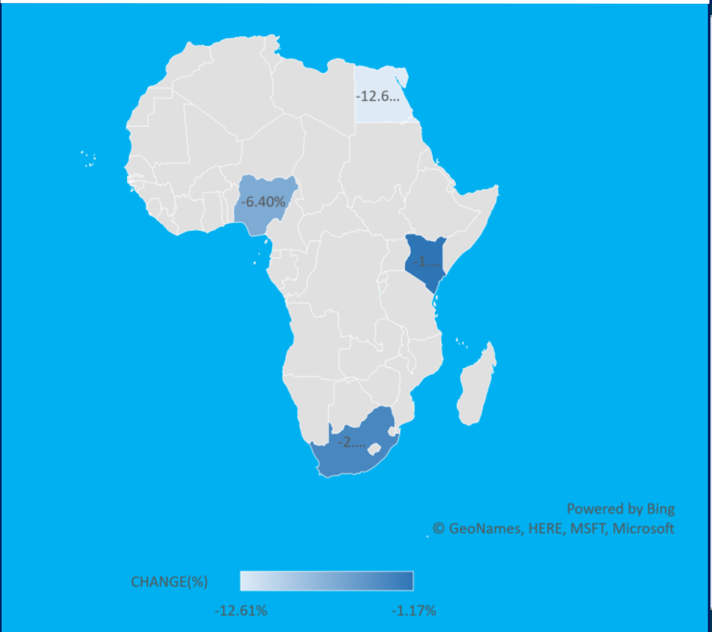

DECEMBER 2019

MONTHLY MARKET REVIEW AND FORECAST

FOR NOVEMBER '19

TRUSTFUND PENSIONS LTD RESEARCH

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MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

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Outlook

INVESTMENT RESEARCH

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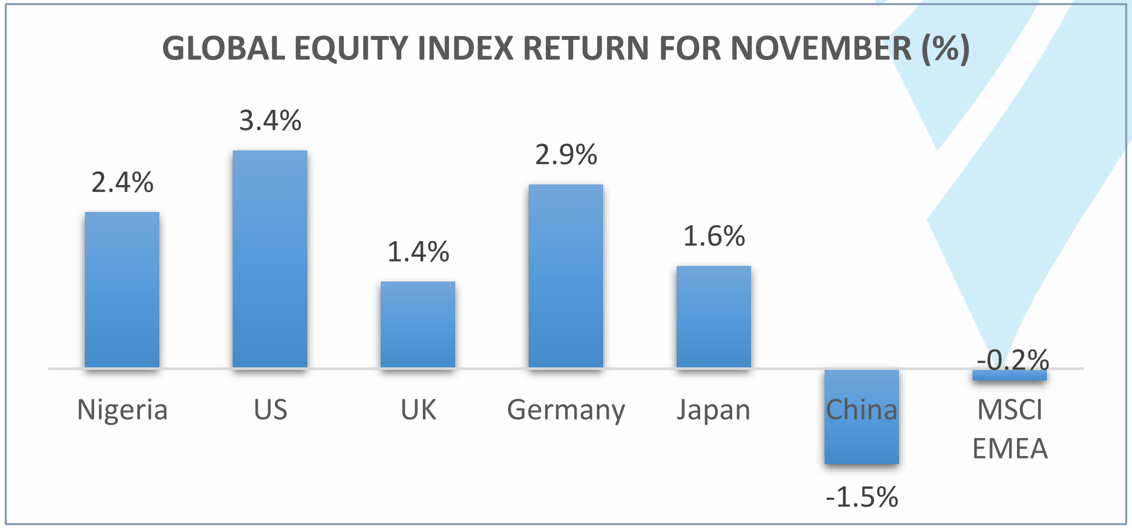
GLOBAL MARKET

