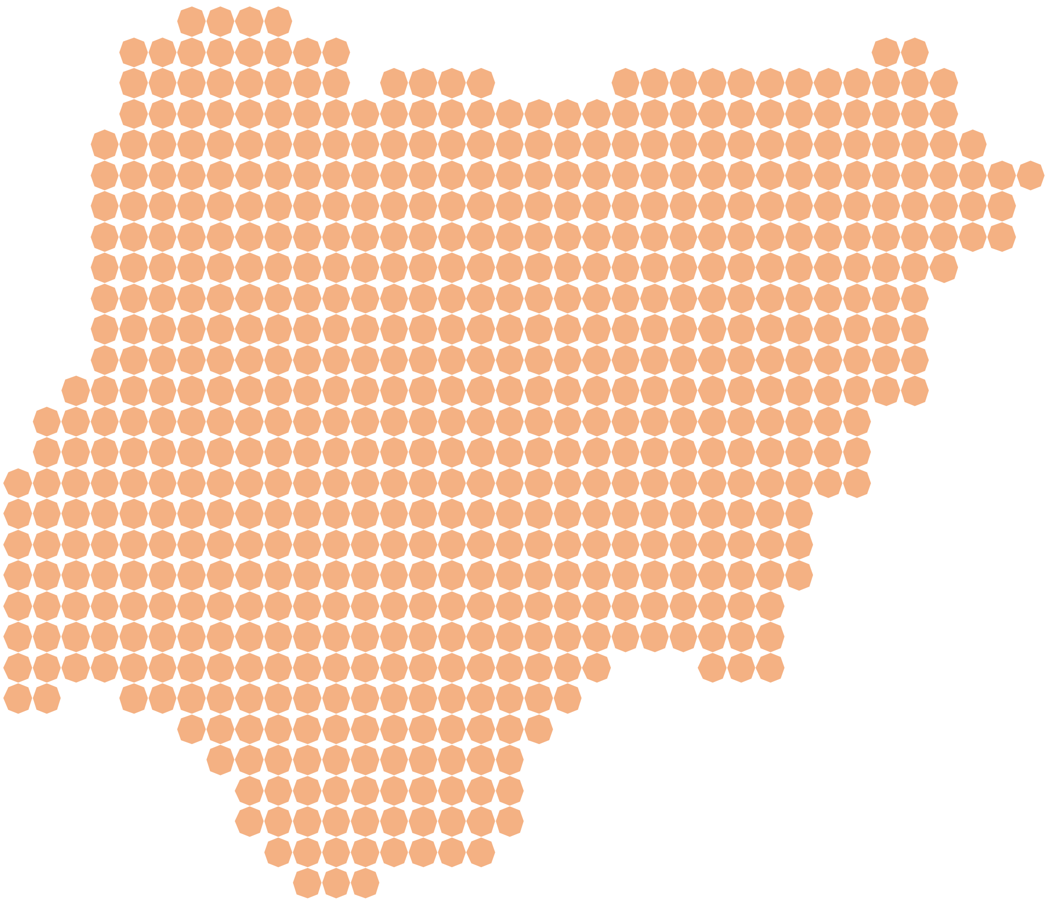

2021 Economic and Financial Markets Review

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Outlook & Investment Strategies for 2022

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Executive Summary

The global economy sustained growth for the seventeenth consecutive month in November 2021 as the J.P. Morgan Global Composite Output Index rose to 54.8 points (from 54.5 points in October 2021). This was driven by rising new business orders and sustained, albeit modest expansion of new export businesses. There was also a nine consecutive month increase in outstanding business which sustained job creation for fifteenth consecutive months. Input prices expanded for eighteen consecutive months to 69.3 points in November amid supply chain bottlenecks. Meanwhile, U.S GDP grew year-on-year by 4.9% in Q3 2021 (according to an advance estimate), slower than 12.2% in the preceding quarter.

In the third quarter of 2021, Nigeria recorded a year-on-year (y-o-y) real output growth rate of 4.03% to N18.54 trillion (or USD123.38 billion) to sustain it recovery from last year's recession. Recently, the Central Bank of Nigeria (CBN) Governor, Mr. Godwin Emefiele, reportedly stated that about N3 trillion had been disbursed to households, small and medium scale enterprises, smallholder farmers and pharmaceutical companies amongst others to cushion the negative impact of COVID-19 on the local economy. Specifically, efforts by the Monetary Authority to support the fiscal authority in growing the economy was reflected in the 7.10% year-on-year rise in money supply to N40.37 trillion as at October 2021.

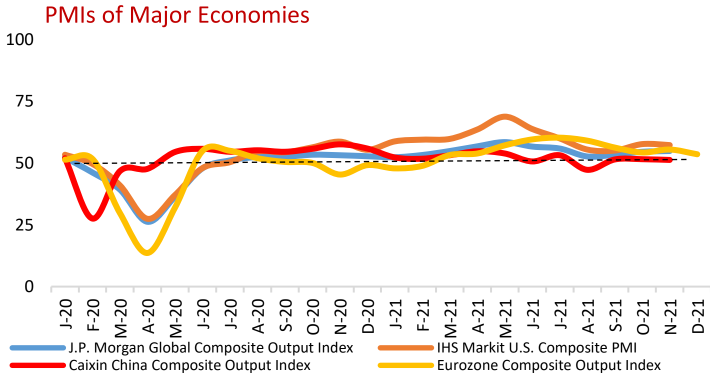
Headline inflation slowed for the eighth consecutive time to 15.40% in November 2021 (from 18.17% in March 2021 and 15.75% recorded in December 2020). This was principally driven by food disinflation amid harvesting season and high base effect. Slower inflation rates were also printed in both urban and rural areas at 15.92% (from 16.33% in December 2020) and 14.89% (from 15.20% in December 2020) respectively; also based on slowing food inflation.

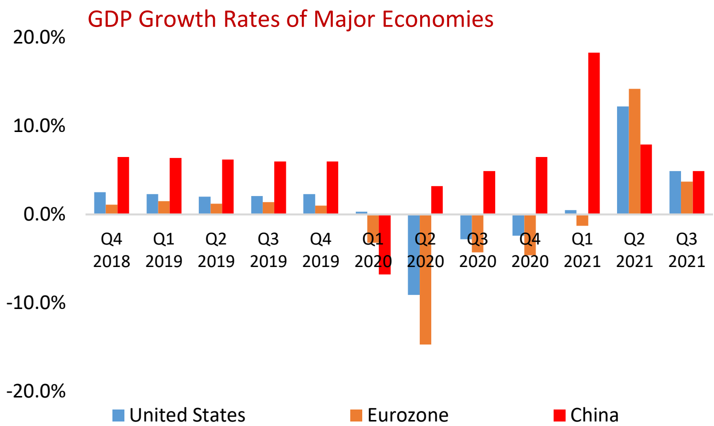
In the first half of 2021, interest rates moved northward despite CBN's desire to maintain dovish a monetary policy plan. The increase in rates, and yields which was in line with our expectations, became necessary as CBN battled with a depreciating Naira against other foreign currencies, and inflationary pressure. The apex bank enticed investors with other competitive investment options when pressure on the local currency, majorly speculative, became alarming.

