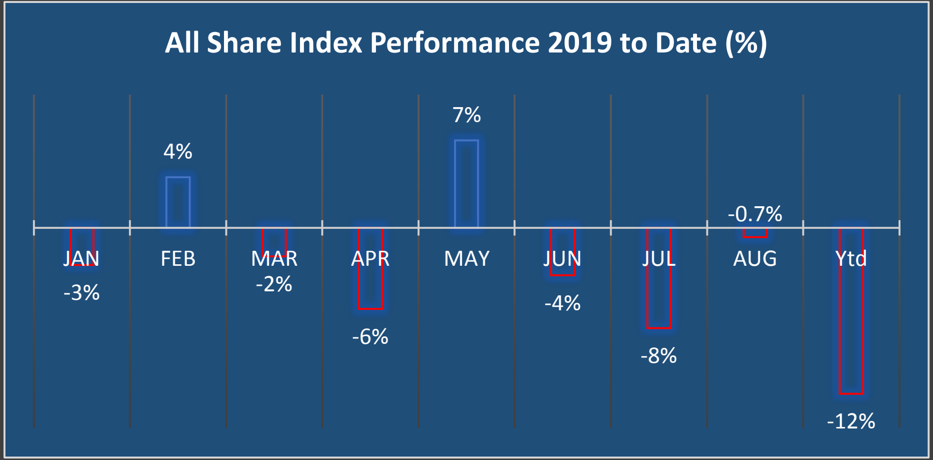


Table 1

Sector Performance

Index Snapshots	Ytd Return (%)	Div. Yield (%)	P/E Ratio (x)	Div. Payout Ratio
All Share Index	-12%	5.69%	7.0x	44.64
Industrial Goods	-12%	5.14%	9.5x	43.99
Insurance	-16%	6.26%	3.5x	28.44
Banking	-20%	9.72%	3.1x	37.53
Pension Index	-23%	6.88%	5.3x	40.47
Consumer Goods	-30%	5.05%	19.3x	94.14
Oil & Gas	-34%	7.76%	3.3x	30.64

Table 2

Source: Bloomberg/TFPResearch

ASI down 70bps

- The Nigerian Equities market extended its loss run for the third consecutive month as the bears dominated market activities. Thus, the All Share Index shed 0.7% to close at 27,525.81 index points, bringing Ytd loss to 12.42%.
- The stocks that contributed the most to the decline are GUARANTY (-3.7%), DANGCEM (-4.7%), ZENITHBANK (-6%), NESTLE (-2%), UACN (-13.8%), SEPLAT (-18.8%) and FO (-16.3%). While impressive performance from MTNN (+11.02%), CCNN (+28.9%), OANDO (+5.4%) and NB (+2.4%) moderated the impact of losses from other stocks.
- Earnings releases in August saw banks role out some modest gains on the core banking fronts. Overall, tier-1 banks had relatively impressive corporate results, with ZENITH, GUARANTY and UBA all declaring interim dividends comparable to that of 2018.
- Results in the consumer goods sector were generally disappointing as PZ's FY-19 revenue and PAT declined by 7.7% and 40.0% respectively. The company proposed an interim dividend of 15kobo (2.52% dividend yield). Guinness results for FY-19 were also unsatisfactory as revenue and PAT fell 8.0% and 18.4% YoY. The company proposed an interim dividend of N1.52 (3.7% dividend yield).
- Looking ahead, we expect the volatility to persist in the Equities space, while investors will focus majorly on body language of fiscal policy makers for investment decisions. However, the cheap valuation (Div. Yield c.5.7%, P/E Ratio c.7x) provides a suitable entry point to average down and better position for market recovery.
- Thus, we will remain cautious in September.

