MONTHLY MARKET REVIEW AND FORECAST

FOR MAY 2020

TRUSTFUND PENSIONS LTD RESEARCH

J U N E 2 0 2 0

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

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PENSIONS

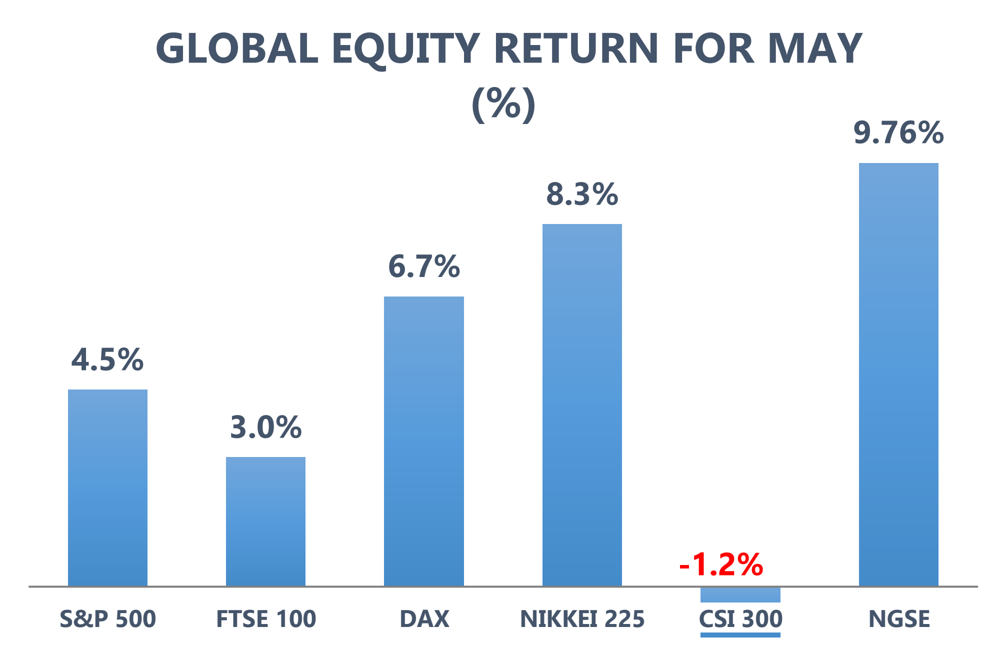
GLOBAL MARKET

Coronavirus outbreak dampened market mood

Global market was bullish in May as oil price rebound, decelerated spread of new cases of COVID-19, governments' stimulus packages and partial ease of lockdown renewed investors confidence. During the month, World Health Organization (WHO) highlighted treatment options of Remdesivir (Ebola treatment), Lopinavir/Ritonavir (HIV treatment), Interferon beta-1a (multiple sclerosis) and hydroxychloroquine (rheumatism) vaccines in solidarity clinical trial for the treatment of COVID-19, a news that further boosted market optimism.

Consequently, S&P 500 advanced by 4.5% to close at 3,044.31 index points, supported by Federal reserve's palliative measures and expectation of stronger macros post-COVID19. Similarly, UK's FTSE 100 gained 3%, German DAX index rose by 6.7% while Nikkei 225 jumped by 8.3%. However, China's CSI 300 lost 1.2% in May.

Looking ahead, we expect the released of macro economic data and updates on how quickly business activities pick up to dictate the market mood in the month ahead.



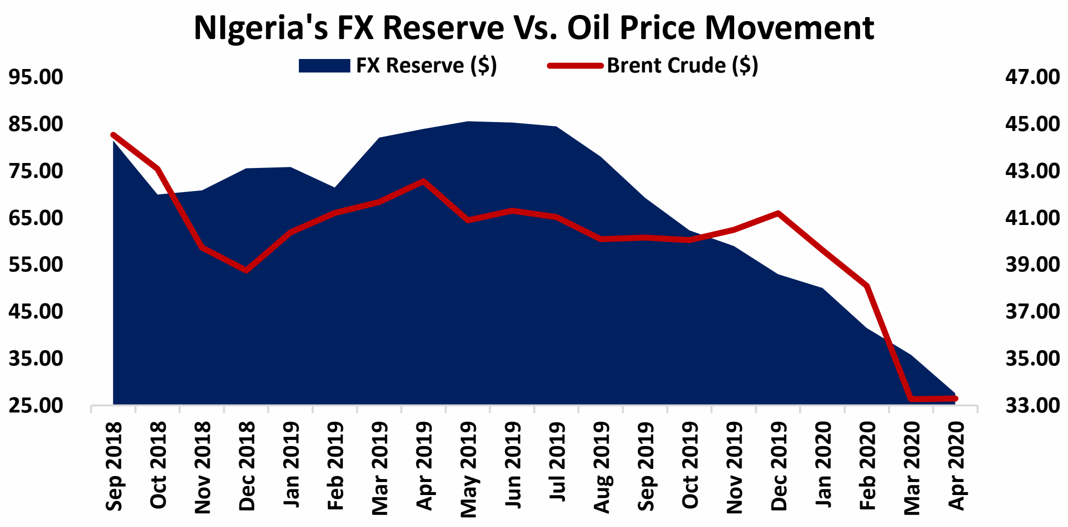
MACROS	Current	Previous	% Change
GDP Growth (Q-Q)	1.87%	2.55%	-0.68%
CPI (Apr-20 Inflation)	12.34%	12.26%	0.08%
MPR	12.50%	13.50%	-1.00%
Brent Crude (w/w)	$37.84	$26.48	42.90%
External Reserves (Billion)	$36.59	$33.52	9.17%