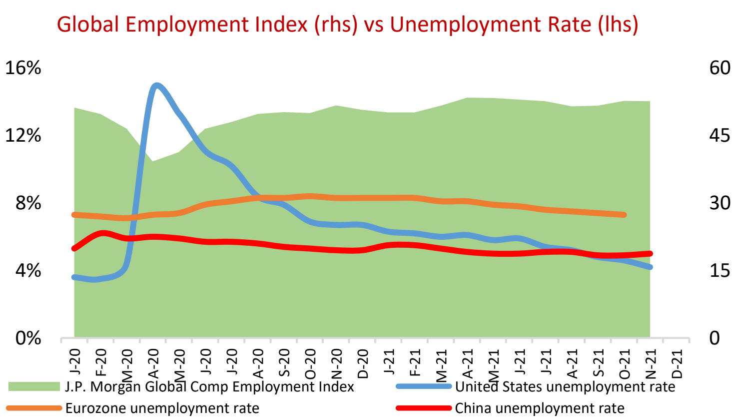
The year 2022 is an electioneering year before the 2023 general elections in Nigeria. It is also a new fiscal year which is expected to see the public sector commence the implementation of its fiscal programmes right from the get go in conformity with the January to December calendar year.

Global Economy

Global Economy Sustains Growth in 2021







Source: IHS Markit, Trading Economics, Cowry Research

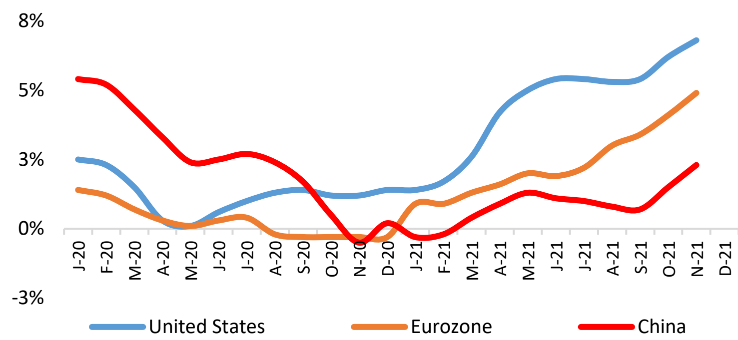
The global economy sustained growth for the seventeenth consecutive month in November 2021 as the J.P. Morgan Global Composite Output Index rose to 54.8 points (from 54.5 points in October 2021). This was driven by rising new business orders and sustained, albeit modest expansion of new export businesses. There was also a nine consecutive month increase in outstanding business which sustained job creation for fifteenth consecutive months. Input prices expanded for eighteen consecutive months to 69.3 points in November amid supply chain bottlenecks.

Meanwhile, expansion was faster in the services sector than in the manufacturing sector for eight consecutive months. Some global electronics producers reported slow demand in European, US and Chinese markets while others witnessed global supply chain issues which impacted material availability and limited the capacity of firms to satisfy the demand of their customers. Users of Steel, Copper and Aluminium reported that supply chain delays and extended delivery times had hampered output and incoming business.

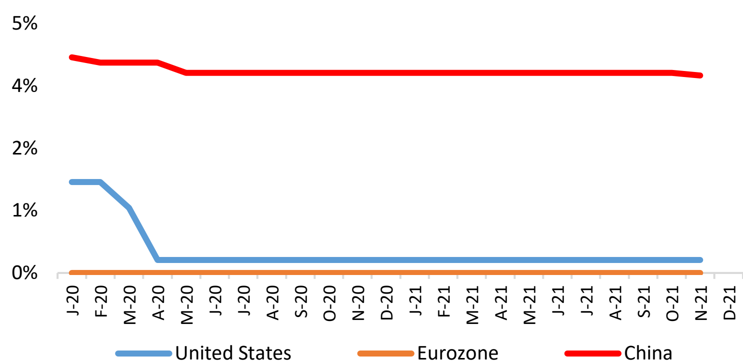
Meanwhile, U.S GDP grew year-on-year by 4.9% in Q3 2021 (according to an advance estimate), slower than 12.2% in the preceding quarter. Personal consumption expenditure grew by 7.0% (of which services and goods sectors grew by 7.1% and 6.9% respectively) and Gross private domestic investment rose by 6.9% to partly offset a 28.4% increase in net imports. In Europe, seasonally adjusted GDP rose y-o-y by 3.7% in the Euro area and by 3.9% in the EU in Q3 2021, slower than their corresponding growth rates of 14.2% and 13.7% in Q2 2021.

On the jobs front, unemployment moderated as the JP Morgan Global employment index expanded further.

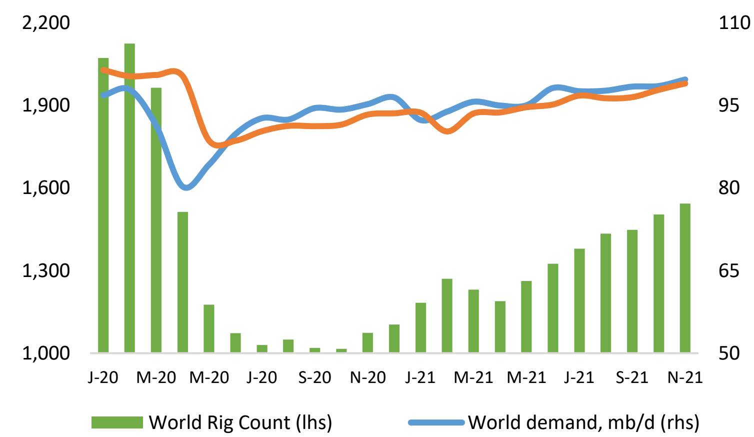
Inflation Rates of Major Economies



Key Short term Interest Rates of Major Economies



Global Crude Oil Market Fundamentals



Source: Trading Economics, US Energy Information Administration, Cowry Research

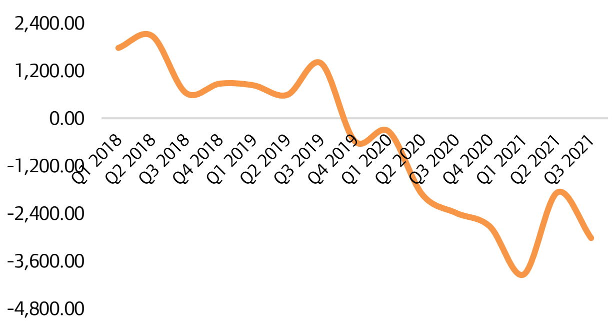
Global inflation remained elevated in 2021 as suggested by the global composite output price index which averaged more than 57 points in the review year (higher than 49.9 points in 2020). This was in addition to higher energy prices – spot Brent crude oil price increased year to date by 44.71% to USD74.12 a barrel on December 13, 2021 having touched a 12-month high USD85.76 a barrel on October 20, 2021. Also, global food index increased to 134.4 in November 2021 (from 105.6 in November 2020) amid rise in prices of dairy, cereals and oil subcomponents. The US, China and Euro Area registered increases in inflation rate to 6.8%, 4.9% and 2.3% respectively as at November 2021 (from 1.4%, 0.9% and -0.3% respectively as at January 2021).

