MONTHLY MARKET REVIEW AND FORECAST

FOR FEBRUARY 2023

TRUSTFUND PENSIONS LTD RESEARCH

MARCH 2023

INVESTMENT RESEARCH
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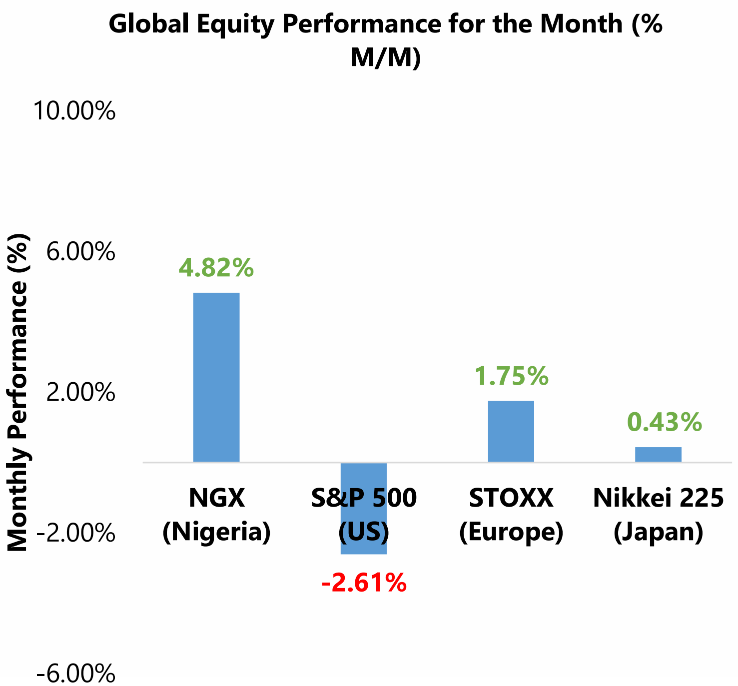
GLOBAL MARKET REVIEW



**NGX – Nigerian Stock Exchange Mainboard Index*
**STOXX Europe 600 – Index that tracks top 600 companies across Europe*
**Nikkei 225 tracks top 225 large companies across sectors in Japan*
***S&P 500 tracks top 500 companies in USA*

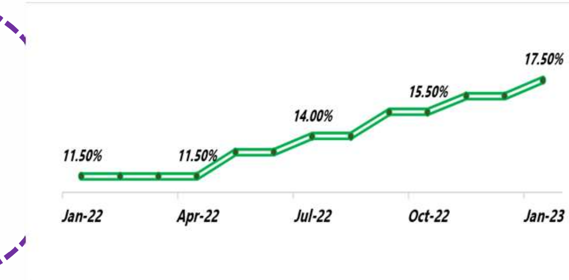
GLOBAL MACRO MOVERS FOR THE MONTH

- Major global stock markets posted bullish performances in February –save for the S&P 500, which recorded a 2.61% M/M loss after posting roaring gains at the start of the year.
- The whimpered performance of the S&P 500 arose from investors' apathy to risk assets following an expanded inflationary course in February 2023. Notably, the U.S's headline inflation grew by 5.4% in the month under review.
- The bullish performance across European markets can be pinned to an increased expansion of business activity, evidenced in February's PMI of 52.3, up from 50.3 in January. Top performing sectors included communication services, financials, industrials and consumer staples.
- Furthermore, increased economic activity in China translated into a positive performance for the Nikkei 225, with improved returns for Japanese companies, whose businesses are linked to China.

Source: Schroders, (2023), Trustfund Research, (2023)

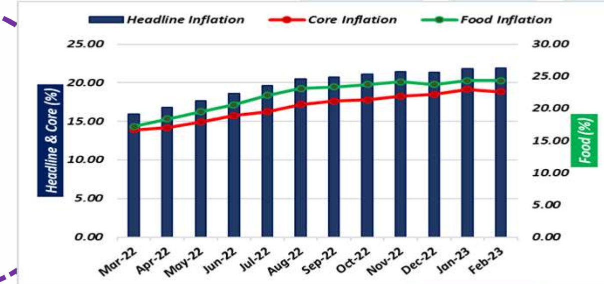
Nigerian Macro Review

MPR



The benchmark rate was increased by 100bps to 17.50% as a fallout of the first MPC meeting of 2023. The committee cited this increase as a means to tackle the economic challenges posed by heightened inflation levels.

CPI



The February headline inflation figure printed at 21.82%, indicating a 9bps increase from the previous month. This was pinned by the continuous rise in food prices evidenced in the 3bps increase of food inflation to 24.35%. , core inflation increased albeit at a slower pace by 32bps to 18.84%.

FX RATE

The Naira strengthened against the dollar in the I&E window for the first time in eight months. It gained 0.11% to close the month at N460.97 from N461.50. This could be adduced to lower participation in the auction window.

