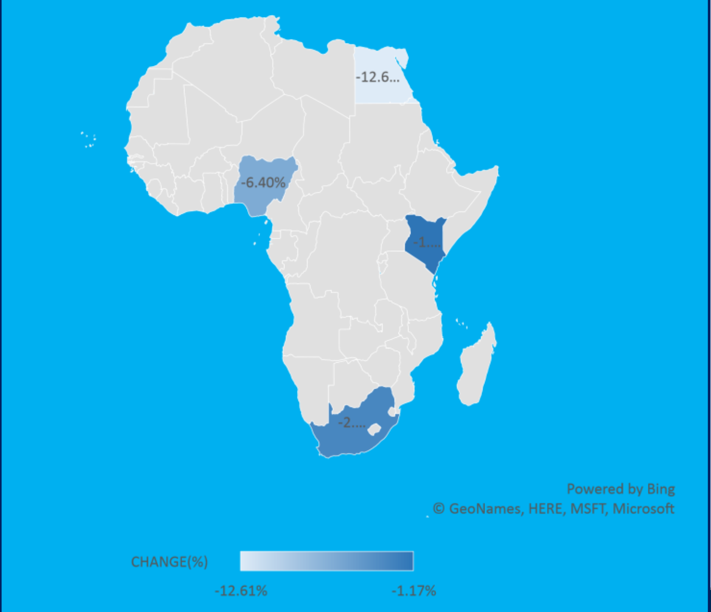

AUGUST 2019

MONTHLY MARKET REVIEW AND FORECAST

FOR JULY '19

TRUSTFUND PENSIONS LTD RESEARCH

MACROS | EQUITIES | BONDS | MONEY MARKET | ALTERNATIVE INVESTMENTS

Outline

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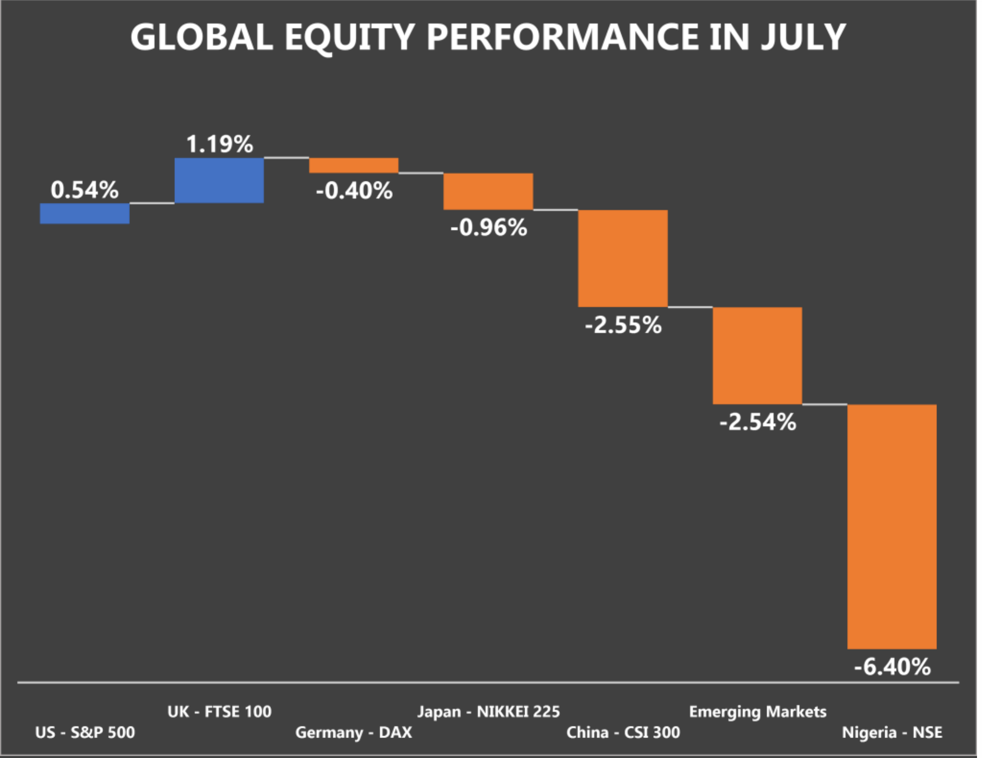
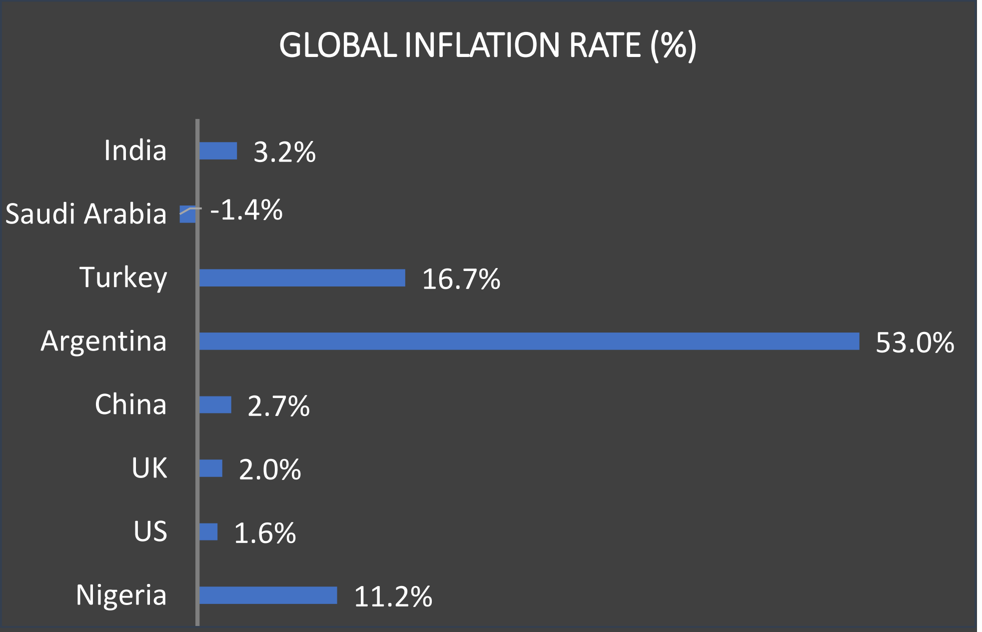
Outlook





GLOBAL MARKET

- The Global market finished mixed in July, with the US and UK markets closing higher while the Asian and emerging markets finished lower. The US S&P 500 (+54bps) was supported by better than expected corporate earnings and Federal Reserve's anticipated rate cut, while the unending trade war between US and China, muted inflation and trade policy uncertainty remains a major drag to global growth. While UK's FTSE 100's (+119bps) positive performance was slightly capped by worries that UK might leave the EU without a deal.

- In contrast, both China's CSI 300 (-255bps) and Japan's Nikkei 225 (-96bps) finished lower on the back of the lingering trade war and rising tension in Hong Kong. Though the legislative bill that seek to extradite those convicted of crimes to mainland China and Taiwan have been shelved, protests continued amidst fear of growing control of China's communist party.

- Overall, with economic momentum slowing down in most economies, we expect updates from US/China trade tension, deal or no deal Brexit, Hong Kong protests and US/Iran tension to dictate market mood.