In response to rising inflationary pressure, the US Federal Reserve left its policy rate unchanged at 0% - 0.25%, but commenced tapering of its monthly net asset purchases by USD10 billion for Treasury securities and USD5 billion for agency mortgage-backed securities in November. In the same vein, the Bank of England raised its policy rate to 0.25% from 0.10% in December. However, the People's Bank of China cut its one-year loan prime rate in December by 5 bps to 3.80% in order to support growth in the slowing economy amid persistent COVID-19 outbreaks.

In the global energy market, latest series from the US EIA showed that world crude oil consumption increased year to date by 3.38% to 99.7 million barrels per day (mbpd) in November, higher than world crude oil supply which rose by 5.80% to 99 mbpd. Against the backdrop, world rig count increased by 39.86% to 1,544 in November, indicative of increased confidence of oil & gas investors in the near-term future of global crude oil consumption.

Nigerian Economy

Foreign Sector: Nigeria's Trade Deficit Worsens



%age Change in Export Proceeds (N' Bn)

Export Category	9M 2021	9M 2020	Y-o-Y Change
Crude Oil	10,034.21	6,923.31	44.93%
Non-Crude Oil Exports	3,082.73	2,404.88	28.19%
Non-Oil exports	1,444.54	1,192.12	21.17%

%age Change in Major Imported Goods (N' Bn)

Import Category	9M 2021	9M 2020	Y-o-Y Change
Manufactured goods	13,732.45	4,299.51	54.46%
Other Oil Products	3,581.35	1,109.36	62.01%
Raw materials	2,426.44	840.50	51.59%
Agricultural goods	2,071.37	652.08	75.37%

Exports to Regions (N' Bn)

Year	Africa	America	Europe	Asia	Oceania
2019	3,922.45	2,048.39	7,617.29	5,421.55	182.55
2020	2,374.89	850.18	4,868.97	4,307.66	120.99
9M 2020	1,823.76	473.80	3,797.58	3,148.79	84.25
9M 2021	1,702.16	1,749.11	5,050.19	4,456.08	159.40

Imports from Regions (N' Bn)

Year	Africa	America	Europe	Asia	Oceania
2019	1,105.78	2,282.57	5,080.86	8,419.93	70.74
2020	666.05	2,635.79	6,626.07	9,808.34	161.79
9M 2020	475.96	1,933.29	4,462.98	6,960.63	139.49
9M 2021	679.95	2,618.57	7,505.75	10,957.03	193.35

Sources: National Bureau of Statistics, Cowry Research

Nigeria's Trade Deficit Rises by 90.30% to N8.84 trillion in 9M 2021…

Foreign trade statistics by NBS showed that total merchandise trade rose by 50.52% to N35.07 trillion in 9M 2021 (from N23.30 trillion in 9M 2020) as imports of food & live animals, petroleum products and boilers, machinery & appliances rose in nine months to 2021. Given the rise in total merchandise imports which overshot the rise in merchandise exports, Nigeria's merchandise trade deficit widened by 90.30% to N8.83 trillion in 9M 2021 from N4.64 trillion registered in 9M 2020.

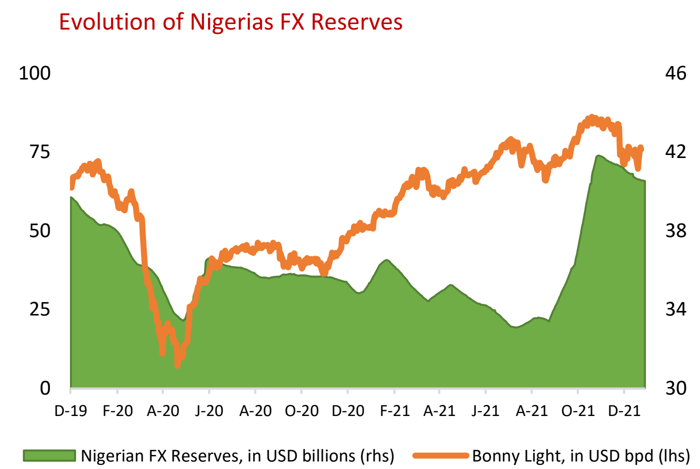
Exports which constituted 37.40% of the total trade rose y-o-y by 40.62% to N13.12 trillion in 9M 2021. Imports which accounted for 62.60% of the total trade rose by 57.13% to N21.95 trillion. Further breakdown of the total exports showed that sale of crude oil accounted for 76.49% (N10.03 trillion), rising y-o-y by 44.93% from N6.92 trillion in 9M 2020. This was due to higher crude oil prices (bonny light rose y-o-y by 63.68% to average USD67.94 per barrel in 9M 2021) despite average volume of crude oil sales per day dropping y-o-y by 13.77% to 1.40 million barrels in 9M 2021. Other exports represented 23.51% (N3.08 trillion) of the total export grew y-o-y by 28.18%.

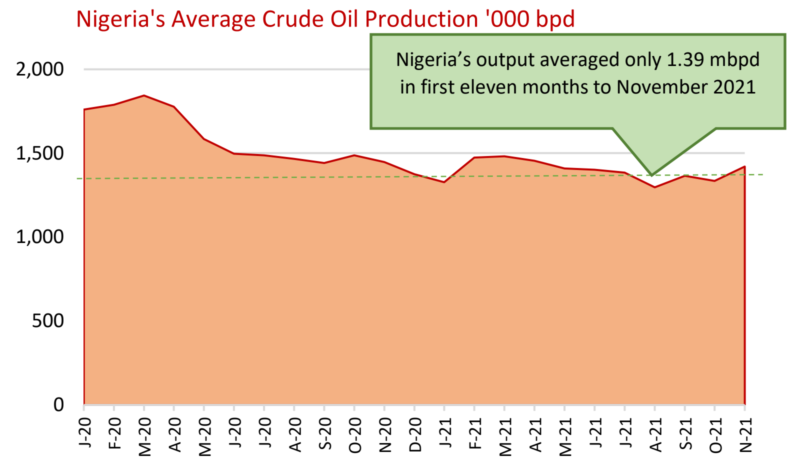
On the other hand, imports into the country increased y-o-y by 57.13% to N21.95trn in 9M 2021. The rise was chiefly driven by manufactured goods (+54.46%), agricultural goods (+75.37%) and raw material goods (+51.59%) respectively.