Source: Bloomberg/ TFP Research.

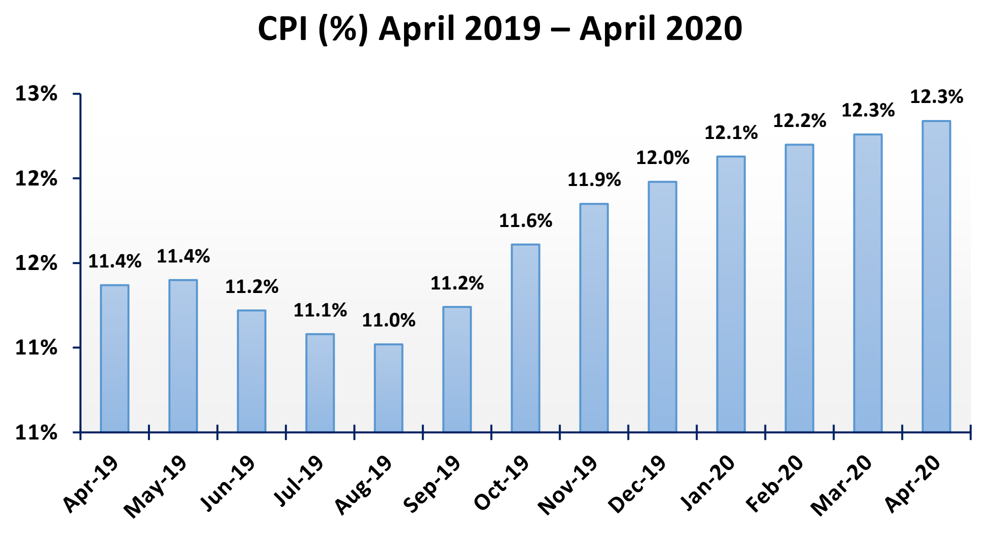
Nigerian Macro Review

Headlines	APRIL'20	MAY'20	%Change	Remarks
Monetary Policy Rate (MPR)	13.5%	12.5%	-1.00%	The CBN Monetary Policy committee reduced MPR by 100bps to 12.5% and retained liquidity ratio at 30%, Cash reserve ratio at 27.5% and asymmetric corridor at +200/-500bps around the MPR.
Inflation	12.34%	Not released	0.00%	Headline Inflation ticked higher by 8 bps to close at 12 34% owing to higher cost of transportation and food prices. We expect the disruption of distribution network to continue to trigger price hike.
Exchange Rate (NGN/USD)	₦361	₦361.00	+0.00%	The official exchange rate remained relatively unchanged as business activities slowed down amidst the COVID-19 pandemic.
External Reserves (USD'bn)	$33.52	$36.59	+9.17%	FX reserve added N3 billion in May to close at $36.59 billion due to oil price rally and CBN's continued effort to make dollar available to only priority sectors of the economy. Brent crude increased by 42% m/m to close at $37.84, following OPEC's production-cut.