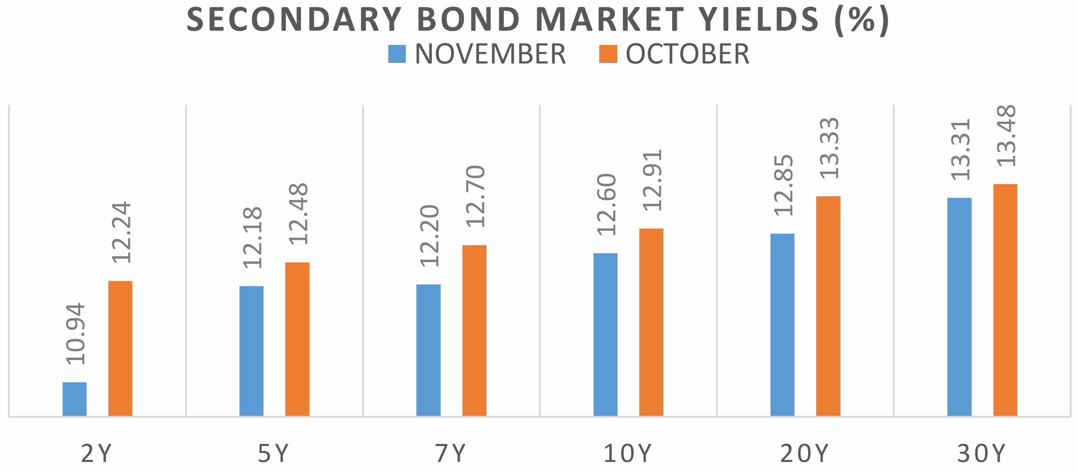
The global market traded largely on optimistic note, on the back of positives from US/China trade discussions and stronger macros. China assented to US trade negotiators demand for measures to protect against theft of Intellectual property signaled positive trade discussion. However, Trump's signing of the bill that supported Hong kong activists created drawbacks. Also, the US Commerce Department reported that its second estimate of Q3 GDP showed a 2.1%, as against earlier estimate of 1.9%. The announcement lifted already dampened mood for the holiday shortened week.

Subsequently, US S&P 500 gained impressive 3.4% m/m, UK's FTSE 100 advanced by 1.4%, Germany's DAX index +2.9%, Japan's Nikkei 225 +1.6%. However, despite positives from the US/China trade negotiation, China's CSI 300 shed 1.5% in November as Hong Kong's widespread protest intensifies.

OUTLOOK

We expect updates from the trade negotiations, geopolitical updates and release of macroeconomic fundamentals to be major factors in November.





DOMESTIC MACRO REVIEW

- ***FX Reserve –*** *FX Reserves have been sustained above $40 billion since January 2018, supported by rising oil price and output. However, capital flight from foreign investors saw the reserve dip by 1.6% to $39.8 trillion as at close of November 2019.*

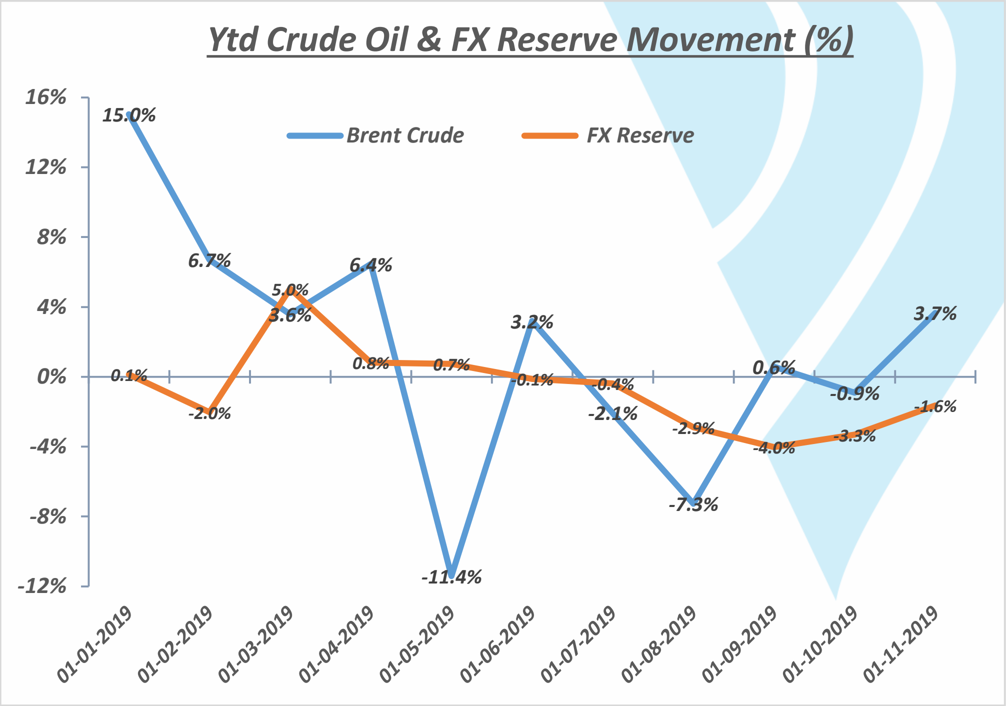
- ***GDP*** *– Q3 GDP grew by 2.28%, 47bps lower than corresponding quarter in 2018, howbeit, in line with forecasts. This is in line with IMF forecast and our projection of GDP growth rate of 2.3% for 2019FY*