Major suppliers of goods to Nigeria included China, India and The Netherlands as imports from these countries constituted 29.74%, 8.52% and 8.37% respectively of total imports in 9M 2021. In the same period, Nigeria's exported India, Spain and ECOWAS accounted for 16.74%, 10.97% and 7.56% respectively in 9M 2021.

Cowry Research notes that the widened trade deficit amid rising imports of petroleum products and manufactured goods partly triggered the pressure on the Naira against USD and the resultant devaluation of the local currency at the SMIS Window by Central Bank of Nigeria in Q3 2021. Also, the rise in exports speaks to the need for FG to further create an enabling business environment that would promote exports of other products outside crude oil.

External Reserves Decline Despite Improved Global Crude Oil Market Fundamentals

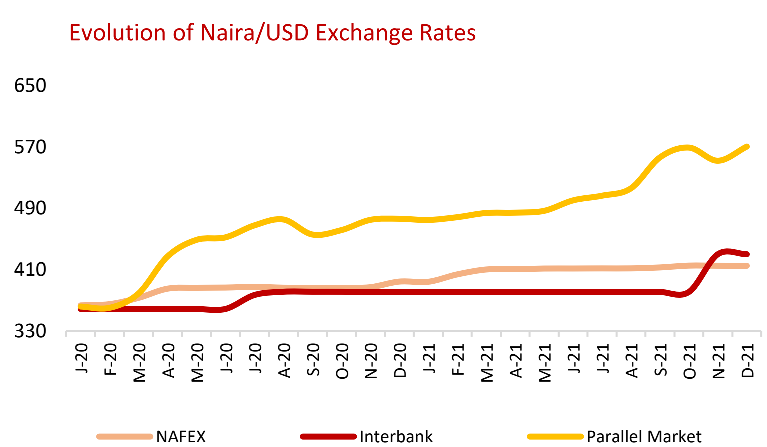




Source: Central Bank of Nigeria, Organization of the Petroleum Exporting Countries, Cowry Research

Naira Depreciates at the Various Market Segments

Owing to sustained disproportionate demand for limited foreign exchange supply, Naira depreciated, on average, against the greenback in all forex market segments. On a year-to-date basis, Naira weakened at the NAFEX, Interbank and Parallel markets by 5.23%, 12.95% and 19.79% to N414.84/USD, N430/USD and N570.54/USD respectively.



Source: Central Bank of Nigeria, FMDQ, Cowry Research

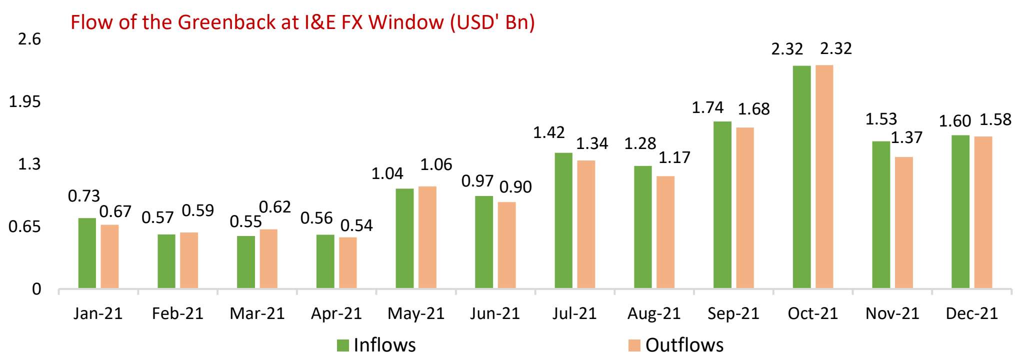
In its attempt to attract foreign exchange from foreign stakeholders, Central Bank of Nigeria, in June, replaced its erstwhile official forex rate with the NAFEX rate in what may likely be the beginning of the end of multiple exchange rates regime. By this act, the market-reflective NAFEX rate became the new official exchange rate.

Foreign Exchange in Tight Supply

Investors & Exporters Foreign Exchange Market, supply was tight as private inflows from both foreign and local sources of foreign exchange plunged year-on-year by 18.06% to USD14.31 billion. The I&E FX window registered net outflows from Foreign Portfolio Investors, Importers and Non-bank Corporates of USD1.07 billion, USD1.47 billion and USD1.44 billion respectively. The outflows were however exceeded by net inflows worth from CBN worth USD4.31 billion as the major lifeline in this market segment.

Movement of Funds at the Investors & Exporters Foreign Exchange Market

Sources	Source/Outlet	Inflow (USD 'bn)	Outflow (USD 'bn)	NetFlow (USD 'bn)
International	FDIs	0.50	0.16	0.34
	FPIs	2.50	3.57	(1.07)
	Other Corporates	0.38	0.49	(0.11)
Local	CBN	4.31	0.03	4.28
	Exporters/Importers	2.20	3.67	(1.47)
	Individuals	0.11	0.16	(0.05)
	Non-Bank Corporates	4.32	5.76	(1.44)
Total for 2021		14.31	13.83	0.48
Change from 2020		-18.06%	NA	NA



Source: FMDQ, Cowry Research

Exchange Rate Harmonization Tops CBN Agenda in 2021

Meanwhile, in deference to expectations of major stakeholders such as the Bretton Woods Institutions and Foreign Investors, the apex bank has, so far, taken concrete steps towards harmonizing the exchange rates. In May, CBN adopted the autonomous, market-reflective rate (NAFEX or I&E FX rate) of N411/USD, effectively ending the official exchange rate of N379/USD. Soon after, the bank also adjusted the exchange rate for import duty payment from N381/USD to N404.97/USD. In October, the central bank devalued the interbank foreign exchange rate by 12.95% to N430/USD. The moves signaled its willingness to reform the foreign exchange market and thereby increase the confidence of international lenders, exporters and foreign portfolio investors.

CBN Takes the Fight to FX Speculators…

Given limited FX supply in the country, the parallel or black market has been an arena for speculative attacks on the local currency and arbitraging activities. In an attempt to close the gap between officially recognized exchange rates and the higher parallel market rate, and thus limit opportunities for speculators and arbitrageurs, CBN moved to increase foreign exchange supply to the recognized markets where end users could have genuine forex needs met so that they would not have to resort to the parallel (black) market where rates recently crossed the N500/USD level.

