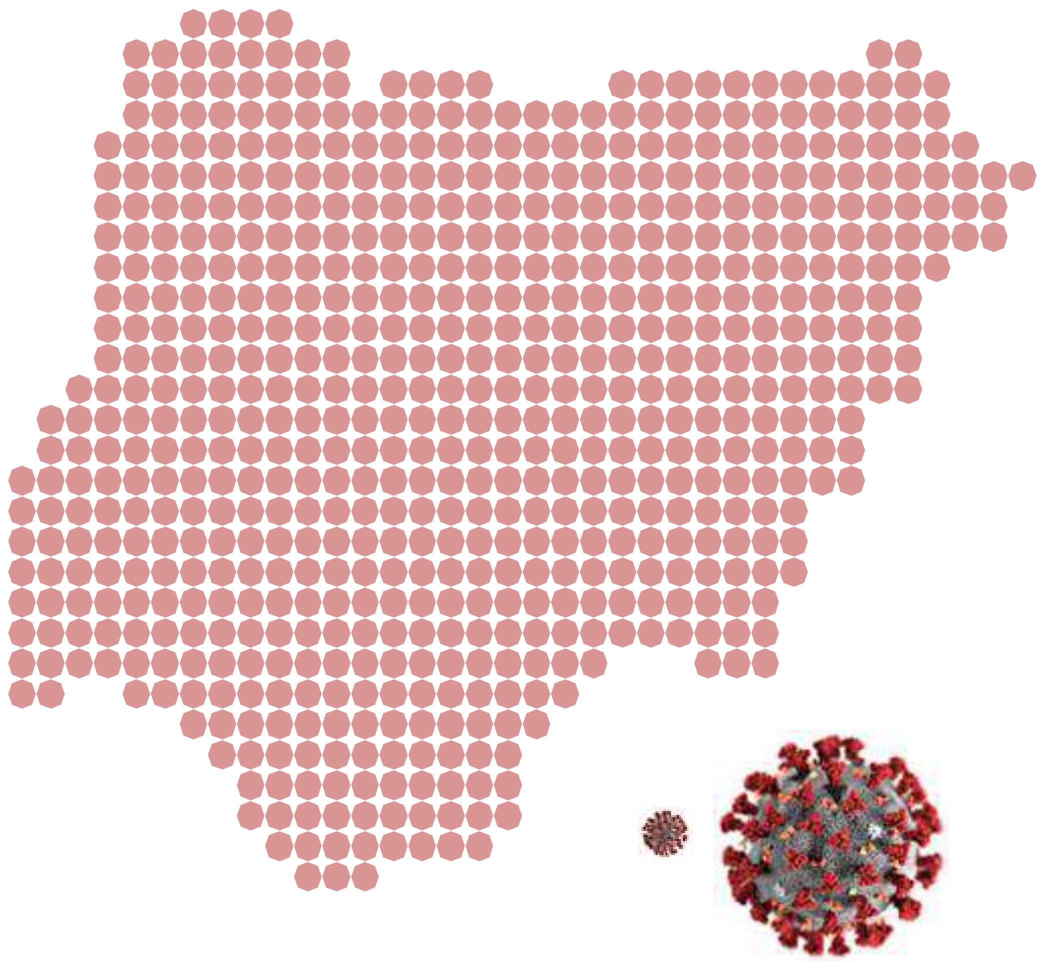

2020 Economic and Financial Markets Review

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Outlook & Investment Strategies for 2021

Table of Content

Executive Summary

The global economy will be shaped by the extent to which countries can recover from the ravages of COVID-19, which has claimed quite a number of lives. In the October 2020 edition of its World Economic Outlook: *A Long and Difficult Ascent*, the International Monetary Fund projected global output growth of 5.2% in 2021 which reflects the more moderate downturn projected for 2020 of minus 4.4%. We believe global growth will be dependent of policy actions aimed at assisting households and businesses find their feet, the adoption of sound public health policies and a willingness to return to work.

Nigeria is expected to exit recession in 2021 given the relative recovery in global crude oil prices and expected boost in crude oil revenue. The IMF predicts that Nigeria is expected to record subdued growth of 1.50% and that output growth recovery to pre-pandemic level would take place in 2022.

We believe some other likely drivers of Nigeria's economic rebound in 2021 and beyond include: the timely implementation of the government's expenditure plan with increased emphasis on capital expenditure and judicious use of scarce resources; adoption of budget-friendly fiscal policies for businesses and households to stimulate production and consumption activities; early commencement of operations at the Dangote Oil Refinery which should turn out positive for Nigeria's real and external sectors; pursuit of policies that would transform Nigeria's healthcare system and deliver benefits to citizens; and accelerating efforts at getting businesses to take advantage of foreign trade opportunities provided in the African Continental Free Trade Area agreement while also improving the ease of doing business.

We expect general price level of goods and services to remain sticky upwards and in double digits in 2021, mainly on higher food, transport and electricity prices, as well as the anticipated depreciation of the Naira against the United States Dollar. Food inflation is expected to be driven, in part by insecurity, higher fuel prices and cost of logistics. Insecurity remains a major factor that should drive up food prices. Continued conflict is bound to lead to further displacement of farmers in the Northeast while armed banditry, cattle rustling and kidnapping in Northwest and Northcentral, if not arrested, would remain a blight in agricultural regions, thus resulting in suboptimal food production and even distribution activities.

The monetary authority has signaled its intention to sustain the low interest rate environment which is in line with the Federal Government's objective of stimulating real sector activities and facilitating a private sector driven economy.

GLOBAL ECONOMIC REVIEW

Global Economy Registers Gradual Recovery Following H1 2020 Recession 2020

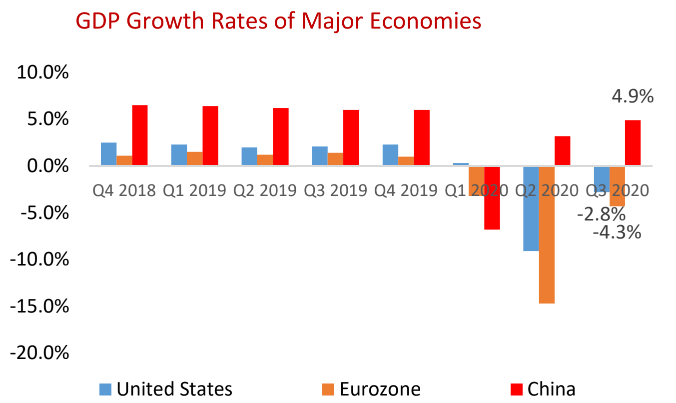
The first half of 2020 was overshadowed by the widespread COVID-19 pandemic which precipitated border closures, export restrictions of critical medical supplies, business shutdowns, demand and supply shocks and initial panic across the financial markets. These basically shaped the theme for the global economy which basically fell into recession in H1 2020. Global economic powers such as the United States, China (from where the pandemic began and was exported to the rest of the world) and Eurozone (which bore the brunt of the catastrophe), all witness contractions in March, April and May in both manufacturing and non-manufacturing business activities. In Q1 2020, China and Eurozone recorded declines in GDP Growth rates of -6.8% and -3.1% respectively while the United States recorded negative growth of 5%. Unemployment rates also increased across the globe as a result of the lockdowns and decline in global demand. Notably, however, the Chinese economy avoided a recession (having recorded a 3.2% growth in real GDP in Q2 2020 following a decline of 6.8% in the preceding quarter.

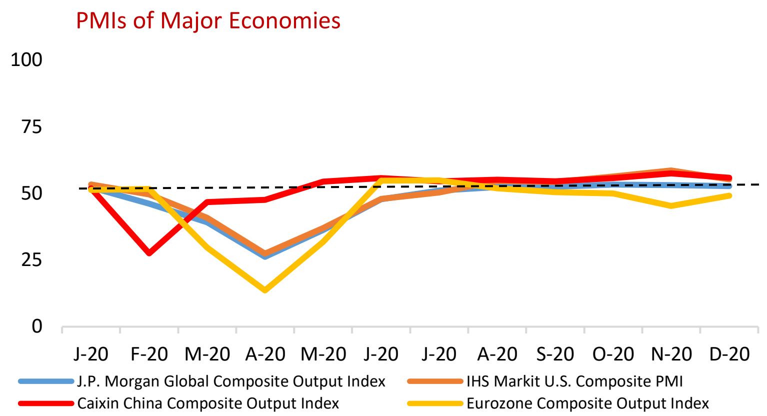
Fiscal and Monetary Authorities Align Forces for Quick Economic Recovery

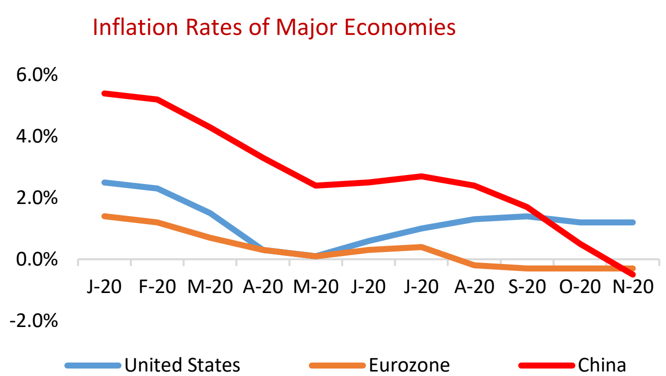
On their part, both fiscal and monetary policies put in place stimulus packages to alleviate the pain of households and businesses and to spur rebound in economic activities while also issuing COVID-19-related guidelines to curtail the spread of the pandemic as they eased the lockdown.