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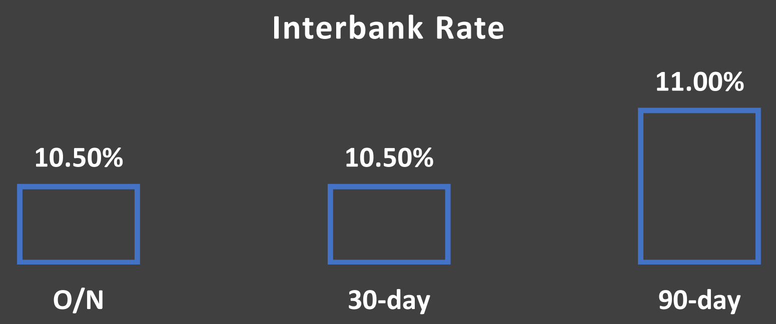
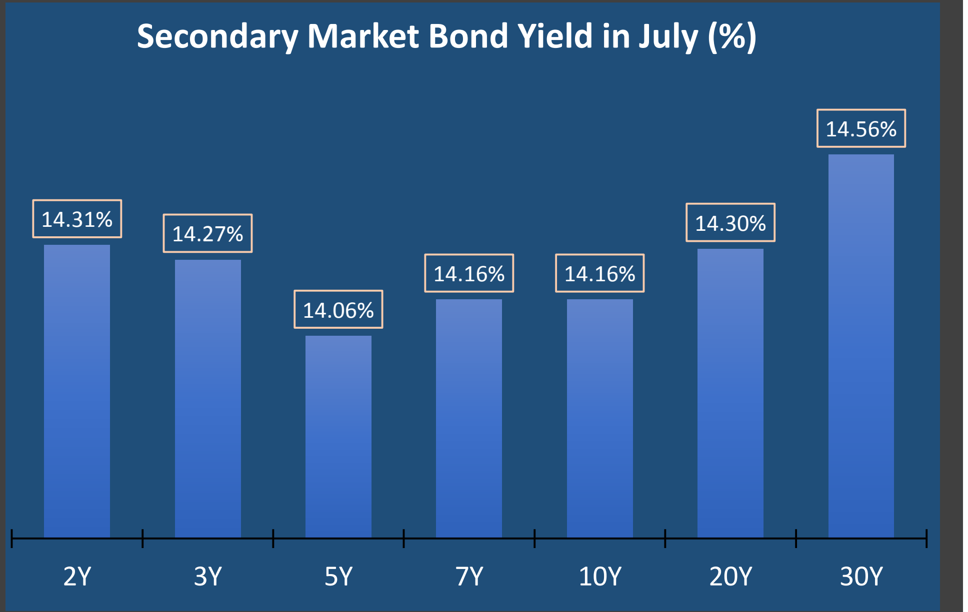
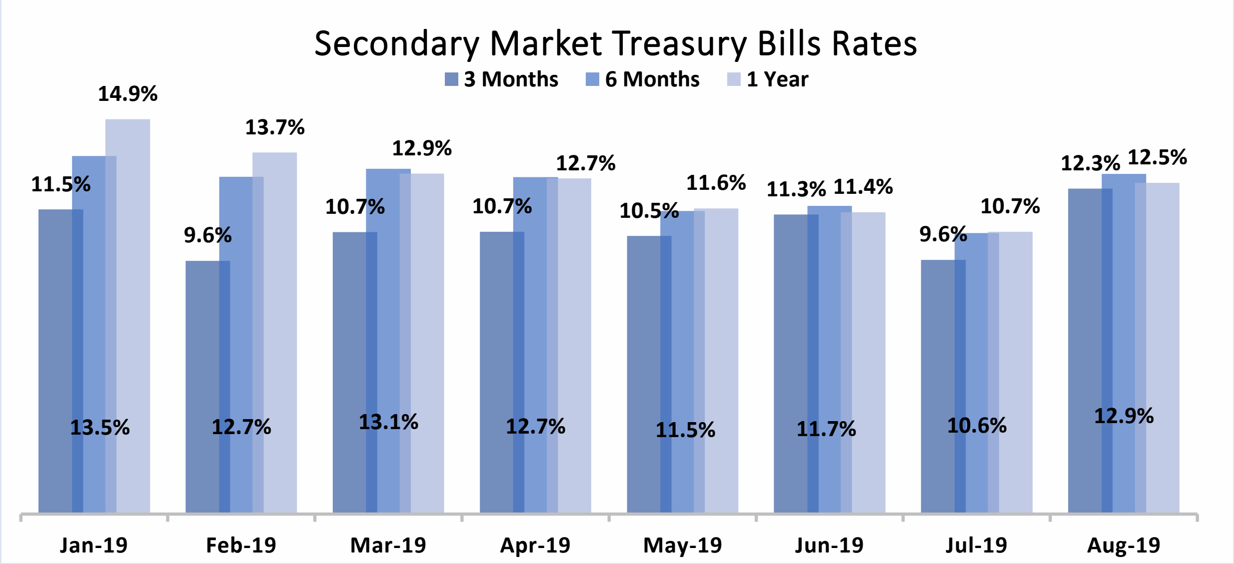
FIXED INCOME





- Average bond yield added 87bps to 14.13% in August from 13.26% recorded in July as the CBN's policy tightened further to encourage FPIs to rollover maturing bills and ease the pressure in the FX market
- Last week, yields pulled back across the curve following improvement in system liquidity due to inflow of FAAC allocation for August (N380bn) and OMO maturities (N393.3bn). Average discount rate on benchmark treasury bills fell by 134bps wow to 12.96% on Friday while bond yields also eased by 12bps wow on average to 14.21%.
- Given that the last primary market auction and OMO signaled a hike in rate we see a further hike in yield given the huge domestic treasury maturities (average of N1.9trillion monthly) for the rest of the year?
- Yields for the benchmark 7-year, 10-year and 20-year instrument closed the month at 14.13%, 14.15% and 14.30%, respectively.
- Overall, we will continue to explore opportunities in Commercial Paper investment and play at the short end of the yield curve to enable us respond quickly to expected higher rates in the months ahead.



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Market Outlook and Strategy

The IMF recently revised its 2019 growth projection for Nigeria from 2.0% to 2.3%, citing higher oil prices which, in our view, is key to catalyzing economic activities. We expect growth to be spurred by improvement in agriculture and oil production in 2019FY. We believe growth will also be supported by better budget execution and manufacturing growth.

Equity

Valuation remains compelling, trading at a P/E of 7.4x (discount to MSCI FM average of 12.2x)

Some key drivers of the equities market in the rest of the year are : 1) Monetary policy orientation in developed markets & MPC reactions ;2) Corporate earnings performance ;3) Crude oil price and 4) The pace of macro recovery in Nigeria.

Nonetheless, we will remain cautious.

Bonds

The extent of the CBN's response to inflationary pressures, possible capital flight and the size of government borrowing will likely determine yield direction in H2'19.

We expect yields to rise further for the rest of the year as CBN will likely raise rates to retain the appeal of domestic treasuries for FPIs. Thus, we expect investors to play short in the near term

Money Market

OMO bills are likely to remain the key policy tool of the central bank towards ensuring price, liquidity and exchange rate management

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 reinvested in attractive alternatives to support NAV growth.

THANK YOU