Central Bank of Nigeria, on March 05, 2021, introduced the "Naira 4 Dollar Scheme" which offered local beneficiaries N5 for every dollar received from diaspora remittances into their domiciliary accounts. In order the encourage greater acceptance, beneficiaries were allowed the option to cash payments directly in foreign currency or receive payments into the domiciliary accounts. This was against prior unfavorable practice in which beneficiaries were constrained to receive payments in their domiciliary accounts, in which case, they were subject to conversion rates determined by the participating banks as against rates closer to the parallel market rates. The Scheme was designed to encourage senders in diaspora and their intended beneficiaries to send and receive foreign exchange through the local banks with the aim of boosting availability of dollar supply via officially recognized channels which were in competition with black market where rates were more attractive. However, we observed that the scheme had limited effect on the stability of the exchange rates even though the beneficiaries effectively wound up getting greater value that was close to what was obtainable at the parallel market.

Again, the apex bank persuaded exporters to sell their dollar proceeds at the Investors & Exporters FX window by giving them the assurance that they would have unlimited access to their export proceeds whenever they needed it. Hitherto, exporters preferred to change their currencies at the parallel market where rates were more attractive, giving them greater value in local currency. By giving such an assurance, CBN hoped to increase its war chest with export proceeds while at the same time, compete with the parallel market at lower price points, thus bridging the price gap.

The apex bank further announced plans to increase the amount of foreign exchange allocated to banks in order to the meet FX needs by SMEs and individuals for invisible such as BTA, PTA, school fees and medical fees, etc. This would be achieved via imprest-type arrangement in which the apex bank committed to replenish the FX supply to commercial banks subject to the retirement of unused previously allocated amounts to the satisfaction of the CBN. This, it was hoped, would meet these needs at officially recognized rates and thereby reduce demand pressure at the parallel market, thus harmonizing the exchange rates.

In July, the MPC noted the abuse of regulations by BDC operators and frowned at their rent seeking behaviors and therefore moved to arrest the situation. Consequently, CBN stopped forex sale to BDC operators, suspended licensing of more BDCs in the country and re-channeled forex sales via commercial banks to meet PTA, BTA needs of customers. Also, CBN required commercial banks to dedicate teller points in every branch for sale of forex to customers while customers were required to report banks which failed to sell forex to them despite meeting requirements. Furthermore, CBN threatened to come down hard on commercial banks which were found to have connived with foreign embassies. missions and institutions who had conducted their forex businesses illegally and in flagrant abuse of local regulations. The apex banks also threatened to report such errant institutions to the relevant authorities in their home countries in an effort to redirect forex business to the I&E FX window. Despite all these control measures, foreign exchange stability has remained an uphill battle and somewhat elusive.

How Our Predictions Fared

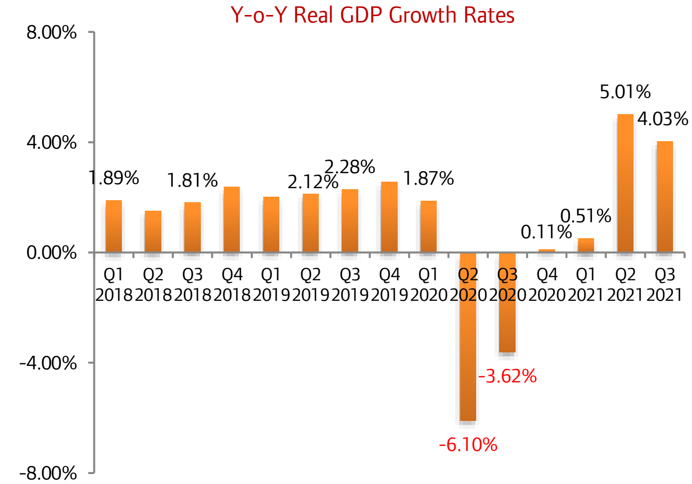
In our outlook for 2021, we stated that: "On a base case, we believe Nigeria will remain susceptible to exchange rate volatility in 2021 as we do not anticipate significant positive changes in economic fundamentals – especially in foreign trade – and there is only so much that monetary authority can 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." As already noted in the review, current realities point to the accuracy of our predictions. Given the current threat of Omicron, some countries have already instituted (The Netherlands instituted a lockdown on December 20, 2021) or contemplating fresh lockdown measures, thus threating the fragile global economic recovery.

REAL SECTOR: Nigeria Records +4.03% Output Growth in Q3 2021

In the third quarter of 2021, Nigeria recorded a year-on-year (y-o-y) real output growth rate of 4.03% to N18.54 trillion (or USD123.38 billion) to sustain it recovery from last year's recession. Recently, the Central Bank of Nigeria (CBN) Governor, Mr. Godwin Emefiele, reportedly stated that about N3 trillion had been disbursed to households, small and medium scale enterprises, smallholder farmers and pharmaceutical companies amongst others to cushion the negative impact of COVID-19 on the local economy. Specifically, efforts by the Monetary Authority to support the fiscal authority in growing the economy was reflected in the 7.10% year-on-year rise in money supply to N40.37 trillion as at October 2021.

Specifically, the rapid growth was driven essentially by a 5.44% growth in non-oil sector; with Trade, Information & Communication, Manufacturing and Agricultural sectors recording the largest growth rates of 11.90%, 9.66%, 4.29% and 1.22% respectively. Financial services also witnessed a strong growth of 23.23% (from a decline of 2.48% in Q2). In the oil & gas sector, however, we saw a 10.73% y-o-y drop in real output to N1.39 trillion (or USD9.24 billion) as average daily oil production fell y-o-y by 7.79% to 1.35 million barrels per day (mbpd). We note that the increase in crude oil price to USD85 per barrel appeared insufficient to compensate for the reduction in Nigeria's crude oil production.

On a quarterly basis, real GDP increased by 11.07% to N18.54 trillion (or USD123.38 billion) from N16.69 trillion (or USD111.08 billion) in Q2 2021; with the non-oil sector rising by 10.99% to N17.15 trillion (or USD114.13 billion). Agriculture, the largest contributor to real GDP at 29.94%, rose q-o-q by 39.83%. Also, the oil & gas sector increased by 12.05% to N1.39 trillion (or USD9.24 billion).