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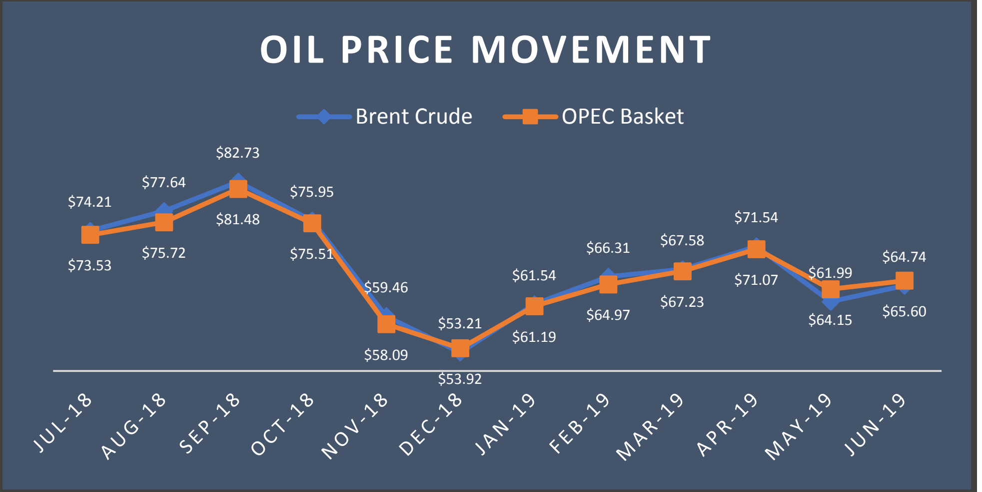
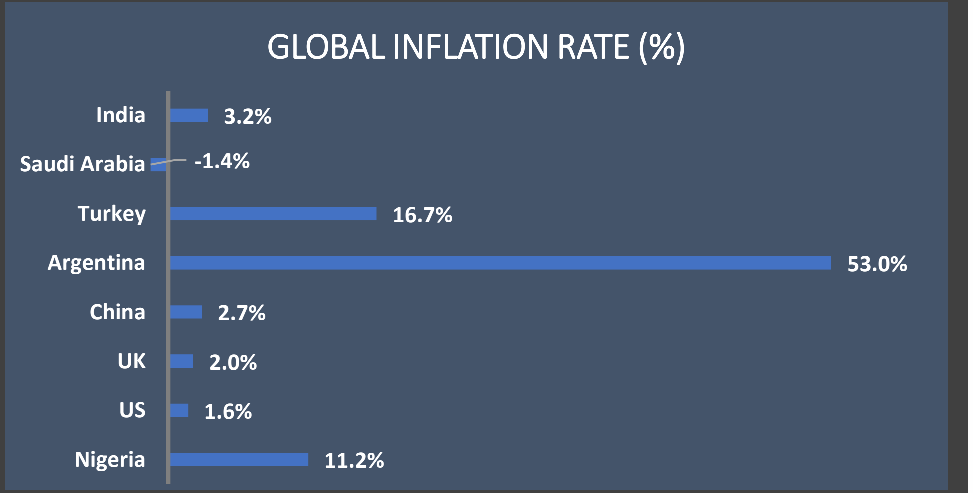
DOMESTIC MACRO REVIEW