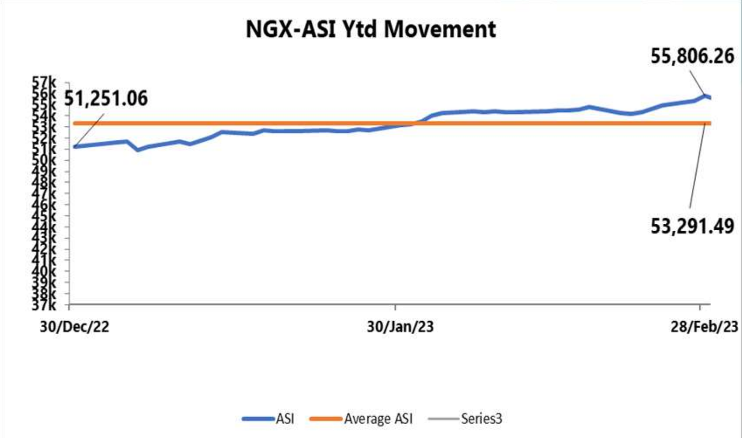
RESERVE

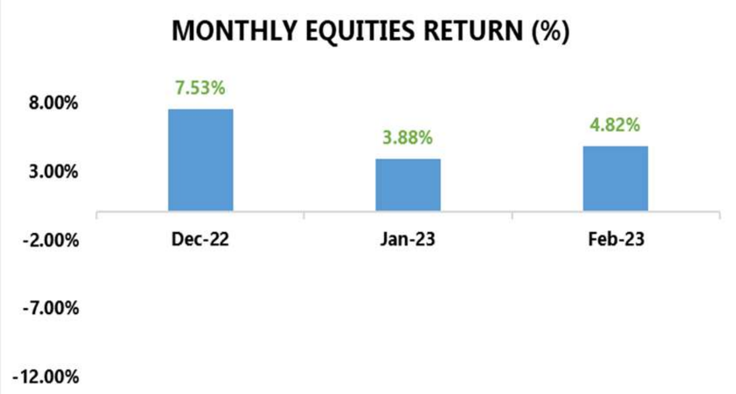
The External Reserve sustained a downward trend despite slight increase in crude oil prices. The Reserve declined marginally by 0.86% to $36.68bn from $37.00bn recorded in January 2023. This was due to increased support in various auction window.

EQUITY MARKET

NGX ALSI DEFIES CONTINUOUS MPR HIKES

- The equities market was bullish in February recording a gain of 4.82%. This was driven by positive sentiments surrounding impressive corporate results releases. Consequently, YTD positioned at 8.89%.
- Furthermore, returns recorded in MTNN (+1.46%), BUAFOODS (+0.78%), GEREUGU (+0.68%), DANGCEM (+0.35%), AIRTEL (+0.31%) and GTCO (+0.22%) amongst others contributed to the month's gain.
- A Performance review of the sectors under our coverage revealed that four (4) out of the five (5) sectors closed in the positive terrain.
- To illustrate, the NGX Oil and Gas index closed 15.97% higher, propelled by SEPLAT (+20.45%), OANDO (+24.68% and CONOIL (+76.79%).
- The NGX Consumer Goods sector expanded by 8.24% riding on gains BUAFOODS (+20.81%) and DANGSUGAR (+1.15%).
- The NGX Banking index was lifted by 3.99%, due to increments in the ZENITHBANK (+6.00%), GTCO (+6.81%), STANBIC (+24.29%), UBA (+6.10%) and ACCESSCORP (+4.95%) tickers.
- In addition, DANGCEM (+2.26%) and WAPCO (+9.16%) moved the NGX Industrial Goods index upwards by 2.57%.
- However, the NGX Insurance was down by 2.26%, dragged by AIICO (-4.76%) and MANSARD (-1.48%) losses.