Major Sectors	Q3 2021	Q2 2021	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.39	1.24	12.05%
Y-o-Y %Change	-10.73%	-12.65%	
Non-Oil Sector (N 'Trn)	17.15	15.46	10.99%
Y-o-Y %Change	5.44%	6.74%	
Quarter GDP (N 'Trn)	18.54	16.69	11.07%
Y-o-Y %Change	4.03%	5.01%	

Share of Real GDP (%)	Q3 '21 Share of Real GDP	Q3 '21 y-o-y Growth (%)	Q2 '20 y-o-y Growth (%)
Agriculture	29.94%	1.22%	1.30%
Trade	14.93%	11.90%	22.49%
Info & Comm	14.20%	9.66%	5.55%
Manufacturing	8.96%	4.29%	3.49%
Mining & Quarrying	7.66%	-10.56%	-12.29%
Real Estate	5.49%	2.32%	3.85%
Construction	3.22%	4.10%	3.70%
Financial Services	3.16%	23.23%	-2.48%
Profes, Sci & Tech Services	3.23%	1.11%	1.27%
Education	1.69%	1.37%	0.63%
Other Economic Activities	7.52%		
Qtr 3 2021 Real GDP	N18.54 Trn	4.03%	5.01%

Source: National Bureau of Statistics, Cowry Research

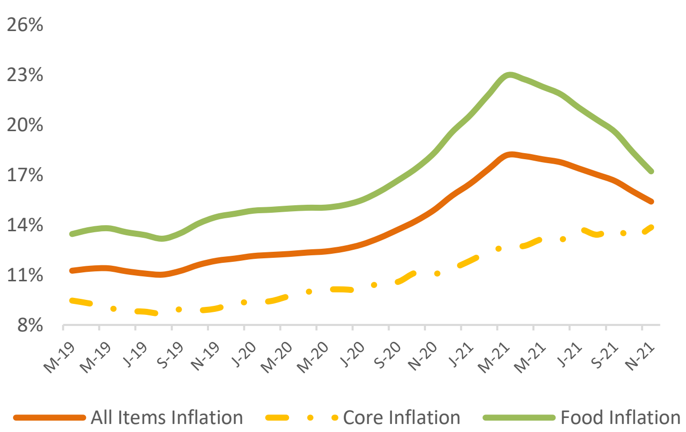
Inflation Rate Falls to 15.40% on Sustained Ease in Food Prices

Headline inflation slowed for the eighth consecutive time to 15.40% in November 2021 (from 18.17% in March 2021 and 15.75% recorded in December 2020). This was principally driven by food disinflation amid harvesting season and high base effect. Slower inflation rates were also printed in both urban and rural areas at 15.92% (from 16.33% in December 2020) and 14.89% (from 15.20% in December 2020) respectively; also based on slowing food inflation.

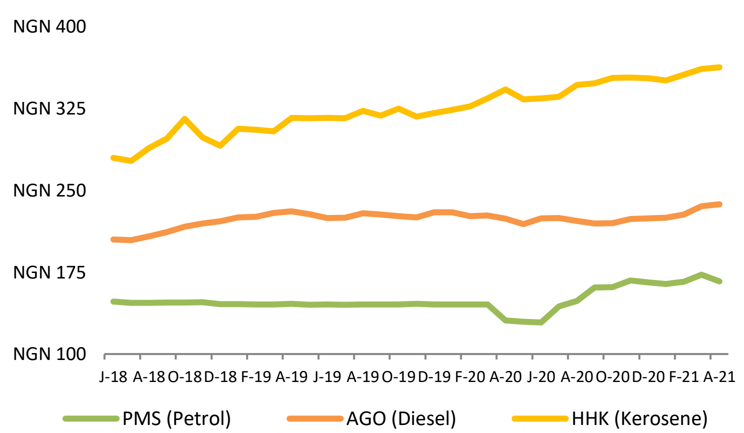
Given the sustained high-base effect, the food Index rose at a slower pace, by 17.21% in November 2021 (compared to 19.56% and 22.28% recorded in December 2020 and May 2021 respectively) as it appeared there were weaker y-o-y increases in prices of oils & fats, bread & cereals, fish, coffee, tea & cocoa, tubers, dairy and egg. However, core inflation rate rose to 13.85% (from 11.37% and 13.09% in December 2020 and June 2021 respectively) on the back of higher y-o-y rise in prices of clothing & footwear, Housing water, electricity, gas & other utilities, as well as furnishings & household equipment maintenance.

Meanwhile, imported food index rose by 17.28% (as against 16.65% in December 2020) as Naira depreciated strongly against the greenback at most exchange rate windows. Notably, in the course of the year CBN stopped the sale of USD to BDCs, resulting in strong dollar demand pressure at the BDC and Parallel market segments. Also, CBN adjusted the exchange rate at the Secondary Market Intervention Sales (SMIS), to N430 from N380 – a devaluation of 13.16%. Consequently, the two months moving average foreign exchange rate at the parallel market window rose YTD by 17.92% to N560.62/USD in November 2021.

Consumer Price Inflation



Monthly Average Commodity (Fuels) Price/Litre



Our Expectations for 2021

We expect to see an upward pressure on the m-o-m inflation rate due to the rising insecurity which continues to negatively impact food distributions across the country. More so, the increasing demand pressure on the greenback would further put pressure on cost lines m-o-m. However, we may further witness ease on inflation rate y-o-y given the base effect.

MONETARY SECTOR: Rising Money Supply Spurs Improved Economic Output in 2021

The Central Bank of Nigeria (CBN) released its depository corporations survey which showed a 7.10% year to date (YTD) rise in Broad Money Supply (M3 money) to N40.37 trillion in October 2021. The relatively significant increase was due to a 9.12% rise in Net Domestic Assets (NDA) to N34.14 trillion although, we saw a moderation of 1.50% in Net Foreign Assets (NFA) to N7.23 trillion which was insufficient to offset the sharp growth in NDA.

Depository Corporations Survey (N 'Trn)	Oct 2021	Dec 2020	YTD Δ
Currency outside banks	2.55	2.91	(12.22)
Bank reserves	9.77	10.19	(4.18)
Currency in circulation	2.97	2.91	1.98
Reserve money	12.73	13.10	(2.81)
Demand deposits	14.00	13.48	3.85
M1 Money	16.55	15.98	3.61
Quasi money	24.82	21.73	14.21
M2 Money	41.36	37.70	9.72
M3 Money	41.37	38.63	7.10
Monetary Policy Rate (%)	11.50%	11.50%	0.00
Credit to the Government	12.87	12.40	3.79
Credit to the Private Sector	34.51	30.15	14.46
Net Domestic Credit	47.38	42.55	11.35
Net Foreign Assets	7.23	7.34	(1.50)
Net Domestic Assets	34.14	31.29	9.12