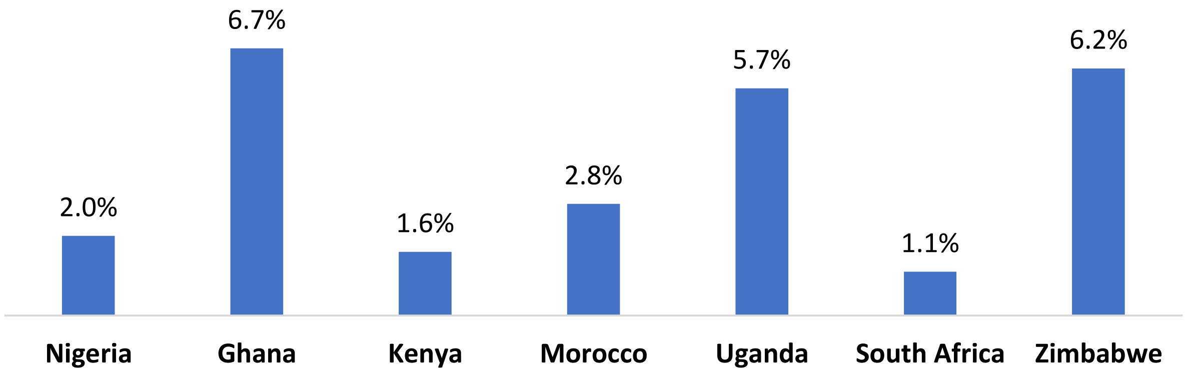




Source: Bloomberg/TFPResearch

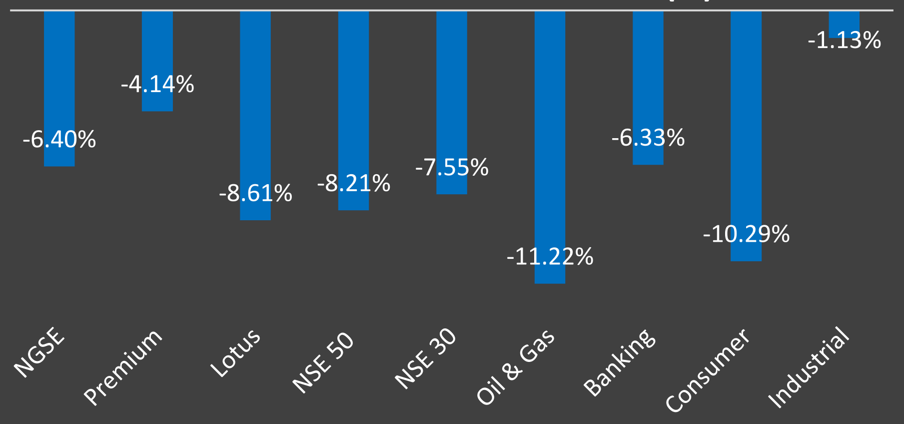
- **FX Reserve**- Official reserves declined further declined by 37bps or $166.42m in July to close at $44.9 billion.
- **Exchange Rates** – The CBN Official rate depreciated by modest 2bps settled at ₦306.85 in July vis-à-vis ₦306.85 in June. We expect the multiple exchange rate to persist, supported by healthy FX reserve and higher oil prices.
- **Oil –** Brent crude increased by 48bps to $65 as US-Iran situation cut off oil supply from Iran. Also, the tropical storm that moved through the gulf of Mexico interrupted supply from the region.
- **Inflation –** Headline Inflation slowed to 11.08% in July, 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. Thus, we expect Inflation rate to continue to move in line with CBN's monetary easing, 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 57.6 in the month of July which indicates that the manufacturing sector grew at a faster rate when compared to previous month. We anticipate higher PMI reading in the second half of the year as CBN's efforts to grow the real sector impacts the industry.

GDP - AFRICA (%)



EQUITY MARKET IN JULY

NGSE INDEX PERFORMANCE (%)



Sectoral Performance

Today's Sectors Snapshot	Today's Return	YTD Return	Dividend Yield	P/E (x)
FINANCIAL SERVICES	-1.47%	-29.1%	3.1%	5.1x
OIL AND GAS	0.20%	-22.9%	8.2%	6.4x
CONSUMER GOODS	-0.13%	-26.7%	3.3%	29.4x
INDUSTRIAL GOODS	0.18%	-16.3%	5.0%	15.5x
CONGLOMERATES	-3.57%	-29.6%	19.0%	5.0x
AGRICULTURE	0.00%	-39.2%	3.1%	12.7x
Total Market	-0.43%	-13.12%	10.2%	11.1x

Source: Bloomberg/TFPResearch

All Share Index hit a new low in July

- The bears ran rampage in the Nigerian Equities market for the month of July as lack of fiscal direction kept foreign investors at bay. Despite the bearish setup, the release of ministerial nomination list and earnings result towards the end of July spurred some buy sentiments, albeit minimal.
- Consequently, NSE-All Share Index lost 7.5% or N302.13 billion in July to close at 27,718.26 index points. The biggest losers are GUARANTY (-13.7%), ETI (-25.5%), PZ (-15.5%),NB (-20.6%), INTBREW (-32%), FO (-27%), ETERNA (-24%) and TOTAL (-23.5%). While the top gainers are WAPCO (+20.8%), DANGFLOUR (+10.9%), CADBURY (+8.6%) and FLOURMILL (+7.5%).
- That said, the 30-day price volatility index, which measures the risk of (equity) portfolio loss, declined by 900bps to close at c.13% in July, from c.22% recorded the previous month. This implies that most stocks on the exchange are already testing their lows and risk of further dip is lesser.
- Looking ahead, we expect volatility to persist in the local bourse as lack of clearer macro-economic signals poses a threat of further pullback of foreign players. However, investors can take position in stocks with attractive entry price to take advantage of market conditions.
- Thus, we advise a cautious outlook for August.