Source: Bloomberg/ TFP Research

FIXED INCOME MARKET

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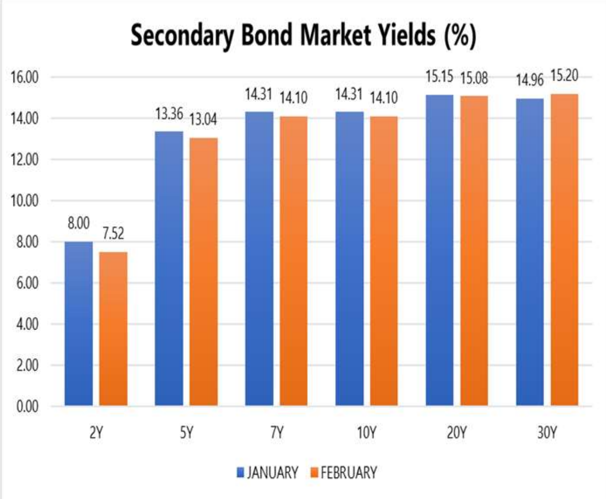
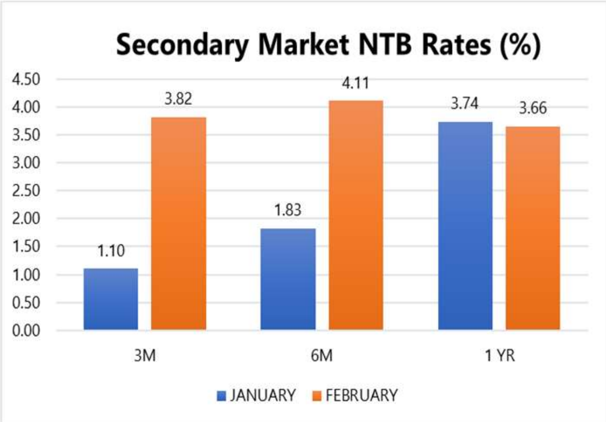
- In February, earnings season in the Nigerian stock market led to short term sell offs in the fixed income space as investors sought to create liquidity to position in stocks with attractive dividend pay outs.
- As a result, the secondary fixed income market mainly expressed bearish sentiments. To illustrate, average NTB discounted rates climbed 227bps higher to settle at 4.17%. In addition, discounted rates on OMO bills closed 155bps higher on the average to settle at 3.75%.
- On the flip side, average bond yields tapered by 16bps to close at 13.59%. This is despite the rising inflation levels in the economy and the hawkish monetary policy stance. It is safe to point out that the liquidity surfeit in the system from fixed income maturities has been the main driver of yields for this period and is thus responsible for the bullish performance of the secondary bonds market.
- In other news, at total of N360.00bn of the 3.98% FGN FEB 2028, 12.5000% FGN APR 2032, 16.2499% FGN JAN 2037 and 14.80% FGN APR 2049 bond instruments was offered to investors. Subsequently, about N770.56bn was sold to auction participants at stop rates of 13.99% (prev. 14.00%), 14.90% (unchanged), 15.90% (prev. 15.80%) and 16.00% (prev. 15.90%). Notably, subscription levels reached N992.11bn, translating into a bid to cover ratio of 1.3x and bid to offer ratio of 2.8x.





FIXED INCOME MARKET

- Furthermore, there were 2 NTB auctions held by the DMO in February in which a total of N480.57bn worth of the 91DTM, 182DTM and 364DTM bills was offered to investors, with approximately N680.57bn being sold at respective average stop rates of 1.55% (prev. 1.15%), 1.77% (prev. 3.07%) and 6.07% (prev. 6.04%). Notably, the stop rate on the 364DTM instrument grew by 766bps to 9.90% in the second auction held last month. This can be adduced to the FGN's aggressiveness to raise money to meet short term government obligations.
- In the coming months, liquidity is expected to exceed the preceding months' levels. As such, we expect a contraction in NTB and bond yields. However, the FGN funding requirements for the budget could increase instrument supply, which could flatten or slightly increase yields. In addition, the ongoing releases of corporate earnings in the equities space could cause investors to pivot funds into the stock market in order to take advantage of stocks with attractive dividend payouts. This could result in short term selloffs in th fixed income space as investors seek to fund equity purchases. Nonetheless, these expectations are barring any radical global macroeconomic shifts/ liquidity shocks to the system/interventions by the apex bank.

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MARKET OUTLOOK AND STRATEGY

The significance and urgency of post election policy reforms to economic growth cannot be overemphasized as this is paramount in dictating the direction of markets. Also, economic growth is expected to slow down in the near term pinned by the increased focus on elections (gubernatorial elections on 18th March 2023) and the slight short term negative impacts of the CBN Naira design and Cashless Policy. Furthermore, we expect the CBN to hike policy rates at a slower pace as the positive effects of the previous rate hikes begin to fed through, whilst inflation is still expected to remain elevated due to the impacts of the 2022 floods on food supply.

EQUITY

The performance of the bourse is expected to be positive owing to dividend seeking investors' efforts to position their portfolios in fundamentally sound stocks during this earnings season. In addition, a pro market administration would mean favorable market policies for businesses to drive profits, leading to greater investor patronage of these tickers in the stock market. Nonetheless, these expectations are barring any radical global macroeconomic shifts/ apex bank interventions/ liquidity shocks to the system.

FIXED INCOME

Bond – We will book profits on the rallied instruments in our position and deplore the sales proceeds into alternative assets with attractive returns.

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

Treasury Bills – with yields currently at low single digit levels, we continue to monitor its trend and take position in yields not less than rates obtainable in money market.

Money Market – We will be strategic and maximize positions on the short end of the curve to support our liquidity laddering strategy.

We will continue to take advantage of market opportunities with focus on corporate issuances and alternative assets to improve investment returns. As such, asset exposure may vary over time.