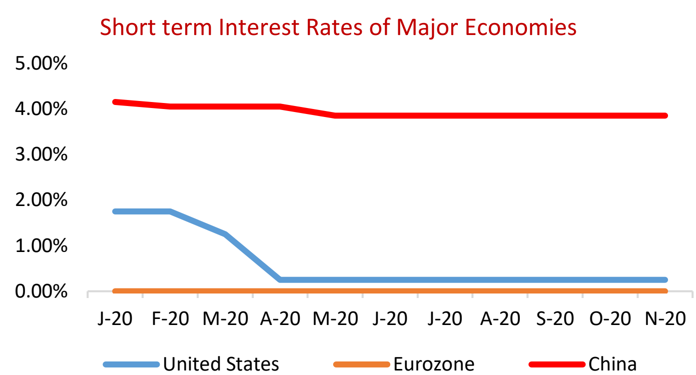
These measures helped to facilitate economic recovery, albeit gradually, and raised optimism of a "V-Shaped" recovery – the U.S. and Eurozone economies recorded real GDP growth rates of minus 2.8%, minus 4.3% and positive respectively. However, the Chinese economy rose by 4.9%.

Following sustained efforts by global monetary and fiscal authorities to support their ailing economies, the journey to global economic recovery was sustained for sixth consecutive months to December as output, new orders and employment rates continued to grow. According to J.P. Morgan Global Composite Output Index, global business activities (manufacturing and services) expanded to 52.7 points in December, slower than 53.1 points in November. The consumer goods, intermediate goods, investment goods and financial services categories recorded expansions; however, consumer services activity fell for the eleventh consecutive month. The US, Germany, Brazil, India and China recorded output expansion. However, the Eurozone and Russia witnessed contraction.







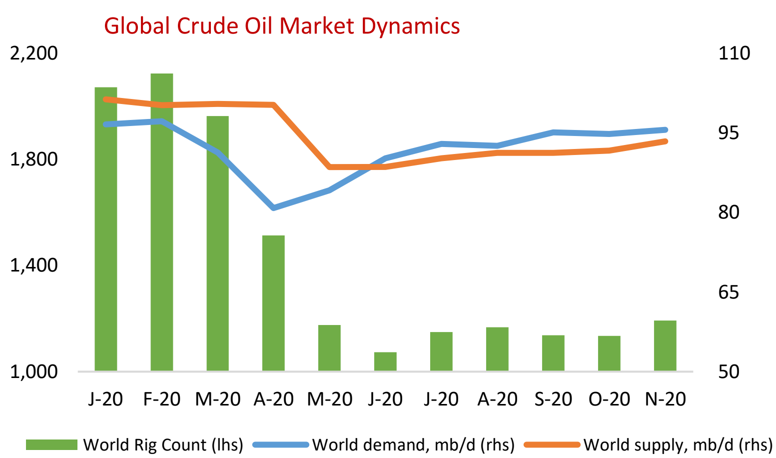


Sources: markiteconomics.com, tradingeconomics.com

Available data showed that deflation rate in the Euro area remained sticky at 0.3% in November which was also the fourth consecutive month of deflation in the monetary union – starkly contrasting an inflation rate of 1.40% in January 2020 – amid weakened business and consumer confidence levels, partly on account of COVID-19. Similarly, the China's inflation rate trek southwards from a year high of 5.4% and ending in a deflation of 0.50% in November. The United States, on the other hand, recorded an inflation rate of 1.2%, for the second consecutive month, in November amid increased economic activities following the lockdown.

In an effort to stimulate consumption, the People's Bank of China (PBoC) retained its benchmark interest rates at its November fixing amid continued efforts to support recovery from COVID-19 disruption. The one-year loan prime rate (LPR) was retained at 3.85% while the five-year remained at 4.65%. Likewise, US Federal Reserve kept the target range for the federal funds rate steady at 0% - 0.25% due to the need to achieve desired employment and inflation levels. The European Central Bank (ECB) retained its main refinancing rate at 0% while the deposit rate was retained at -0.5%.

Meanwhile, global crude oil market fundamentals weakened in 2020 as the pandemic caused demand destruction and a resultant supply overhang. In response to the demand shock, major oil producer, Opec, led efforts to rebalance the market by reducing output quotas of its members. Consequently, world crude oil supply fell by 7.80% to 93 mbpd over the same period as at November 2020, lower than world crude oil consumption (demand) which decreased by 1.06% to an estimated 96 million barrels per day (mbpd) as at November 2020 (from 97 mbpd in January 2020). World rig count plunged by 42.45% to 1,193 as at November, as a result of lower production and exploration activities on account of a weaker near-term outlook for crude oil consumption.



Source: eia.org, opec.org

Following the reduction in supply, in addition to gradually ease in lockdown, global crude oil prices began to recover as demand from refineries improved. West Texas Intermediate rose from a year low of USD11.57 a barrel on April 21, 2020 to USD48.40 a barrel on December 30, 2020 while Brent rose from a year low of USD19.33 to USD51.63 over the same period.

Performance of Global Crude Oil Prices		Year high	Year low	
	31-Dec-19	2-Jan-20	21-Apr-20	30-Dec-20
West Texas Intermediate	61.68	61.18	11.57	48.40
Change from year-end 2019		-0.81%	-81.24%	-21.53%
	31-Dec-19	9-Jan-20	21-Apr-20	30-Dec-20
Brent	66.67	68.91	19.33	51.63
Change from year-end 2019		3.36%	-71.01%	-22.56%
	31-Dec-19	9-Jan-20	22-Apr-20	31-Dec-20
Opec Reference Basket	67.96	70.89	12.22	50.24
Change from year-end 2019		4.31%	-82.02%	-26.07%

Source: oilprice.com

The gradual improvement in the global economy resonated well with investors and resulted in improved performance of major stock exchanges. Global stock exchanges, having received bashings in the thick of the pandemic, had bled their worst this year in the month of March. However, following concerted efforts of various governments to reflate their economies, the performances of major bourses improved.

Global Stock Markets Performance	Start Date	Year high	Year low	Year End
	31-Dec-19	11-Feb-20	23-Mar-20	31-Dec-20
Dow Jones Industrial Average	28,538.44	29,551.42	18,591.93	30,606.48
Change from year-end 2019		3.55%	-34.85%	7.25%
	31-Dec-19	28-Dec-20	23-Mar-20	31-Dec-20
NASDAQ Composite Index	8,972.60	12,899.42	6,860.67	12,888.80
Change from year-end 2019		43.76%	-23.54%	43.65%
	31-Dec-19	28-Dec-20	18-Mar-20	31-Dec-20
German Stock Index DAX	13,249.01	13,790.29	8,441.71	13,718.78
Change from year-end 2019		4.09%	-36.28%	3.55%
	31-Dec-19	31-Dec-20	23-Mar-20	31-Dec-20
Shanghai Shenzhen CSI 300 Index	4,096.58	5,211.29	3,530.31	5,211.29
Change from year-end 2019		27.21%	-13.82%	27.21%
	31-Dec-19	29-Dec-20	19-Mar-20	31-Dec-20
Nikkei 225	23,656.62	27,568.15	16,552.83	27,444.17
Change from year-end 2019		16.53%	-30.03%	16.01%
	31-Dec-19	31-Dec-20	6-Apr-20	31-Dec-20
Nigerian Stock Exchange ASI	26,842.07	40,270.72	20,669.38	40,270.72
Change from year-end 2019		50.03%	-23.00%	50.03%

Nigerian Economy

Nigeria Economy Slides into Recession in Q3 2020

Nigeria's economy went into recession as it printed two consecutive quarters of negative growth rates. Specifically, the country's real Gross Domestic Product contracted y-o-y by 3.62% to N17.82 trillion in Q3 2020, albeit better than a 6.10% contraction printed in Q2 2020 – economic activities relatively improved in the quarter under review given the further ease in lockdown as number of COVID-19 discharged cases increased. Exhibit M1 shows generally fair performance in Q3 2020, with the Financial Services, Information & Communications and Agricultural sectors, which jointly accounted for 46.91% of total GDP, all grew y-o-y by 3.21%, 14.56% and 1.39% respectively in Q3 2020.