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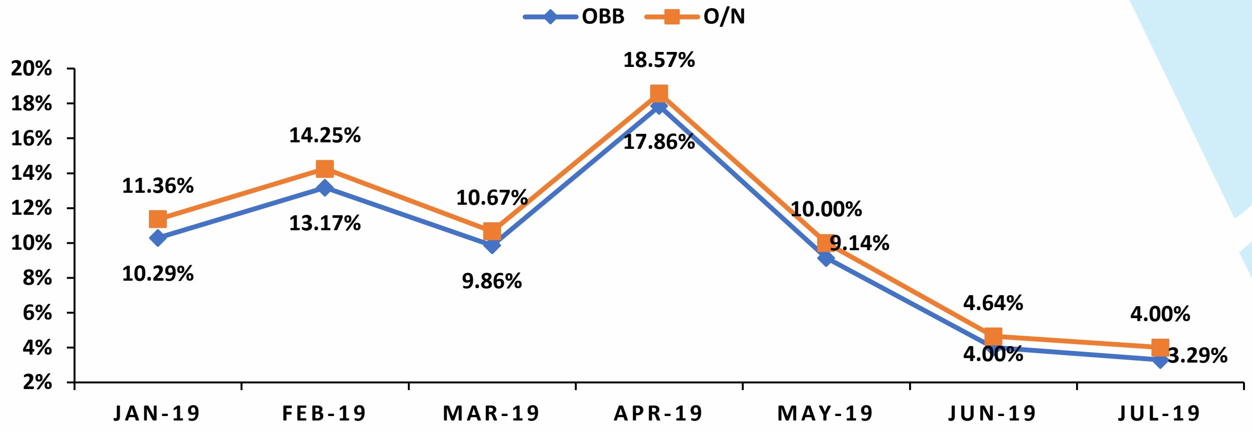
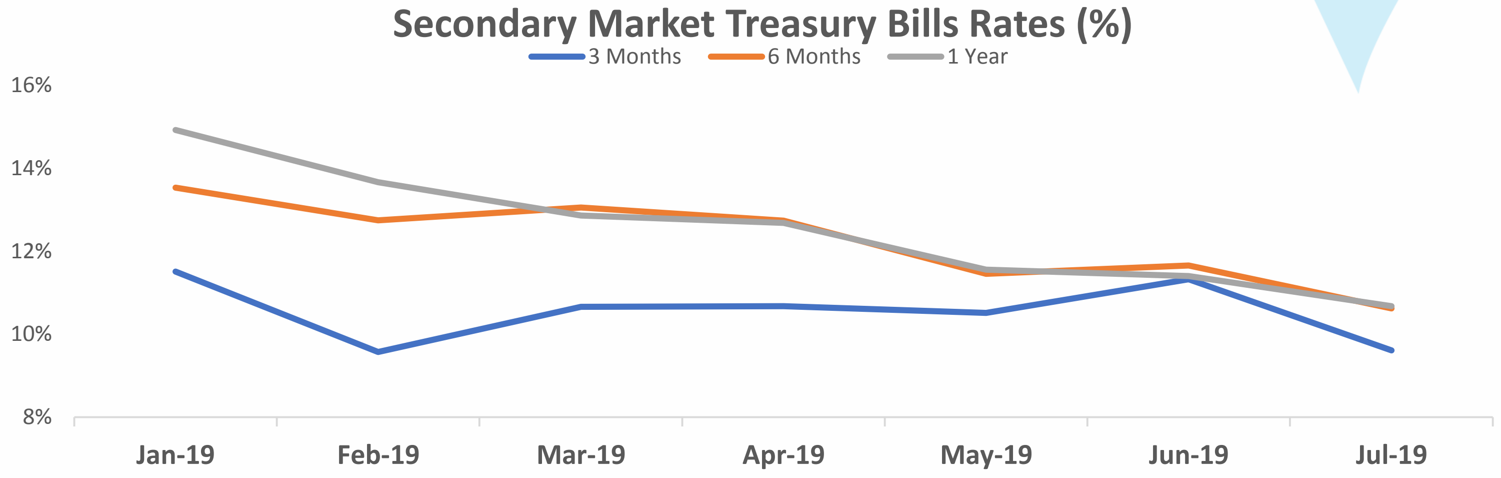
FIXED INCOME MARKET