External Reserve increased by N3 billion in May



Headline inflation at 12.34% is expected higher in May



EQUITY MARKET

NSE-ASI up by 9.8% in May

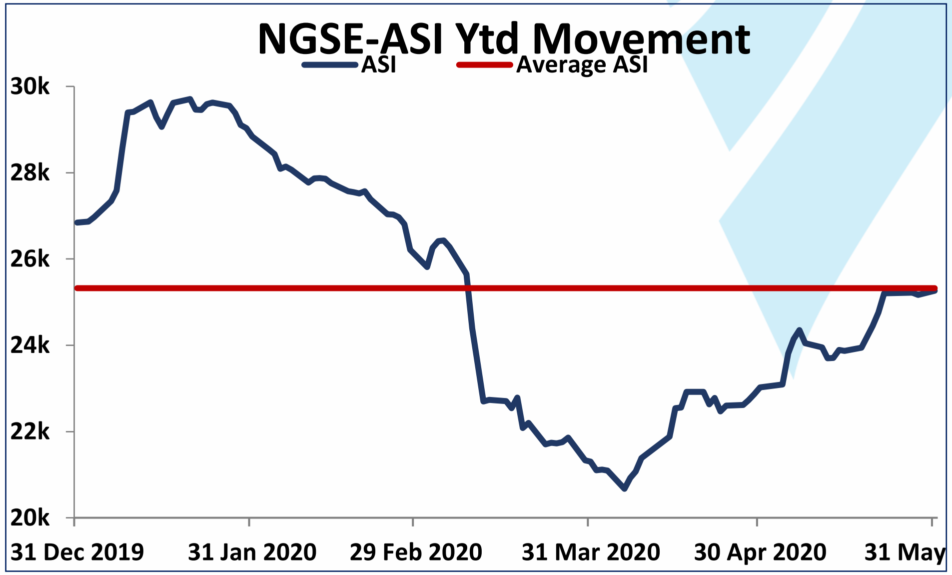
The Nigerian Stock market rallied in May as oil price recovery, lift of movement restrictions and slowed spread of COVID-19 spurred market rebound.

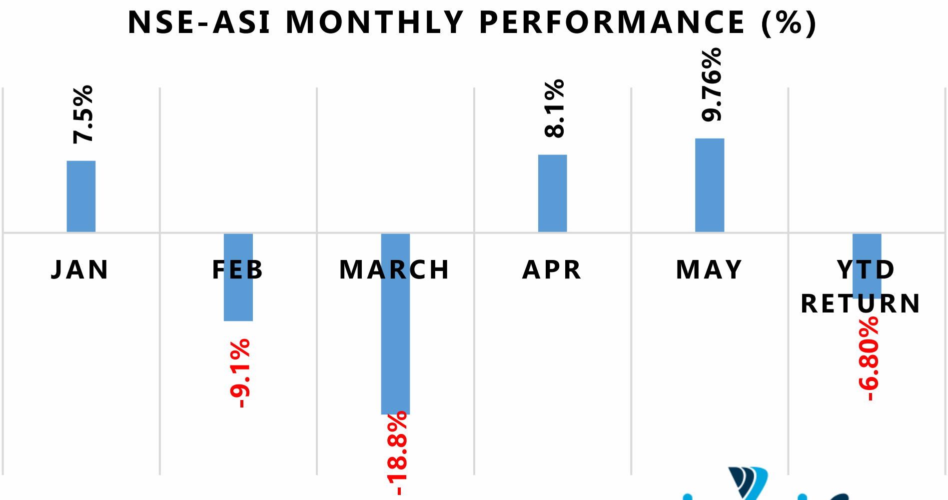
Recall that the price of Brent crude jumped by 43% MoM to close at $37.84/barrel in May, following effective production cuts by OPEC+ and recuperating economic activities across the globe. Subsequently, External reserve increased by $3.07 billion to close at $36.59 billion following the oil price recovery. Furthermore, announcement of final dividends by companies contributed to the bullish sentiment witnessed in May.

Thus, the apex index increased by 9.76% to close at 25,267.82 index points and market capitalization at ₦13.17 billion, moderating Ytd loss to 5.86%. On sector front, Industrial goods sector (+18.97%) advanced the most, followed by Consumer goods (+14.51%), Banking (+11.98%) and Oil/Gas (+9.17%) sectors. The pension index also advanced by 16.1%.

The stocks that contributed the most to the month's performance are bellwether BUACEMENT (+28.83%), DANGCEM (+6.92%), NESTLE (+8.13%), MTNN (+3.57%), GUARANTY (+14.29%), ZENITHBANK (+18.18%), UNILEVER (+61.9%) and GLAXOSMITH (+51.40%)

Looking ahead, we expect investors to take position in stocks with strong fundamentals and dividend payment history, as the market remains compelling at P/E ratio of 7.86 and Dividend yield at 7.16% on a trailing 12-month basis. However, the recent market gains will induce some profit-taking on rallied stocks.