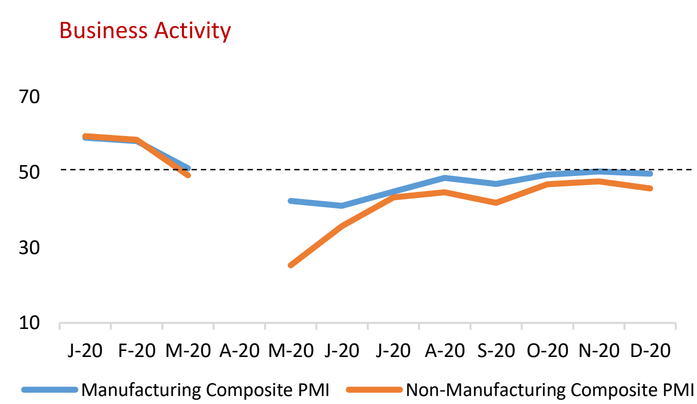
Exhibit M1: Analytical Presentation of Nigeria's Real GDP

Major Sectors	Q3 2020	Q2 2020	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.556	1.419	9.64%
Y-o-Y %Change	-13.89%	-6.63%	
Non-Oil Sector (N 'Trn)	16.268	14.479	12.36%
Y-o-Y %Change	-2.51%	-6.05%	
Quarter GDP (N 'Trn)	17.824	15.897	12.12%

Share of Real GDP (%)	Q3 '20 Share of Real GDP	Q3 '20 y-o-y Growth (%)	Q2 '20 y-o-y Growth (%)
Agriculture	30.77%	1.39%	1.58%
Trade	13.88%	-12.12%	-16.59%
Info & Comm	13.47%	14.56%	15.09%
Manufacturing	8.93%	-1.51%	-8.78%
Mining & Quarrying	8.91%	-13.22%	-6.60%
Real Estate	5.58%	-13.40%	-21.99%
Construction	3.21%	2.84%	-31.77%
Financial Services	2.67%	3.21%	18.49%
Profes, Sci & Tech Services	3.32%	-10.31%	-15.41%
Education	1.74%	-20.74%	-24.12%
Other Economic Activities	7.51%		
Qtr 2020 Real GDP	N17.82 Trn	-3.62%	-6.10%

Source: National Bureau of Statistics, Central Bank of Nigeria, Cowry Research

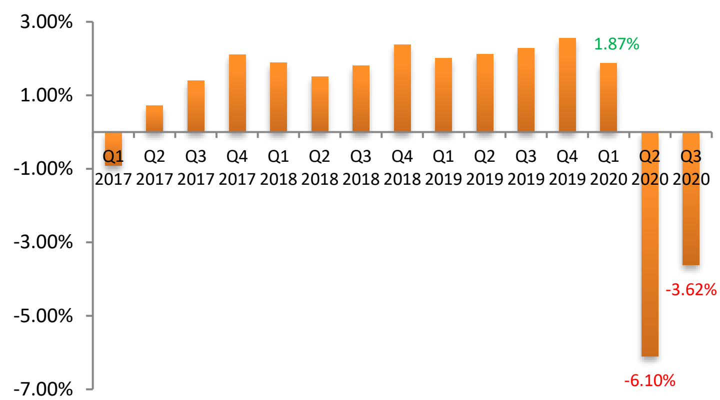
For the most part of 2020, businesses lay languid in contraction territory even after the lockdown was eased as the economy was negatively impacted by the restrictions to movement which affected the volume of transactions, particularly in the services sector. The year which began firmly in expansionary territory, wound up in contraction as Manufacturing and Non-manufacturing PMIs fell to 49.60 points and 45.70 points respectively.



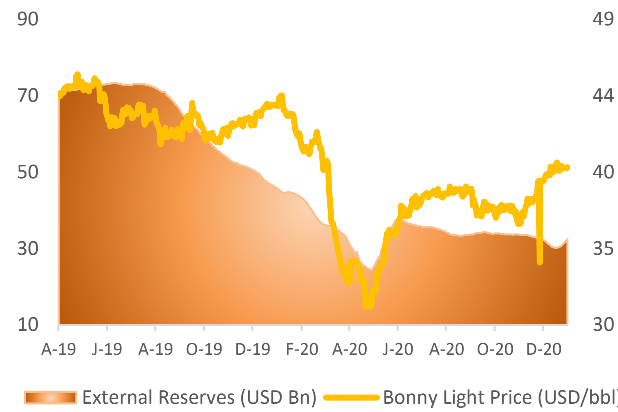
Information & Communications and Financial Services sectors had continued to benefit from "new normal" as most companies and individuals were heavily reliant on technology.

Exhibit M2: Summary of Nigeria's Key Macroeconomic Variables

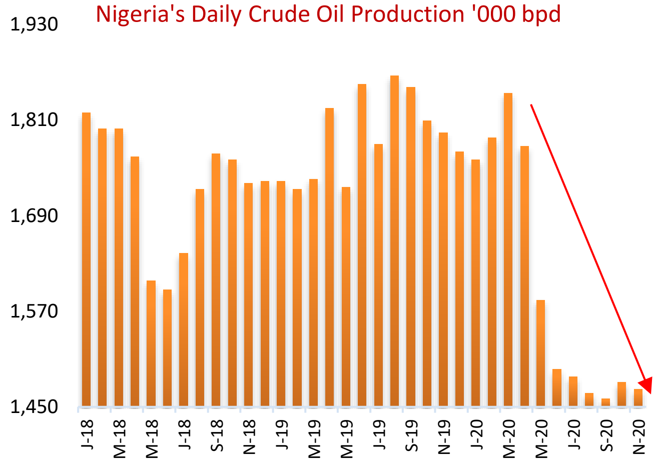
Y-o-Y Real GDP Growth Rates



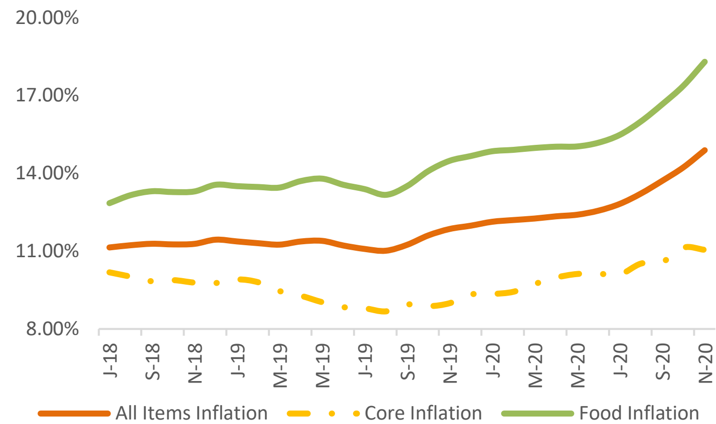
External Reserves and Crude Oil Price



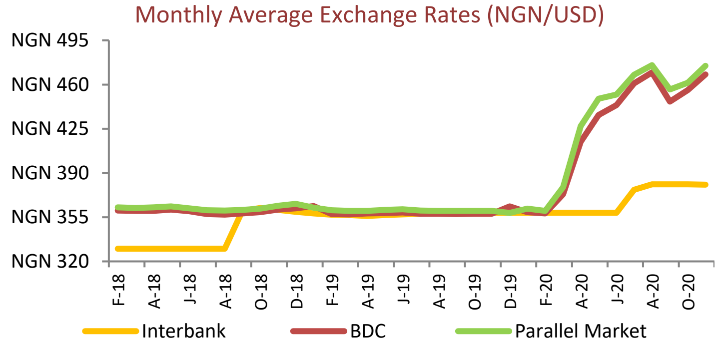
Nigeria's Daily Crude Oil Production '000 bpd



Consumer Price Inflation



Monthly Average Exchange Rates (NGN/USD)



Following the plunge in external reserves and crude oil output per day, the NGN/USD exchange rate spiked. Hence, inflation rate continued to climb, even at a faster pace, amid rising imported food prices, hike in transportation costs and worsening insecurity.

Source: National Bureau of Statistics, Central Bank of Nigeria, Opec, Cowry Research

Central Bank of Nigeria Response to COVID-19 Pandemic

In order to soften the blows of the pandemic to the economy, CBN announced a policy response timeline during which it would provide a combined stimulus package of about N3.5 trillion in targeted measures to households, businesses, manufacturers and healthcare providers; a move also aimed at building a more resilient, more self-reliant Nigerian economy.

Source: Online

Under its Immediate-Term Response, CBN activated the following:

- Ensure financial system stability by granting regulatory forbearance to banks to restructure terms of facilities in affected sectors;
- Grant additional moratorium of 1 year on CBN intervention facilities;
- Reduce interest rates on intervention facilities from 9 percent to 5 percent;
- Create N50 billion targeted credit facility for affected households and SMEs;
- Improve FX supply to the CBN by directing all oil companies (international and domestic) and all related companies (oil service) to sell FX to CBN and no longer to the NNPC;
- Provide additional N100b intervention in healthcare loans to pharmaceutical companies, healthcare practitioners intending to expand/build capacity;
- Provide N1 trillion in loans to boost local manufacturing and production across critical sectors

Review of Foreign Exchange Segment in 2020

Naira Loses Against the USD Despite New CBN's FX Policies, Recovery of Crude Oil Prices

In the just concluded year, Naira (NGN) lost heavily against the USD, especially at the Bureau De Change (BDC) and the parallel ("black") markets as CBN devalued the exchange rate at the official window which also had an adverse impact on the Investors and Exporters Window's (I&E FXW) rate. Specifically, NGN/USD rose (Naira depreciated) at the BDC and Parallel ("black") markets y-o-y by 29.89% and 29.83% to close at N465.00/USD and N470/USD respectively as at December 31, 2020. Also, Naira lost against the USD at the I&E FXW and Interbank window y-o-y by 12.55% and 6.19% respectively as at December 31, 2020. The depreciation of the local currency against the USD was chiefly due to the dovish stance of the Monetary Policy Committee (MPC) as CBN continued to prioritize low interest rate regime, to drive economic growth due to COVID-19 pandemic, at the expense of created liquidity glut and its resultant adverse effect on the country's foreign exchange and inflation rate.