Source: Central Bank of Nigeria, Cowry Research

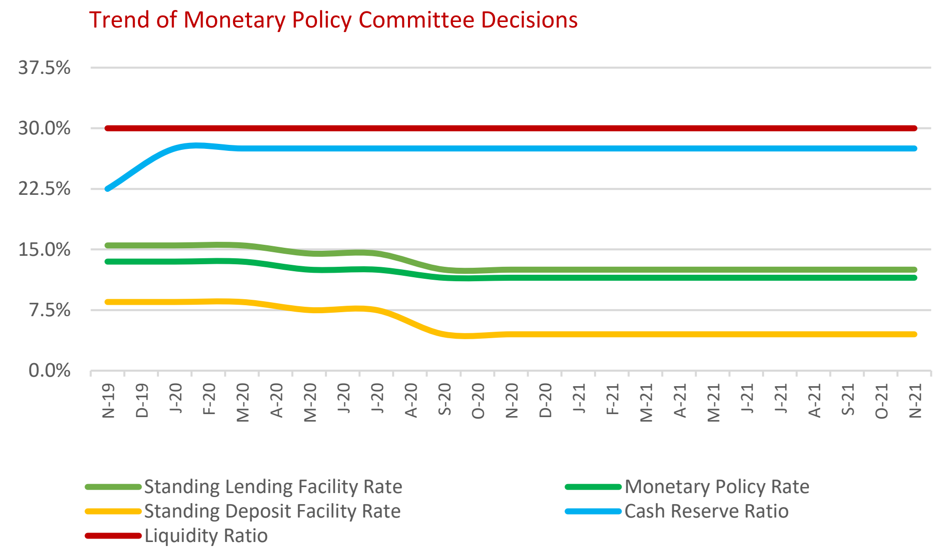
We saw Net Domestic Credit (NDC) rise year-to-date by 11.35% to N47.38 trillion in October 2021. Further breakdown of the NDC showed a 14.46% YTD rise in Credit to the Private sector to N34.51 trillion – the increase in credit to private sector should further boost economic growth as more people have access to loans at reasonable interest rates, albeit we expect the growth pace to slow in 2022 given the anticipated rise in rate environment. Also, government borrowings increase in the review period as the need to provide basic infrastructure remained pressing amid sustained budget deficit, hence Credit to the Government rose by 3.79% to N12.87 trillion.

On the liabilities side, the 7.10% YTD increase in M3 Money was further strengthened by the 9.72% rise in M2 Money to N41.37 trillion, albeit funding by treasury bills moderated YTD to N933.29 billion. The increase in M2 was chiefly driven by a 14.21% rise in Quasi Money (near maturing short term financial instruments) to N24.82 trillion. Narrow Money (M1) rose by 3.61% YTD to N16.55 trillion (of which Demand Deposits rose by 3.86% to N14.00 trillion, however currency outside banks decreased by 12.22% to N2.55 trillion). Reserve Money (Base Money) moderated YTD by 2.81% to N12.73 trillion as Bank reserves decreased by 4.18% to N9.77 trillion despite the currency in circulation which rose by 1.98% to N2.97 trillion.

MPC Maintains Expansionary Course in 2021

Meanwhile, the Monetary Policy Committee (MPC) held all key policy parameters constant in the entire circle of the year 2021. The Monetary Policy Rate (MPR) was unchanged at 11.50% and the asymmetric band was retained at +100 bps and – 700 bps around MPR. Cash Reserve Ratio was retained at 27.50% and the Liquidity Ratio left unchanged at 30%. The Committee’s decision was chiefly based on the continued recovery of the global economy in the current year and its sustainability into the year 2022. Expectations of a positive global economic growth was despite the downgrade of the International Monetary Fund’s (IMF) global growth forecast to 5.9% from 6.0% and that of the advanced economies to 5.2% from 5.6% in 2021. Also, the MPC noted IMF’s stance on advanced economies inflation rate which is expected to rise further, contrary to its earlier stance of a transient inflationary pressure, as commodity prices recover, hence having an inflationary effect on energy prices. The move by the US Federal Reserve Bank to commence tapering its monthly bond-buying programme by the end of November 2021 was also part of the Committee’s considerations.

The Monetary Committee mentioned that support from Nigeria's monetary and fiscal authorities had contributed significantly to economic growth of 4.03% in Q3 2021 despite the associated challenges of insecurity and infrastructural constraints. The upward revision of the emerging markets and developing economies output to 6.4% from 6.3% by IMF further speaks to the Committee's decision to hold the policy rate in 2021 and to continue to support output growth and arrest stagflation from the supply side (that is, boost production over demand in order to crash prices).



Source: Central Bank of Nigeria, Cowry Research

Banks Storm the SLF Window, Repo Transactions Spike

Against the backdrop of financial system liquidity strain, coupled with the breather for banks borrowing from CBN following the reduction in the upper band of the asymmetric corridor to +100 bps from +200 bps in 2020, we observed a sharp rise in Standing Lending Facility (SLF) in 2021. SLF spiked by 147.67% to N13.01 trillion in 2021 (from N5.25 trillion in 2020). This was partly due to liquidity challenges by deficit banks as CBN instructed the deposit money banks to restructure their loans and advances to customers in order to ease repayments and avoid significant loan defaults amid COVID-19 pandemic. With improved access to liquidity, We expect some level of stability in this space going forward even as economic activities bounced back in 2021. We however note that the SLF window at the current rate of 12.5% per annum (i.e., MPR +1.0%) down from 13.5% per annum (i.e., MPR + 2.0%) also created a potential arbitrage opportunity to buy longer duration bonds trading above this rate for a spread.

In comparison, Standing Deposit Facility (SDF) plummeted amid less interesting SDF interest rate and non-remunerability of placements made by banks in excess of N2 billion. SDF plummeted by 58.14% to N3.03 trillion in 2021 (from N7.25 trillion in 2020). The SDF rate, currently 4.5% (i.e., MPR - 7.0%), is the rate that the banks get on placements with CBN.

Cowry Research notes that the sharp rise in SLF and the decline in SDF also suggests that the banks were only willing to avail surplus liquidity to one another at higher rate, closer to rate offered at CBN's SLF window, – yearly average of overnight interbank offered rate rose to 12.48% in 2021 from 6.71% in 2020.

CBN Financial Data (Amounts in N 'Trn)	FY 2021	FY 2020	% Change
Standing Lending Facility	13.01	5.25	147.67
Standing Deposit Facility	3.03	7.25	-58.14
Repo	14.07	0.82	1,617.53
OMO Sales	2.23	4.38	-49.05
OMO Repayments	4.31	8.83	-51.22
Primary Market Sales	6.76	2.57	163.59
Primary Market Repayment	3.68	2.23	65.23

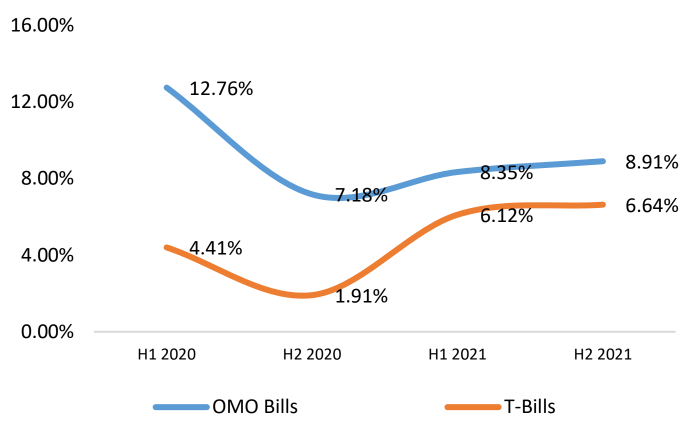
Source: Central Bank of Nigeria, Cowry Research

Meanwhile, banks entered into more repurchase agreements with CBN in order to hedge against their loss positions in the fixed income space, given the sharp rise in treasury bills and bonds rates in 2021. Also, the need for financial liquidity boost took the front seat for the banks having caught up in low rate securities. Hence, repurchase transactions spiked by 1,617.53% to N14.07 trillion in 2021 (from N0.82 trillion in 2020).