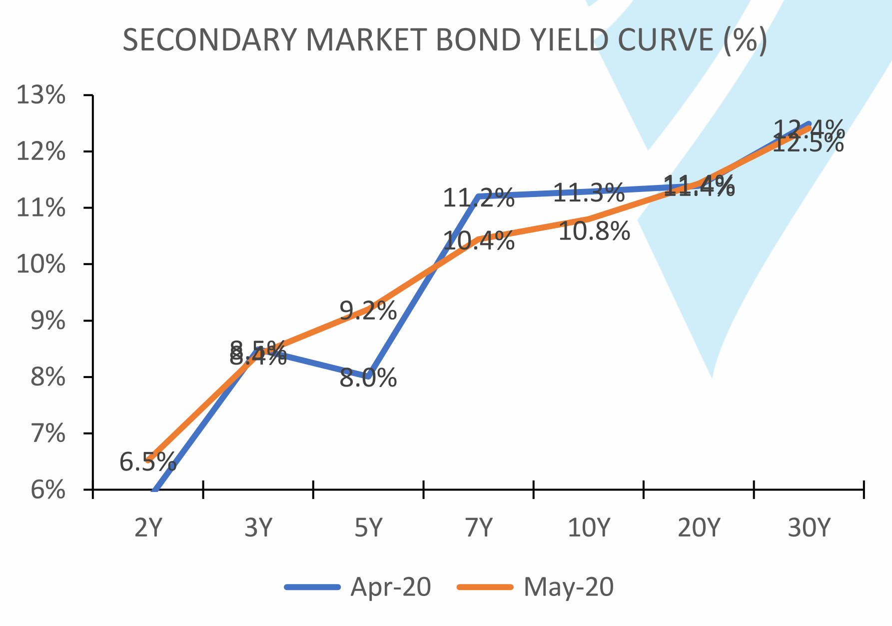


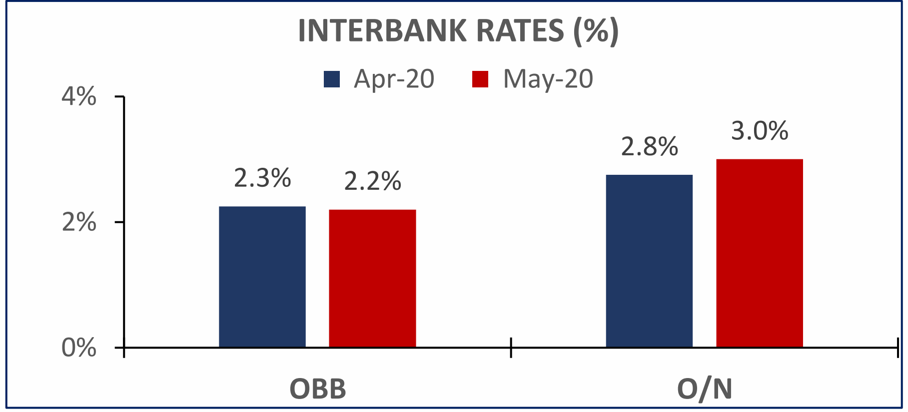


Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

- The fixed income market was largely bullish as yields in all segments of the market moved downwards. To illustrate, average yields on benchmark bonds shed 8bps entering single digit terrain to close at 9.98%, while average discounted rates on OMO bills and NTBs decreased by 347bps and 57bps to 5.87% and 2.10% respectively. The aggressively bullish sentiments observed in the fixed income market can be largely attributed to the delay in the repatriation of foreign investors' funds, which led offshore investors to re-invest their liquidity positions in these fixed income securities. Also, it is possible that the FGN bond market was less bullish than the T-bills space during the month because investors' laid in wait in anticipation of higher yields at the bond auction held on 20th May 2020.
- At the bond auction, N60.00bn was split evenly across the 12.75% APR-2023, 12.50% MAR-2035, and 12.98% APR-2050 instruments and offered to investors. Subsequently, the auction was oversubscribed with a total subscription of N425.18bn where majority of investors' demand was skewed towards the 2050 bond instrument. Eventually, the DMO sold a total of N295.37bn worth of these instruments at respective stop rates of 9.20%, 11.70% and 12.60%. It can be agreed that this over-allocation is in line with the FGN's plan to raise funds domestically to fund its 2020 budget deficit.
- Furthermore, the N602.67 billion fixed income maturity profile in May further saturated the already robust system liquidity (mostly from offshore funds yet to be repatriated), thus fueling investors' demand for investment outlets to place idle funds. As such, yields in the fixed income market were driven down to their current levels.
- In addition, the total of N612.34 billion absorbed by the government across the fixed income market through auctions despite over N1.07 trillion in subscriptions suggests that the system remains awash with liquidity.