Notably, the positive impact of the recovered crude oil prices at the international market was not really felt given the drop in inflows from both the Foreign Direct and Portfolio investors as COVID-19 pandemic and low interest rates hampered foreign investments. On the positive side, Nigeria's crude oil, bonny light grade, price recovered to USD51.27 as at Thursday, December 31, 2020 from a low of USD9.75 it touched on Monday, April 27, 2020. On the flip side, total foreign capital imported into Nigeria plummeted Year-to-Date (YTD) by 57.35% to USD8.61 billion in 9M 2020, from USD20.19 billion printed YTD in 9M 2019, leaving CBN with weaker "wall chest" to defend the country's currency.

Given the need for CBN to stabilize the foreign exchange, amid depleting foreign exchange reserves (It fell to USD35.37 billion as at December 31, 2020 from USD38.60 billion as at December 31, 2019), it rolled out few new FX policies to pursue this objective. In January 2020, the apex bank prohibited registration of Form M for the importation of Fertilizers. In February, it added Milk and Dairy Product to the list of prohibited products; albeit, it excluded those companies that have keyed into the backward integration program. In November, the lender of last resort made another big move by amending the procedures for receipt of diaspora remittances – that is, allowing beneficiaries of diaspora remittances to receive their inflows in foreign currency as cash or as deposit in their domiciliary account. The move CBN expects would calm the alarming rate of Naira depreciation, especially at the Parallel ("black") market.

Review of Fixed Income Space in 2020

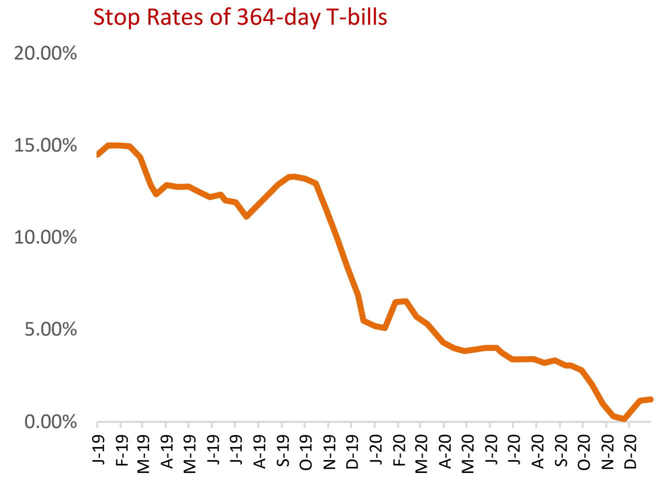
Low Interest Rate Regime Sustained Across the Board in 2020

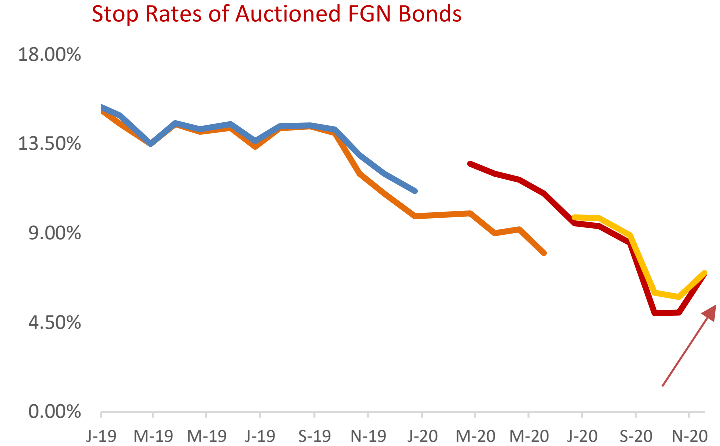
Interest rates was generally low in 2020 as CBN maintained its dovish monetary policy plan throughout the year. The apex bank further reiterated its position by reducing – for the second time in the year under review – the Monetary Policy Rate (MPR) by 100 basis points (bps) to 11.50% in September (from 12.50% printed in August after previous cut of 100 bps from 13.50% in May) while also adjusting the asymmetric corridor to +100 bps from -700 bps (from +200 bps and -500 bps) around the MPR. One of the major strategies adopted by CBN to drive down interest rate and sustained it in 2020, was the liquidity glut it deliberately created to chase T-bills and bonds securities after it banned high net worth individuals and non-bank financial institutions from participating in its Open Market Operations (OMO) in line with international norms. Also, the lender of last resort strategically directed monies from Deposit Money Bank's (DMBs) and foreign investors to treasury bills and bonds space, by significantly reducing OMO auctions (N4.38 trillion) despite the humongous matured bills (N8.38 trillion) in that space. Hence, the latter set of investors were forced to compete in the T-bills and bonds space with high-net-worth individuals and non-bank financial institutions thus, significantly driving interest rates down to a ridiculously low levels across the board.

Against the backdrop of financial system liquidity boost vis-à-vis the preference for capital preservation, we saw increased demand for short-term Federal Government debt instruments which resulted in sustained crash in domestic stop rates – 364-day T-Bills plummeted to 1.21% in December 2020 (from 5.50% in December 2019). At the secondary market, Nigerian Interbank Treasury Bills True Yield (NITTY) for 12 months crashed to 0.77% on December 31, 2020 from 5.29% in December 31, 2019. Meanwhile, Nigerian Interbank Offered Rates (NIBOR) for 6 months tenor bucket fell to 0.49% on December 31, 2020 (from 10.41% on December 31, 2019).

Surprisingly, we saw a sudden jump in 364-day stop rate in December to 3.20% (from 0.15%), albeit it fell back to 1.21% to close for the year 2020. The same trend was noticed on 15-year and 25-year FGN bonds. Hence, given the rising inflation rate and the depreciating Naira against the USD, the surprise hike in stop rate in December, 2020 may be a sign that CBN is pressured to marginally increase rate in 2021, in order to attract foreign funds and stabilize exchange rate.

Exhibit F1: Stop Rates of Auctioned FGN Securities





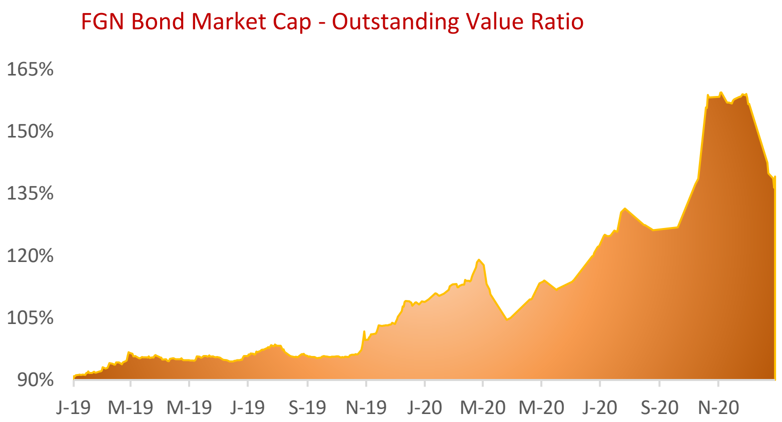
FGN Bonds Traded Over-the-Counter Trade at Premium amid Demand Pressure

Given the early responses to COVID-19 pandemic from both the fiscal and monetary authorities which resulted in financial system liquidity glut, we saw high demand for long-term Federal Government debt instruments, resulting in rate crash for all maturities in the Primary Market. Notably, Federal Government took advantage of the low-rate environment to issue the 15-year FGN Bonds stop rate which further fell to 5% in December 2020 (from 12.5% in March 2020). In tandem with the significant fall in rates at the Primary market, the over-the-counter FGN bond market witnessed relative bullish activity in 2020 compared to 2019, resulting in price appreciation (and corresponding sharp decline in yields). The ratio market capitalization to outstanding bonds value averaged 128% in 2019, higher than 97% in 2019.

Corporates Take Advantage of Low Rates Environment to Boost Profitability

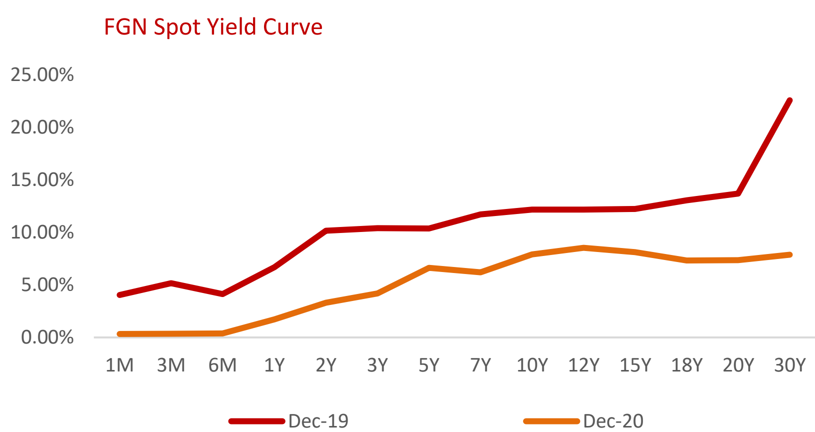
Similarly, at the corporate level we saw some companies take advantage of the low yield environment to issue bonds at low rates, thus significantly reducing their finance costs to boost their profitability in 2020. Flour Mills Nigeria Plc, in February 2020 issued 3-year and 5-year bonds at 10% and 11.10% respectively while FBN Quest, United Capital Plc and Dangote Cement Group Plc issued 3-year, 5-year and 5-year bonds respectively at 10%, 12.50% and 12.50% respectively.

Exhibit F2: FGN Bond Performance



Bond Prices Traded at Premium amid High Demand…

The performance of the FGN bond market in 2020 was strongly bullish, leaving traders with easy profits as they traded the obvious crashing yields. Amid the bullish trend, FGN Bond Prices for most maturities traded at Premium uninterrupted, especially in October and November 2020.