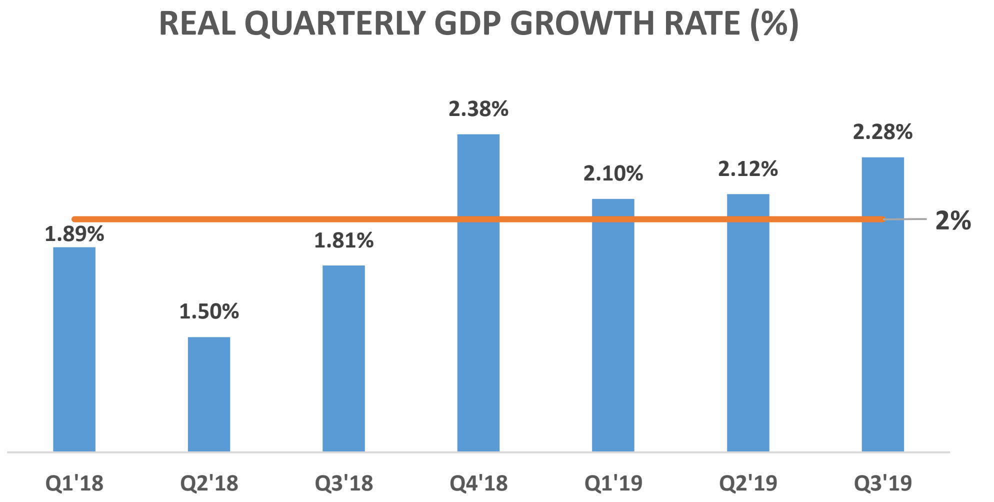
- ***PMI –*** *The Manufacturing PMI printed at 60.1 index points in November, same as the number reported in January 2019, thus, indicating an expansion in the manufacturing sector for the 32nd consecutive session. The PMI averaged 58.9 points Ytd, reflecting CBN's efforts to boost the real sector of the economy.*

- ***Exchange Rates*** *– The CBN Official rate remained relatively unchanged at ₦307 in November, similar to IE & FX Window rate which pegged at c.₦363/$.*

- ***Oil –*** *Brent crude inched higher by 42bps rose by 62bps to $60.5 in November as there was no major news to stoke prices. We expect announcements from OPEC to dictate price direction for December.*

- ***Inflation –*** *Inflation for November was reported at 11.61%, from 11.24% recorded the previous month. The increase in inflation is attributable to FGN's land border closure which have seen upswing in the prices of Rice, frozen food and milk. Hence, we expect higher inflation reading in the month ahead, exacerbated by yuletide rush.*





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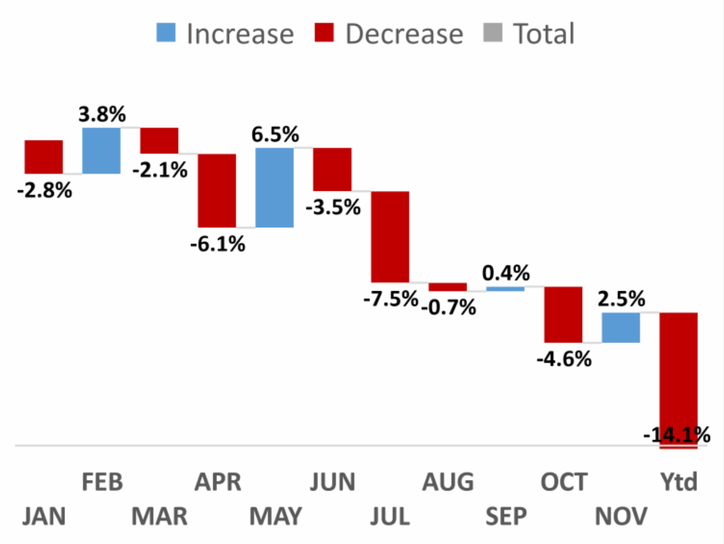
EQUITY MARKET

Positive Expectation of Santa Claus Rally

All Share Index 2019Ytd Performance (%)



Indices	Market Cap (₦'trillion)	Ytd. Return (%)	P/E Ratio (x)	Dividend Yield (%)
Mainboard	₦12.80	-15.0%	7x	6.2%
Banking	₦2.48	-12.0%	3.3x	8.9%
Consumer Goods	₦2.05	-27.0%	22.9x	5.0%
Industrial Goods	₦3.04	-15.0%	9x	5.3%
Oil & Gas	₦0.50	-22.0%	4.1x	6.5%
Pension Index	₦8.52	-16.0%	5.5x	6.4%
Lotus Index	₦4.28	-22.0%	9.4x	6.8%
NSE 30	₦8.35	-21.0%	5.4x	7.4%

**Only the banking sector outperformed the market*

**data obtained as at 12-12-2019*

Stocks edged higher in November buoyed by;

- Black Friday sales rush
- Expectation of the habitual Santa Claus rally in December.
- Paucity in the fixed income space

Thus, the mainboard index gained impressive 2.5% to close at 27,002 index points as against -4.62% depreciation recorded the previous month, moderating Year-to-date loss to 14%. Market capitalization rose by 1.6% to close at N13 trillion band.