INVESTMENT RESEARCH

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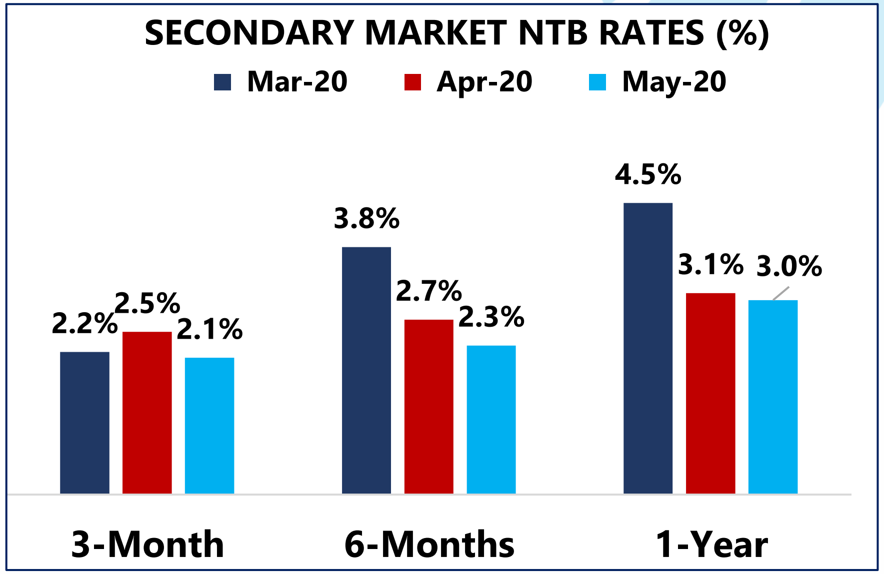
FIXED INCOME MARKET

- In other news, the Monetary Policy Committee (MPC) at its meeting reduced the MPR by 100bps to 12.5% and retained CRR at 27.5%, Liquidity ratio at 30% and Asymmetric corridor of +200/-500 basis points around the MPR. According to the committee, the decision was made to strike a balance between supporting the recovery of output growth while maintaining stable price development across inflation, the exchange rate and market interest rates.

MARKET OUTLOOK

- In the coming month, the DMO is set to conduct a primary bond auction on 17th Jun 2020, where about N135.00 billion to N165.00 billion across the APR 2023, MAR 2035 and MAR 2050 instruments will be offered to investors through re-openings.
- As a result, we expect to see a mild uptick in yield levels at the auction due to an increase in supply of instruments stemming from the FG's plan to increase its domestic borrowing.
- However, the current high liquidity profile of the system, coupled with the estimated N600.00 billion worth of OMO bills and NTBs maturities is expected to increase demand for instruments, especially in the T-bills space, which will in turn drive fixed income yields downward in the secondary market.
- In addition, we expect investors to channel their demand on short tenured instruments due to the uncertainty surrounding the long term outlook on market conditions.
- In conclusion, we expect the bulls to take hold of the fixed income market in June.
- Nevertheless, we hold this view barring any radical macro-economic changes or liquidity shocks to the system.



Foreign Exchange (Spot & Forwards)	
Tenor	Rate ($/N)
^^CBN Official	361.00
CBN SMIS Window	380.69
I&E FX Window	386.33
1M	388.14
2M	389.96
3M	391.82
6M	397.30
1Y	415.84

MARKET OUTLOOK AND STRATEGY

The relentless spread of COVID-19 halted the bullish momentum witnessed earlier in the year as WHO reclassified the viral infection as *pandemic*. Also, IMF's projection of -3.4% GDP contraction and downgrades from rating agencies are expected to keep market uncertainties heightened through Q2'2020.

EQUITY

We expect market sentiment to remain tepid as investors scan for catalyst to boost the market mood amidst the uncertainties.

In spite of the above, we anticipate bargain hunting of underpriced bellwether stocks. Hence, we will take position in stocks with strong fundamentals and dividend payment history.

FIXED INCOME

Bond – We will continue to monitor exposure to government securities while seeking opportunity for bond portfolio rebalancing.

Corporate Bonds – Our focus will be on available "A" rated corporate bonds at attractive yields to further boost portfolio return.

Treasury Bills – NTB yields are likely to remain at current level (average of 3%).

Money Market – We will be strategic and continue to deal at best market rates to sustain our liquidity laddering plan.

We will be aggressive on stocks with significant inflow on the bourse, especially the financials with the potential to turn in attractive dividend yield and capital appreciation.

THANK YOU