Nigerian Fixed Income Yield Curve was Humped at the Longer End of the Curve…

Against the backdrop of increasing demand for fixed income instruments, we saw yield at the longer end of the curve nosedived. Hence, the yield curve was humped in 2020 relative to a more positive curve in 2019 as traders demanded for better yields for 12 and 15-year bonds, than those of 18, 20 and 30-year.

Nigeria Benefits from Low Rates amid N4.82 Trillion Borrowings in 9 Months

Both the Federal and the sub-national governments benefitted from the low yield environment given the N4.82 trillion debts issued at low rates by the two tiers of government between January and September 2020 – hence total debts rose to N32.22 trillion as at September 30, 2020, increasing by 3.92% quarter-on-quarter. Further breakdown of the total debts profile showed that the local debts stock rose marginally q-o-q by 1.99% to N20.04 trillion while the external debts stock rose q-o-q by 1.61% to USD31.99 billion. Specifically, FG issued three fresh local bonds in 2020 which include 12.50%, 15-year bond; 9.80% 20-year bond; and 12.98% 30-year bond. Stop rates for these maturities further crashed to 6.95%, 7% and 8.94% respectively – meaning that more funds from the maturities were raised at lower rates – hence, further reducing FG's debt service costs.

Review of Equities Space in 2020

Bearish Equities Market in H1 2020 Induced by COVID-19 Pandemic?

The stock market was generally bearish amid COVID-19 pandemic, recording a year-to-date loss of 8.80% in H1 2020, which was more severe than 4.66% loss recorded in H1 2019. Notably, sell-offs in March was intense as government placed restriction on movement in Lagos (Nigeria's commercial nerve center) and Ogun (an industrial hub) States and Abuja, the Federal Capital Territory.

Local Investors Make "U-Turn" Switch Funds to High Dividend Yielding Shares in H2 2020

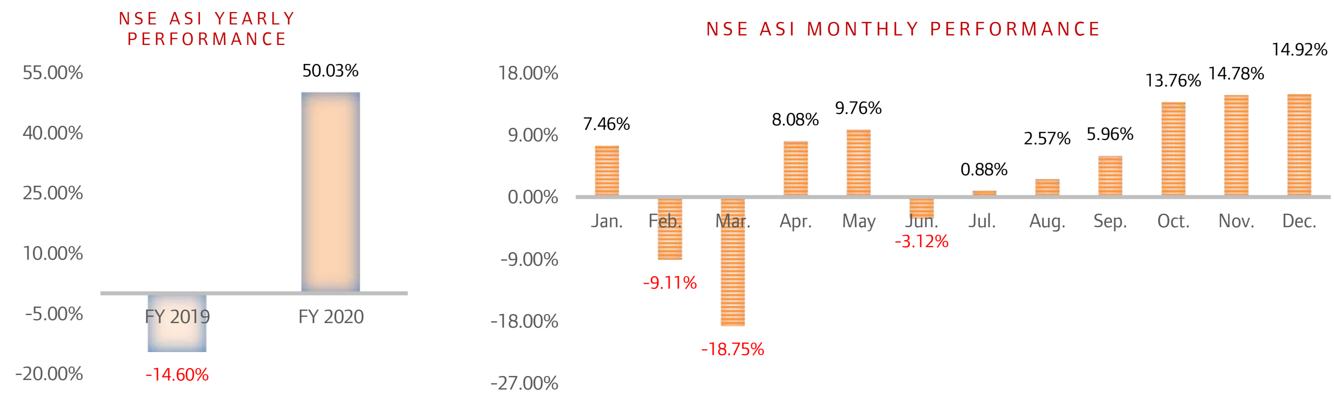
In line with our thought expressed in Cowry's 2020 half year report titled *Expectations and Investment Strategies in H2 2020* that we are optimistic that the equities market performance in H2 will be better than that of H1 2020, the NSE All Share Index finally ballooned by 64.51% in H2 2020. Hence, it printed a gain of 50.03% in FY 2020 (as the negative performance of 8.80% recorded in H1 2020 was wiped out) against a negative 14.60% printed in FY 2019 (see Exhibit E1).

The healthy performance of the equities market in FY 2020 was chiefly due to the search for attractive dividend yields by investors, especially the local institutional investors as their portion of the matured OMO bills were diverted to equities market to take advantage of the low share prices, with possibility of high dividend yield, given their ban from participating in OMO auctions by CBN and the fixed income securities yielding negative real returns.

Activity-wise, the stock market also recorded increase in transacted volumes and Naira votes (see Table E1), as prices rose across the board amid bargain hunting activity, especially by domestic investors. Specifically, transactions done by local institutional investors in the first eleven months of 2020 were

N682.08 billion (way higher than N467.85 billion printed in Jan to Nov 2019), while that of the domestic retails rose to N557.57 billion (from N452.87 billion). However, we saw volume of foreign transactions plummet as foreign portfolio investors stood on the sidelines. Hence, foreign outflows in Jan to Nov 2020 were N433.15 billion (lower than N475.33 billion printed in Jan to Nov 2019), well above N226.13 billion foreign inflows for the first eleven months in 2020 (less than N404.08 billion recorded in Jan to May 2019).

Exhibit E1: Stock Market Performance



Source: *NSE, Cowry Research*

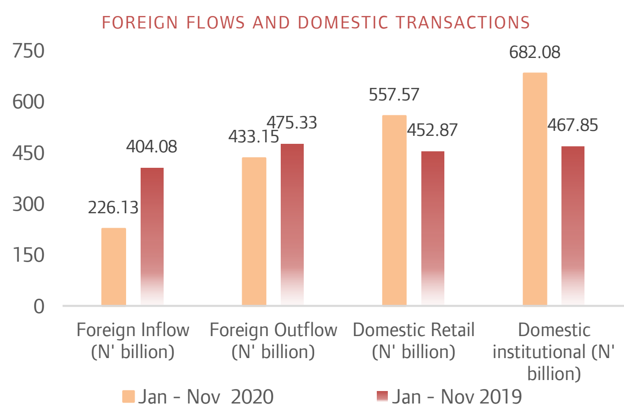


Table E1: Market Activity

	FY 2020	FY 2019	Change
Deals	1,151,164	880,493	30.74%
Volume (Mn)	95,590	78,978	21.03%
Value (N 'Mn)	1,023,991.55	957,982.92	6.89%

Source: *NSE, Cowry Research*

Industrial Sector Leads Sectoral Performance amid DANGCEM Share Buy-Back

Most of the sub sectors closed in positive territory as investors were bullish on banking, insurance and industrial stocks. Specifically, the most profitable was NSE Industrial sector which increased sharply by 90.81% to 2,052.33 points as DANGCEM shares gained 72.54% amid its tranche 1 share buyback programme which ended on December 31, 2020. DANGCEM bought 85,202,537 of its total issued share capital (17,040,507,404) to hold as treasury shares. Also, the NSE Insurance sector, as expected, rose by 50.61% in 2020, returning better value for shareholders. The banking players, FCMB, ZENITHBANK, UBA, FBNH, ACCESS and GUARANTY, also benefited from the huge online transactions which became necessary due to COVID-19 pandemic. Hence, the NSE Banking sector rose by 10.14% to 393.02 points. On the flip side, the NSE Consumer Goods and the NSE Oil & Gas indices moderated by 3.29% and 13.84% respectively

Table E2: NSE Sector Gauges Performance

	31-Dec-20	31-Dec-19	Year-to-Date %Change
NSE Banking	393.02	356.84	10.14%
NSE Insurance	189.50	125.82	50.61%
NSE Consumer Goods	573.35	592.85	-3.29%
NSE Oil/Gas	226.20	262.54	-13.84%
NSE Industrial	2,052.33	1,075.60	90.81%

Source: *NSE, Cowry Research*

Table E3: Top 10 Gainers

Company	31-Dec-20	31-Dec-19	Change (N)	Change (%)
NEIMETH	2.23	0.62	1.61	259.68%
JAPAULOIL	0.57	0.20	0.37	185.00%
LIVESTOCK	1.30	0.50	0.80	160.00%
UCAP	4.79	2.40	2.39	99.58%
MAYBAKER	3.70	1.93	1.77	91.71%
CUTIX	2.30	1.33	0.97	72.93%
VITAFOAM	7.60	4.40	3.20	72.73%
DANGCEM	245.00	142.00	103.00	72.54%
AIICO	1.24	0.72	0.52	72.22%
FCMB	3.03	1.85	1.18	63.78%

Source: *NSE, Cowry Research*

Table E4: Bottom 10 Losers				
Company	31-Dec-20	31-Dec-19	Change (N)	Change (%)
MANSARD	1.05	1.98	(0.93)	-46.97%
SEPLAT	402.30	657.80	(255.50)	-38.84%
UNILEVER	13.90	22.00	(8.10)	-36.82%
GUINNESS	19.00	30.05	(11.05)	-36.77%
NEM	1.63	2.42	(0.79)	-32.64%
INTBREW	6.49	9.50	(3.01)	-31.68%
ARDOVA	13.55	18.10	(4.55)	-25.14%
CAVERTON [BLS]	2.05	2.67	(0.62)	-23.22%
REDSTAREX	3.43	4.45	(1.02)	-22.92%
PRESTIGE [BLS]	0.43	0.55	(0.12)	-21.82%

Source: *NSE, Cowry Research*

GLOBAL ECONOMIC OUTLOOK FOR 2021

The global economy will be shaped by the extent to which countries can recover from the ravages of COVID-19, which has claimed quite a number of lives. In the October 2020 edition of its World Economic Outlook: *A Long and Difficult Ascent*, the International Monetary Fund projected global output growth of 5.2% in 2021 which reflects the more moderate downturn projected for 2020 of minus 4.4%. We believe global growth will be dependent of policy actions aimed at assisting households and businesses find their feet, the adoption of sound public health policies and a willingness to return to work.