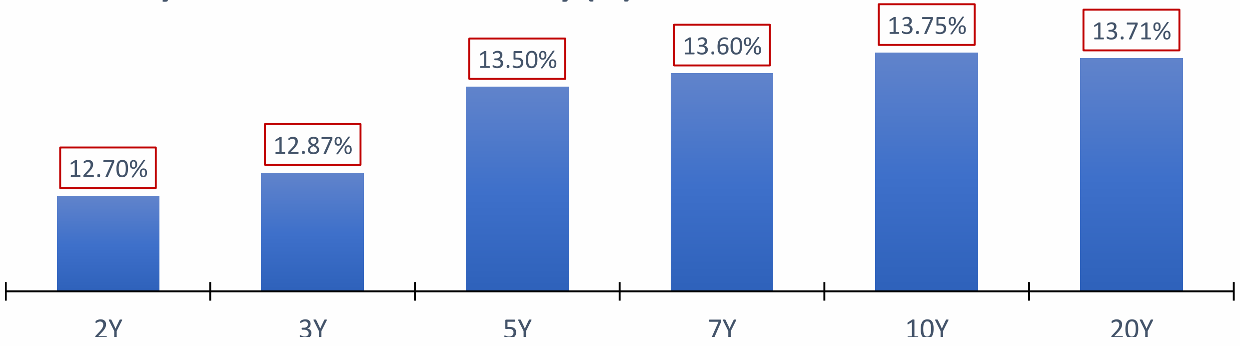
Bond

- Average bond yield decreased by 66bps to close at 13.26% in July on the back of high local and foreign demand for high yields.
- Conversely, the 90-day, 180-day and 365-day T-bills closed lower at 9.61%, 10.62% and 10.67% respectively.
- We expect rates to remain at these levels in August, while bearing in mind any CBN mop up action.





Secondary Market Bond Yield in July (%)



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Market Outlook and Strategy

The bond and equity markets have shown less correlation since January - lower bond yields have yet to stimulate corresponding equity rally. Local bonds are relatively rich, while stocks remained depressed. Nonetheless, except for the tier-1 banks (Guaranty, Zenith et al) we are less optimistic about 2019Q3 corporate returns. Top picks include: UBA, DANGCEM, CCNN, ACCESS and PRESCO

Equity

Despite current low prices, the outlook for Nigerian equities remains uncertain in 2019-Q3, as policy directions remain unclear. Given this bleak outlook for price recovery, the equity strategy for 2019 is conservative and dividend focused. Stocks with consistent dividend history and Profit After Tax (PAT) capacity to turn in impressive dividend yield should be explored.

Bonds

Going forward, we retain our view of further downslide in yields at the short end of the curve. This view is hinged on CBN's loose grip on naira liquidity alongside muted paper supply at the NTB leg. On the former, although FPI inflows at the IEW are receding, we see less hurt to the currency over the near-term emanating from lower maturity profile until August 2019 as well as sturdy macroeconomic fundamentals which is a cause for cheer for foreign investors.

Money Market

Rates on short term instruments resumed downtrend in July and are expected to trend even lower as CBN places N2 billion cap on its SDF.

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

Cautions should be on equity positions as exposure to some heavyweight stocks are scaled down. Proceeds should be reinvested in attractive alternatives to support NAV growth.

THANK YOU

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