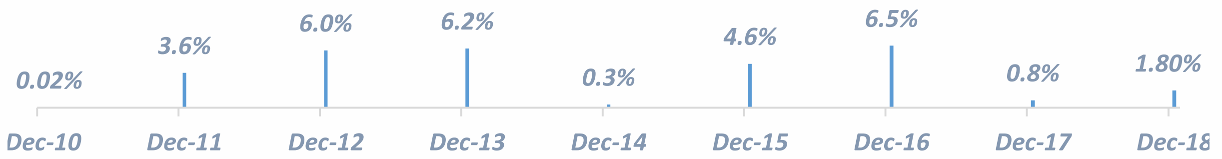
The stocks that contributed the most to the advance in terms of weighting are GUARANTY +336points, NESTLE +252points, FBNH +107points, ZENITHBANK +103points, UBA +88points and DANGSUGAR +85.5points. While MTNN, DANGCEM, UNILEVER and ACCESS emerged as least performers for the month.

OUTLOOK

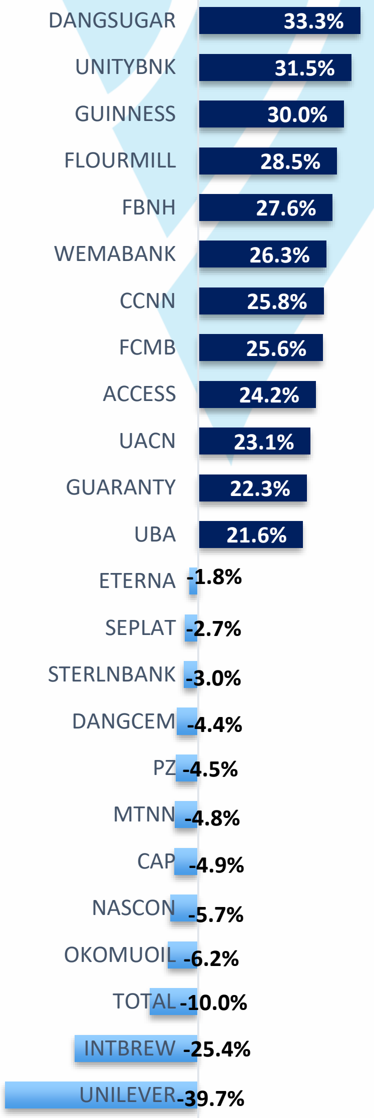
We maintain our expectation of Santa Claus rally in December, strengthened by historical market performance *(see chart below)* and the current paucity in the fixed income market. Hence, we advice the investment team to take position in stocks with strong fundamentals and take advantage of the low-priced stocks (P/E ratio 7.11x, Div.Yield 6.1%) and general market conditions, while favoring stocks with high dividend yields.

Howbeit, we maintain our cautious stance roused by unclear market direction (especially the fixed income market actions).

Historical December Returns (%)



Top Gainers and Laggards for November (%)