Thankfully, progress is being made on the speed of vaccinations (following the breakthrough discovery of the COVID-19 vaccines) and treatments, as well as other preventive measures to reduce the chances of triggering another wave. Monetary policies are expected to remain accommodative while fiscal authorities appear poised to support businesses and ease the burdens of households. In addition, business and consumer confidence should improve labour market conditions while transportation and logistics activities are expected roar back to life and generate increased demand for fuel products. Demand for non-fuel commodities is also expected to improve in 2021 based on higher consumer spending as the unemployed get reabsorbed into the workplace.

Fundamentals in the oil and gas industry will be impacted by the level of effective demand in various countries of the world and will determine the rate of recovery of resource-dependent economies even as increased international trade is expected to play a pivotal role. According to the Organization of Petroleum Exporting Countries (Opec), total oil demand is now estimated to reach 95.89 mb/d in 2021 (higher than 89.99 mb/d estimated for 2020) based on the assumption of a 4.4% increase in global economic activities supporting demand for industrial fuels, most significantly in OECD Americas and China. The U.S. Energy Information Administration (EIA) expects that Brent prices will average USD49 a barrel in 2021 (better than a 2020 estimate of USD41.51 a barrel) on the assumption that rising global oil demand and restrained OPEC+ oil production would partly offset high crude oil inventories.

Furthermore, we expect financial conditions to improve around the globe in both the equities and fixed income markets as investors show greater willingness to take risk and seek higher yields. We expect to see increased financial flows to emerging and developing markets that show signs of economic recovery. We also expect currencies of countries to badly impacted by protectionist policies ensuing from the pandemic to appreciate as international borders are opened to allow resumed trading activities.

NIGERIAN ECONOMIC OUTLOOK

DRIVERS OF NIGERIA'S ECONOMIC REBOUND

Nigeria is expected to exit recession in 2021 given the relative recovery in global crude oil prices and expected boost in crude oil revenue. The IMF predicts that Nigeria is expected to record subdued growth of 1.50% and that output growth recovery to pre-pandemic level would take place in 2022. We believe some other likely drivers of Nigeria's economic rebound in 2021 and beyond include: the timely implementation of the government's expenditure plan with increased emphasis on capital expenditure and judicious use of scarce resources; adoption of budget-friendly fiscal policies for businesses and households to stimulate production and consumption activities; early commencement of operations at the Dangote Oil Refinery which should turn out positive for Nigeria's real and external sectors; pursuit of policies that would transform Nigeria's healthcare system and deliver benefits to citizens; and accelerating efforts at getting businesses to take advantage of foreign trade opportunities provided in the African Continental Free Trade Area agreement while also improving the ease of doing business.

Federal Government expansionary fiscal stance (N13.5 trillion)

President Muhammadu Buhari signed the N13.59 trillion (USD35.85 billion at an exchange rate of N379/USD) 2021 budget into law on New Year's Eve in keeping with his Administration's resolve to abide by a January to December fiscal calendar. Aptly tagged, BUDGET OF ECONOMIC RECOVERY AND RESILIENCE, the revised sum is higher than N10.81 trillion (or USD30.03 billion) appropriated in the preceding year and points to the Federal Government's (FGN) sustained expansionary stance with an improved allocation to capital expenditure (CAPEX). Specifically, 2021 allocation to CAPEX increased by 54% to N4.12 trillion (or USD10.88 billion) while 2021 allocation to recurrent (non-debt) expenditure rose by 14% to N5.64 trillion (or USD14.87 billion).

On the revenue side, the Federal Government projected a revenue of N7.99 trillion (or USD21.07 billion), higher than N5.60 trillion (or USD15.55 billion) in 2020. A breakdown shows that the Federal Government anticipates a 98.37% spike in its share of oil revenue to N2.01 trillion (or USD5.31 billion), a 119.56% increase in revenue from Government Owned Enterprises to N2.17 trillion (or USD5.74 billion), a 159.45% increase in its share of NLNG dividend to N208.54 billion (or USD550 million), a 93.15% increase in signature bonus to N677.01 billion and a 150% increase in stamp duty to N500 billion among others.

CAPEX as a percentage of non-debt expenditure improved to 40% (from 34% stipulated in 2020) while capex as a percentage of total FGN expenditure rose to 30% (from 25% in 2020). Notably, the FGN projected a debt service to revenue ratio of 42% (lower than 46% stipulated in 2020) and a deficit to revenue ratio of 70% (lower than 85% stipulated in 2020).

Other Key Budget Assumptions

Fiscal Items	2020	2021	%Change
Budget Oil Production Volume (mbpd)	1,800,000	1,860,000	3.33%
Projected Budget Benchmark Price (USD per barrel)	28	40	42.86%
Average Exchange Rate (N/USD)	360	379	5.28%
FGN Share of Company Income Tax (CIT)	821,667,401,957	681,718,292,330	-17.03%
FGN Share of Value Added Tax (VAT)	284,114,080,739	238,426,227,556	-16.08%
FGN Share of Customs Revenue	450,697,323,386	508,269,596,837	12.77%

We opine that the key budget assumptions appear modest and realizable given the recovery in the global economy. The U.S. Energy Information Administration (EIA) expects that Brent prices will average USD49 a barrel in 2021 (better than a 2020 estimate of USD41.51 a barrel) on the assumption that rising global oil demand and restrained OPEC+ oil production would partly offset high crude oil inventories. We also expect an improvement in the 2021 budget implementation rate as projects are expected to commence relatively early. The non-oil revenue assumptions also appear achievable. Nigerian Customs Service recently announced it had surpassed its 2020 revenue target by 13% to N1.56 trillion amid ongoing reforms at the service. Also, we expect more VAT revenue with the increase in VAT to 7.50% even as volume of transactions are expected to rise.

2020 Finance Act

President Buhari, on the last day of 2020, also signed into law the 2020 Finance Bill designed to support the implementation of the 2021 budget through key reforms to specific taxation, customs, excise, fiscal and other laws. Specifically, the Finance Bill proposed to amend: Capital Gains Tax Act; Companies Income Tax Act; Industrial Development (Income Tax Relief) Act; Personal Income Tax Act, Tertiary Education Trust Fund (Est) Act; Customs and Excise Duties, etc. (Consolidated) Act; Value Added Tax Act; Stamp Duties

Act; Electronic Transaction Levy; Federal Inland Revenue Service (Est) Act; Nigeria Export Processing Zone Authority Act; Oil and Gas Export Processing Zone Act; Crisis Intervention Fund; Unclaimed Funds Tryst Funds; Companies and Allied Matters Act; and Fiscal Responsibility Act.

The Bill proposed the following measures:

1. Adoption of Critical Counter-Cynical Fiscal Policies to:
    a. Respond to current economic challenges of COVID-19 and the decline in Oil Prices / Revenue.
    b. Defer tax rate increases till domestic economy sufficiently recovers.
    c. Reduce compliance burden on taxpayers in line with the Ease of Doing Business reforms.

2. Reformation of Fiscal Incentives in order to:
    a. Reduce proliferation of fiscal incentives by carefully assessing Cost versus Benefit of Tax Incentives.
    b. Prioritize job creation, growth and investment.

3. Close Coordination of Monetary, Trade and Fiscal Policies through the:
    a. Alignment of existing tax incentives for lending to Agriculture with the recent reduction in moratorium and interest rate for Agriculture and sectoral loans.
    b. Reformation on Stamp Duty levy on banking transactions.
    c. Reformation on Unclaimed Dividends and Unclaimed Bank Balance.

Some of the specific amendments introduced to the 2020 Finance Act include:

- ✓ Compensation for loss of employment up to N10m exempted from capital gains tax. Tax due on excess above N10m is to be deducted by the payer and remitted within the time specified under the PAYE Regulations.
- ✓ Exemption of low-income earners earning minimum wage or less from personal income tax.
- ✓ Reduction of import duty on Tractors from 35% to 5%; Mass transit vehicles for transport of more than 10 persons and Trucks from 35% to 10%, and reduction of import levy on Cars from 30% to 5%

- ✓ Exemption of small companies with less than N25million turnover from payment of Tertiary Education Tax.
- ✓ A small or medium company engaged in primary agricultural production may be granted pioneer status for an initial period of 4 years and an additional 2 years.
- ✓ Cost of donation made in cash or kind to any fund set up by government in respect of any pandemic or natural disaster to be tax deductible subject to a maximum of 10% of assessable profit after other allowable donations.
- ✓ Exemption from VAT for commercial airline ticket, hire or lease of agricultural equipment for agricultural purposes.
- ✓ Minimum tax for companies in respect of returns for years of assessments due between January 01, 2020 and December 31, 2021 has been reduced from 0.5% to 0.25% of gross turnover less franked investment income.
- ✓ Introduction of the concept of Significant Economic Presence (SEP) to Personal Income Tax;
- ✓ Service of notice of assessment and objections under CITA may be done via courier service, email or other electronic means as may be directed by FIRS in a notice. Tax Appeal Tribunal may conduct its hearing remotely via virtual means, using such technology or application as may be necessary to ensure fair hearing.
- ✓ Goods liable to excise duties have been expanded to include Telecommunication services provided in Nigeria as may be prescribed in the law or an Order issued by the President
- ✓ Deletion of electronic bank transfer as transaction liable to stamp duty and introduction of electronic money transfer levy of N50 on electronic transfer of money deposited in any bank or financial institution on any account on sums of N10k or more. Revenue is to be shared based on derivation 15% to FG & FCT and 85% to states.
- ✓ Establishment of a Crisis Intervention Fund of N500b or other sums as may be approved by the National Assembly; and by way of trust, as a sub-fund of the Crisis Intervention Fund, an Unclaimed Funds Trust Fund.
- ✓ Unclaimed dividends in a listed company and unutilized amounts in a dormant bank account outstanding for 6 years or more to be transferred to the Unclaimed Funds Trust Fund as a special debt to the Federal Government to be managed by the Debt Management Office and shall be available to the shareholder or account holder at any time together with the yield thereon.
- ✓ Balance of operating surplus of a corporation shall be paid to the CRF of the Federation on a quarterly basis. Finance Minister may effect a direct deduction from TSA or other accounts of a

corporation to enforce compliance. Also, it is prohibited to reduce contract values or splitting of procurement to evade the use of the appropriate procurement method.

Dangote Refinery to commence operations Early 2020

The much-anticipated Dangote Oil Refinery Company Limited is expected to commence operations early 2021. The refinery has the capacity to process 650,000 barrels per day of crude oil and is able to produce up to 50 million liters of gasoline and 15 million liters of diesel a day to adequately meet domestic demand for fuel and to export the surplus even as the fuel quality meets specifications of European and North American markets.

Nigeria's state-owned refineries have to a large extent been in a comatose state, resulting in an over-dependence on imports via a crude for fuel swap arrangement with foreign refiners. In 2018 and 2019, Nigeria imported USD10.60 billion and USD7.07 billion worth of mineral oils (of which premium motor spirit accounted for 77% and 66% respectively) at average exchange rates of N361.98/USD and N391.92/USD respectively.

Meanwhile, Dangote Refinery is expected to, at a minimum, add USD10 billion to Nigeria's foreign exchange reserves according to D.V.G. Edwin, group executive director, strategy, capital projects and portfolio development at Dangote Group, Lagos. This will also be an opportunity for the Federal Government to fully deregulate the oil and gas sector, finally remove petrol subsidy and even pass the Petroleum Industry Bill. We also expect the Federal Government to use some of the dollar savings to expedite work to clean up of environmental disasters such as the Ogoni Land spills. The Refinery, operating concurrently with modular refineries such as Walter Smith, is expected to have a transformational multiplier effect on the petrochemical industry and even the agricultural industry as they churn out products and bye-products which will serve as input in other industries.

Fast-Tracking Nigeria's Recovery from COVID-19

As the world anticipates a second wave of the Corona Virus pandemic, we expect to see mixed reactions and responses across economies. At the extremities, while some parts of the world, such as Europe, are already enforcing another round of lockdowns to widespread fears, other parts, such as China and the

United States, simply want to sustain their economies and ways of life. As for Nigeria, we advise a middle-of-the-road approach and expect economic activities to run alongside strict observance of laid out protocols and guidelines without inhibiting the free movement of goods and services in order to avoid social unrest – because the vast majoring of Nigeria's population is informal and earn daily wages – and cost push inflation due to supply chain disruptions.

In the same vein, a major lesson from the first wave of the pandemic is that it has created a "new normal" and institutions are beginning to see the advantages of adopting technology to run their operations. We also expect more companies to adopt virtual workplace technologies to minimize risk of infections and to save costs both for the company and for its employees even as savings are expected to boost government revenues via Company Income Tax.

We do not subscribe to the idea that the Corona Virus vaccine is the silver bullet that will stop the pandemic. This is because the economics of procuring and administering vaccines on a widescale may not be viable given Nigeria's population size, resources and lack of basic infrastructure. Rather, we expect a more wholistic approach that involves improved capacity at primary healthcare levels, increased testing facilities, proper functioning of isolation and treatment centres, steady supply of medicines and medical equipment and prioritizing the safety of healthcare workers as they manage cases.

Therefore, we expect the government to continue to build the country's infrastructural base, and to support local manufacturing of drugs and medical supplies so that the country has a more robust healthcare system. We also expect the government to encourage strict observance of safety protocols by a mixture of moral suasion and sanctions as it increases its efforts to enlighten citizens.

The Africa Continental Free Trade Area Agreement Takes Effect

The African Continental Free Trade Area agreement (AfCFTA) kicked into effect on January 01, 2021 following the submission of instruments of ratification of 54 out of 55 African countries. Nigeria submitted its instrument of ratification to African Union in December 2020, ushering the continent's largest economy to participate as a state player in Africa's largest Free Trade Area under the auspices of the Africa Continental Free Trade Agreement.

Notwithstanding, trade is not expected to commence unless negotiators are able to finalize on critical aspects of trade in goods such as the Rules of Origin (for clothing and textiles, automotive, sugar and edible oils) and Preferential Tariff Schedules which will enable States determine which goods will be included in the lists of the final tariff schedules and which ones will be excluded. Other unresolved areas for trade in goods include trade remedies guidelines, infant industry guidelines and special economic zones regulations. Outstanding areas for trade in services include schedules of specific commitments by States and guidelines and regulatory frameworks in the services sectors.

Already, a few local manufacturers with surplus capacities appear to stand at a vantage position to take advantage of the expanded market with a population of over a billion people while those with lesser capacities are expected to embark on increased capital formation in order to tap the expanded market. A major chunk of Nigeria's economy comprises of Micro, Small and Medium Scale Enterprises which could easily be overrun by imports given the high cost of doing business in Nigeria and diseconomies of scale.

Hence, while we commend the Federal Government's efforts to encourage MSMEs by way of provisions in the Finance Act 2019, Finance Bill 2020 and CAMA 2020, we expect the government to continue to fine tune its trade policies and increase investments in much required infrastructure in order to ensure the competitiveness of Nigerian exports while also facilitating the development of the country's industrial base. We also expect government to educate the real sector on the merits and demerits of the AfCFTA as not many businesses are aware of the new developments. That said, we do not see much scope for the implementation of the AfCFTA for much of 2021.

OUTLOOK FOR KEY MACROECONOMIC INDICATORS

Our outlook on Nigeria's key macroeconomic indicators is while mixed; however, we feel they remain subject to how the various policies mentioned above play out to further tilt the economy in the direction of growth.

FOREIGN EXCHANGE OUTLOOK

On a base case, we believe Nigeria will remain susceptible to exchange rate volatility in 2021 as we do not anticipate significant positive changes in economic fundamentals – especially in foreign trade – and there is only so much that monetary authority can do in terms of policy options to reverse volatile trend. In fact, Nigeria's foreign exchange stability precariously hangs in the balance in the event that the world witnesses another rattling occurrence such as a second wave of the pandemic.

Recently released foreign trade statistics report showed Nigeria recorded a higher trade deficit of N2.39 trillion in Q3 2020 (from a N0.42 trillion trade deficit in Q2 2020); a complete reversal from a N1.39 trillion trade surplus printed in Q3 2019) as the value of merchandize imports rose q-o-q by 33.77% (and surged y-o-y by 38.02%) to N5.38 trillion in Q3 2020, a much higher number compared to the value of merchandize exports which increased quarter-on-quarter (q-o-q) by 34.85% (but decreased year-on-year, y-o-y, by 43.41%) to N2.99 trillion in the same period. Therefore, exchange rate stability will, to a large extent, be dependent on the rate of global economic recovery which is the major driver for Nigeria's merchandize exports, especially crude oil, Nigeria's main source of foreign exchange.

We expect CBN to continue to meet forex demand via its weekly sales to the Bureaux De Change and allocations to the interbank market via its Secondary Market Intervention Sales and to meet demand for Small and Medium Scale Enterprises and invisibles. This will be subject to the production limits stipulated by Opec and its collaborators as they adjust production in consonance with the level of global demand for crude oil. Meanwhile, we expect the autonomous foreign exchange market to remain tight in the short to medium term; hence we anticipate sustained pressure at the Investors & Exporters FX window unless there is a recovery in foreign portfolio investments and an improvement in CBN intervention. That said, a game changer could be the Dangote Oil Refinery Company Limited if it commences productions on the scheduled date in early 2021, freeing up scarce foreign exchange to meeting demand of end-users.

INFLATION OUTLOOK

We expect general price level of goods and services to remain sticky upwards and in double digits in 2021, mainly on higher food, transport and electricity prices, as well as the anticipated depreciation of the Naira against the United States Dollar. Food inflation is expected to be driven, in part by insecurity, higher fuel prices and cost of logistics. Insecurity remains a major factor that should drive up food prices. Continued conflict is bound to lead to further displacement of farmers in the Northeast while armed banditry, cattle rustling and kidnapping in Northwest and Northcentral, if not arrested, would remain a blight in agricultural regions, thus resulting in suboptimal food production and even distribution activities.