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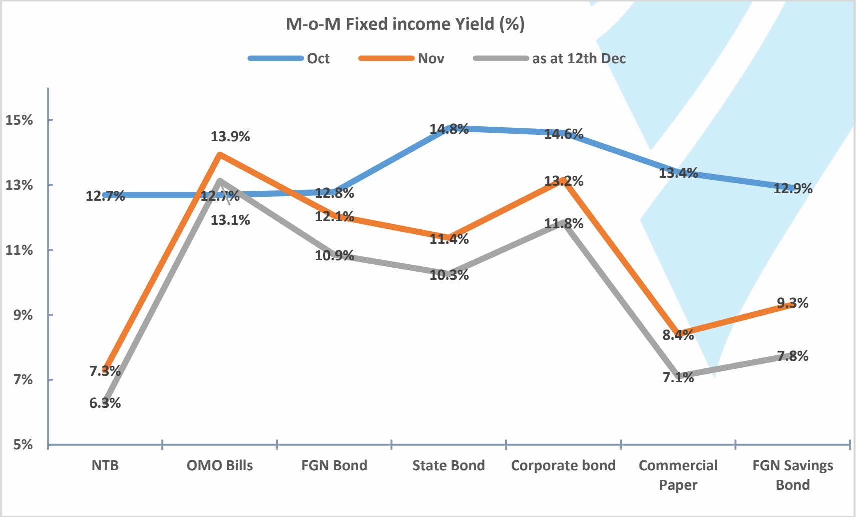
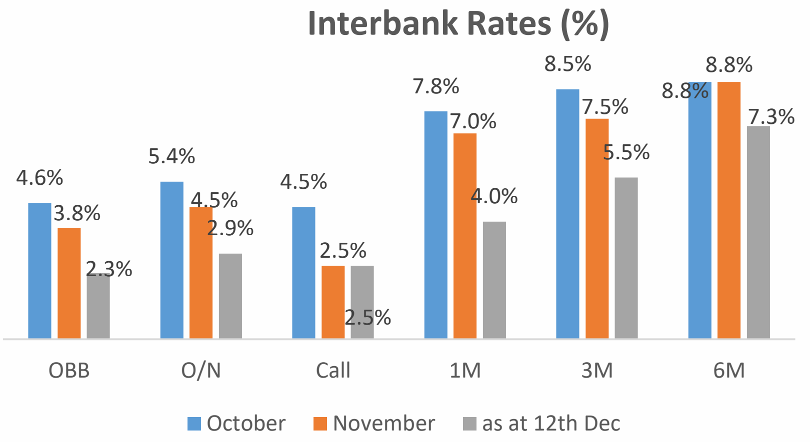
FIXED INCOME MARKET

Following last month's market outlook, it was observed that market players (especially domestic players) within the fixed income space seemed to channel a considerable portion of their funds into bond and NTB instruments. Consequently, yields in the fixed income market plunged further as a continuous effect of the CBN directive issued in October. To illustrate, yields on benchmark secondary FGN bonds slumped 74bps to end the month at 12.05%. Notably, bond instruments on the short end of the curve experienced the most declines, especially the 2020 bond instrument, whose yield depressed by 510bps to settle at 6.94%. Furthermore, there was a decoupling of NTBs and OMO bills by FMDQ, which to an extent, provided a sense of clarity on the direction of the bills market. As such, it was observed that consistent demand for scarcely available NTBs by domestic investors pressured average discounted rates lower to 7.04%. In addition, the primary market experienced a similar trend with high demand volumes, with the auctions conducted being up to 295% oversubscribed. As a result, average stop rates for the instruments on offer, which were the 91 DTM, 182 DTM and 364 DTM bills finished in single digit levels of 7.15%, 8.12% and 9.19% respectively. It can be asserted that the results of these PMAs further contributed to the depression of yields in the secondary fixed income space.



In a similar fashion, rates in the money market space trended lower with interbank and overnight rates respectively dipping 85bps and 86bps to end the month at 4.50% and 3.79%. This is also on the back of limited investment outlets available to market participants, amidst a system washed with liquidity.



MARKET OUTLOOK

In the coming month, the DMO is scheduled to conduct a bond auction in which the 12.75% FGN APR 2023, 14.55% FGN APR 2029, 14.80% FGN APR 2049 bond instruments will be re-opened and auctioned. We expect the results of this auction to drive the direction of bond yields in December. We also expect high subscription levels at this auction, given the current paucity of instruments in the fixed income space. As such, we anticipate yields on these instruments tapering in the coming month. In addition, we foresee yields on NTBs and money market rates hovering at current levels, with slight declines as investors seek out other investment outlets offering more attractive yields. All these expectations are barring any CBN interventions and liquidity shocks to the system.

Market Outlook and Strategy

Following the recent policy directive by the CBN that restricts participation in primary market OMO auction by corporate and individual investors, local institutional and individual investors are left with no choice than to combine or do either of the following 1.) channel their funds to primary and secondary treasury bills, 2.) invest in Bank term deposits, 3.) increase appetite for corporate commercial papers or 4.) increase exposure to equities. we see the first three cases as plausible and envisage buy pressure from local investors in the fixed income market over the near term following expected liquidity surfeit in the system.

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 Q1-20.

we see scope for lower primary and secondary market treasury bills and FGN bonds yields, lower Bank term deposits rates and lower rates on commercial papers over the near term.

Money Market

OMO bills are likely to remain the key policy tool of the central bank to keep the FPI in the system and to defend the naira.

While we expect rates on 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 with focus on quality stocks, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.

THANK YOU