Meanwhile, electricity distribution companies increased their tariffs on January 1, 2021 to reflect the impact of inflation, movement in foreign exchange rates and the CAPEX of the Generating companies in accordance to a new order issued by the Nigerian Electricity Regulatory Commission. We also anticipate pressure on the local currency to the degree that external sector remains challenged (Nigeria being largely import dependent) – thus increasing the cost of imported raw materials as well as finished goods which will be passed on to the final consumer. In summary the country's rising inflation rate will be chiefly cost driven – cost push inflation – which will pressure consumer wallets.

INTEREST RATE OUTLOOK

The monetary authority has signaled its intention to sustain the low interest rate environment which is in line with the Federal Government's objective of stimulating real sector activities and facilitating a private sector driven economy. It did so by a barrage of expansionary monetary policies in 2020 alone which include: twice reducing the Monetary Policy Rate (from 13.50% to 12.50% and then to 11.50%), twice reducing savings rates (directly from 3% of MPR to 1% of MPR and indirectly when the MPR was reduced to 11.50%), sustaining its push for increased risk asset creation by maintaining the loans to deposit ratio of banks at 65%. Also, the apex bank showed some level of reluctance towards refinancing matured OMO bills, resulting in liquidity glut, even as OMO rates followed a southward trajectory – 362-day OMO rate fell from 13.25% in January 2020 to 5.8% in December 2020. In the same vein, Treasury Bills fell very close to 0% level.

The low interest rate environment amid significant financial system liquidity has afforded corporates the opportunity to refinance existing debts cheaper and we expect to see more corporate debt issues in 2021. Hence short-term interest rates are expected to remain at low single digit level while we expect the MPR to be retained at 11.50% in the first quarter of 2021 amid ample liquidity available to stimulate the real sector.

We however think Treasury bills rates are not sustainable at current ground zero levels and will need to move northwards by a few hundred basis points in order to stimulate secondary market trading activities – given that negative interest rates (NITTY fell to negative territory in November 2020) are neither encouraging for traders nor natural – as well as price discovery for corporate issuers of short-term debt instruments in such a manner as would appropriately reflect their risk profiles. We also expect long-term interest rates to trend in the single digit on average in 2021 even as this will offer corporates the opportunity to finance projects in a more sustainable and cost-effective manner.

EQUITIES OUTLOOK

We sustain our positive outlook for the Nigerian bourse in 2021 as its overall positive performance in 2020, despite the throes of COVID-19 and the accompanying economic recession, encourages optimism. This is also justified by the strong fundamentals of the several quoted companies on account of their resilience during the pandemic and the likelihood that they will remain resilient in 2020.

The real sector is expected to continue to benefit from the current low interest rate environment to refinance the loans more cheaply, thereby reducing financing cost and increasing profitability (although cash cows are expected to receive lower interest income). On the flip side, rising inflation and foreign exchange rates could restrict consumer spending and squeeze company budgets, both of which could pose counterproductive to the real sector. Overall, we believe the positives should outweigh the downside risks especially for corporates that adopt sound risk management practices.

Armed with the lessons and experiences from the lockdown, we believe that the banks remain poised to sustain their performance in core lending activities as well as non-core businesses such as securities trading, foreign exchange trading activities and fees-and-commission-based transactions given that economic activities have more or less returned to normalcy. However, this may be tested in the unlikely event of a protracted lockdown on account of a much touted second wave of the flu pandemic – an unlikely proposition, given that the Nigerian economy appears ill-prepared to undergo a shutdown of economic activities – as this could increase non-performing loans and credit losses. We expect the tier one banks, such as Zenith Bank, Access Bank, Guaranty Trust Bank, United Bank for Africa and First Bank of Nigeria, are well prepared to continue to lead the industry in the coming year.

The cement manufacturers were some of the few players that were little impacted by the lockdown as their latest nine months financial performances showed significant growths in turnover and profits after tax from continuing operations. We expect the building materials industry to be positively impacted by a boost in construction activities anticipated this year; more so as capital expenditure for 2021 is expected to increase – the Federal Government capex is expected to increase by 54% if the version of the 2021 appropriation bill as amended by the National Assembly is assented to by the Presidency.

We also expect the healthcare industry to sustain their positive performance in 2021, partly due to anticipated sustained demand for pharmaceutical products to manage the impact of pandemic. Total Federal Government budget for the healthcare sector for 2021 increased by 41% to N547 billion, some of which we expect to trickle down to the local pharmaceutical companies especially as the country needs to strengthen local supply chains and become more self-sufficient in the production of pharmaceutical products and other medical supplies rather than depend on imported products given the protectionist stance demonstrated by governments of drug-producing countries during the global lockdown in 2020.

INVESTMENT STRATEGIES FOR 2021

Premise for our 2021 investment strategy include:

- Global economy to witness rebound in growth rate – IMF predicts increase in global output by 5.2% – but should gradually recover from recession amid early expansionary programs and policies by fiscal and monetary authorities which should stimulate consumer demand, spending and hiring by businesses and resumption of global trade.
- Recovery in crude oil prices to range between USD40 to USD50 per barrel amid supply cut and increasing demand, especially as major markets such as the United States and China, continue to resume economic activities.
- U.S. Fed Rate to be retained at the current band of 0.00% and 0.25% given the need to sustain economic growth as economic recovery in the U.S. might be a bit challenging amid coronavirus pandemic and concerns about the possibility of another wave.
- Nigeria's Federal Government to embark on borrowings in 2021 amid wider fiscal gap mainly on the back of larger budget size; albeit it should take advantage of the low yield environment due to excess liquidity to source more local debt.
- Domestic credit to private sector to increase as Central Bank of Nigeria rolls out stimulus packages for individuals and corporates.
- Expectation of gradual improvement in consumer spending as government scales up capital projects and eases lockdown. However, unemployment will continue to be a concern.
- Inflation rate to climb higher in 2021 on increasing cost-reflective electricity tariff, transport and food costs.
- CBN to retain OMO yield at a relatively high rate in order to attract foreign portfolio investors. So far, CBN has maintained relatively high OMO yield environment (362DAY OMO bills traded at 5.8% in December 2020)
- Expectation of further depreciation of the local currency against the USD amid languid expectations of dollar inflows via oil revenues as well as foreign portfolio inflows. We do not expect much inflows from FPIs, until the uncertainty around FX clears up – CBN is expected to eventually unify exchange rates from all FX windows. For external reserves, we note that ongoing concessionary foreign borrowings should partly cushion the eroding foreign reserves.
- Expectation that interest rates will remain low and fixed income less attractive amid financial liquidity ease.

- Expectation that healthcare, ICT and Banking sectors could benefit from the partial economic lockdown as demand for their products and or services increase.

Equities Market – Navigating Cautiously, Defining Investment Horizons

To navigate the equities market for good profitability, we advise our clients to determine their investments horizon, either short-term or long-term, as this will be the basis for entry, and exiting the equities market at this time that the stock market appears highly volatile. Short-term investors, who prefer quick capital gain should focus more on high beta stocks with good fundamentals, and plan entry at close to 52 weeks low to target 20% to 25% capital gain as exit price. Examples of such stocks are GUARANTY, ETI, FIDELITY and FCMB. We however advise short term investors to trade with caution as we believe that recoveries in corporate performances, following the ease in lockdown, are currently being priced in and spread between market prices and fair values of quoted companies are thinning out.

On the other hand, we expect long term investors to seek out bargain hunting opportunities, especially in value or undervalued stocks with relatively high dividend yields – definitely the companies must have at least three years dividend-payout history. Gunning for such stocks – ZENITHBANK, CONOIL, CAP and UBA –, long-term investors would have locked-in good yearly income, even when the prices of these stocks eventually rise to further compensate with capital gain. We also encourage investors to have a long-term investment strategy in order to reap the long-term benefits of AfCFTA.

Irrespective of the investment horizon, we suggest that our clients should buy in tranches in order to take advantage of lower prices, in a market where prices fluctuate significantly, so that they would stand to benefit from higher upside potentials to their weighted average cost in the event of an unexpected upward price movement.

Sectors to consider include pharmaceuticals, banking, telecommunication and cement companies as they are expected to be more attractive in this pandemic era, as more of their products and or services are demanded. Hence, we see opportunity in stocks such as GSK, May & Baker, Zenith Bank, UBA, FCMB, MTNN, DANGCEM and WAPCO amongst others. Notably, we feel that the shares of cement companies mentioned above may soon be the toast of investors, even now that the use of concrete for road constructions has become the norm.

For oil and gas stocks, especially the downstream sector, we expect reasonable upward movement in their share prices if government eventually delivers a more competitive, attractive and profitable oil and gas industry, operating on commercial principles and free from political interference as indicated in recent times.

Fixed Income – Resisting the Pull of Negative Real Returns in a Time of Low Yields

We are not bullish on fixed income securities which offer rates that have collapsed to ridiculously low levels (as treasury bills yields have gotten to a ridiculously low levels) and give negative real returns due to relatively high inflation rates. Nevertheless, we feel a trading strategy of flipping relatively high interest rate securities will be a better strategy in this period generally low rates. Specifically, purchasing high grade bonds with relatively high yields with the intention of disposing of immediately their yields decline is an alternative way an investor could milk the value encapsulated in fixed income securities. This strategy should avail investors of much needed cash in the event that interest rates rebound.

Another move we recommend is to buy Eurobonds (sovereign and corporate) either for trading or to hold to maturity, in order to mitigate the risk of possible depreciation of the Naira against the U.S dollars.