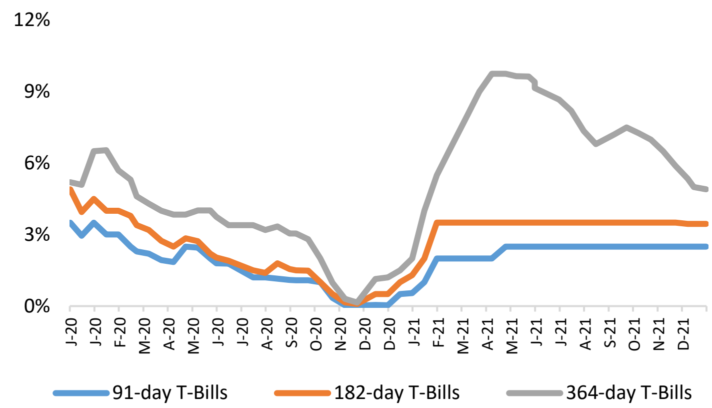
Meanwhile, amid CBN's sustained decision not to rely on OMO bills to attract hot money, it sold a total of N2.23 trillion in OMO bills (less than N4.38 trillion in 2020) at a weighted average stop rate of 8.9% (higher than 7.18% in H2 2020) despite the N4.31 trillion matured OMO bills in 2021.

Similarly, the apex bank issued T-Bills worth N6.76 trillion at the primary market in 2021 (higher than N2.57 trillion in 2020) in efforts to encourage investors to remain invested locally (as against investing abroad) amid volatility in the exchange rate and high inflation levels. In line with our expectation, stop rates were higher by a few hundred basis points in 2021.

Weighted Average Stop Rates of Short term Bills



Nigerian Treasury Bill Stop Rates



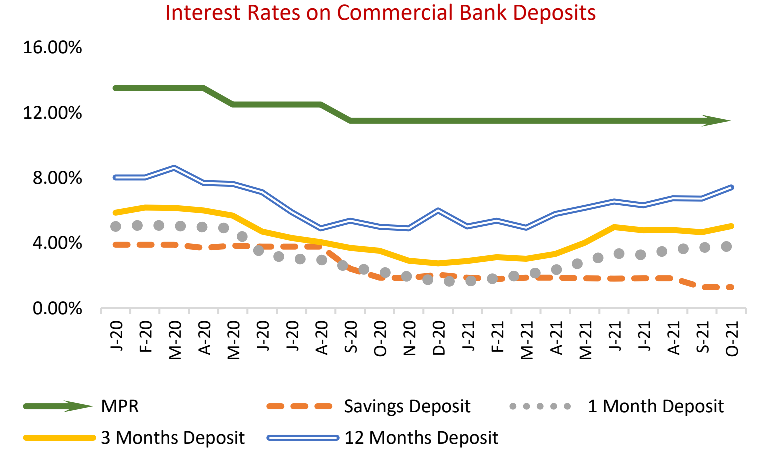
Source: Central Bank of Nigeria, Cowry Research

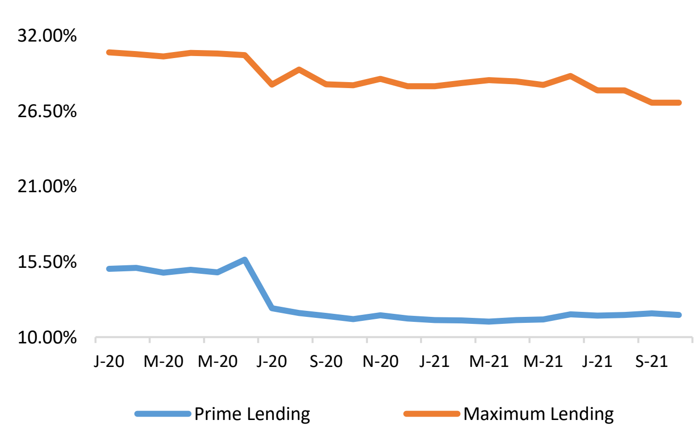
In our outlook for 2021, we stated the following: "We however think Treasury bills rates are not sustainable at current ground zero levels and will need to move northwards by a few hundred basis points in order to stimulate secondary market trading activities – given that negative interest rates (NITTY 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."

Depositors See Gradual Rise in Interest Earnings; Prime Borrowers See Moderation in Interest Expense

During the period under review, depositors earned better interest on their term deposits as 1-, 3- and 12-month deposit rates rose to 3.80%, 5.02% and 7.40% in October 2021 compared to 1.64%, 2.88% and 5.01% earned, respectively, at the beginning of the year. This was partly due to competition amongst banks for customer deposits. However, average savings rate moderated to 1.28% in October from 1.86% at the beginning of the year; this appeared to have discouraged customers keeping their hard-earned funds in savings accounts as term deposit rates were more attractive.

Meanwhile, maximum lending rates decreased, on average, to 27.10% in October 2021 from 28.30% at the beginning of the year, also lower than 28.36% recorded in October 2020 despite the increase in term deposit rates. This opposing movement of the term deposit rates and lending rates would have impacted negatively on the net interest margins of the deposit money banks (as maximum lending rates fell). On the flip side, prime lending rose to an average rate of 11.61% in October (from 11.25% in January 2021 and 11.31% in October 2020).



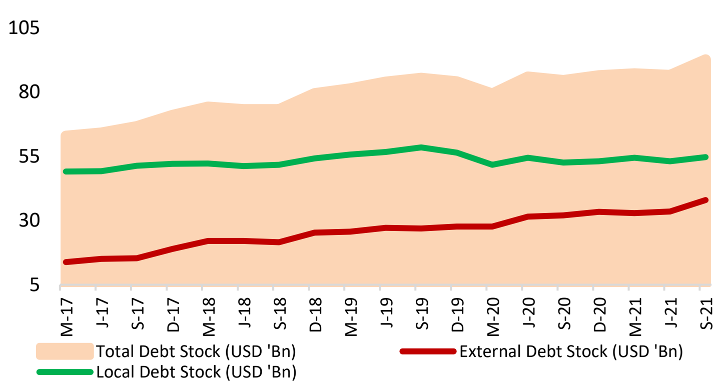


Source: Central Bank of Nigeria, Cowry Research

DEBT WATCH: Nigeria's Debt Stock Hits N38 Trillion

The Debt Management Office (DMO), in its recently released data, showed that Nigeria's total public debt stock increased further quarter on quarter (q-o-q) by 7.16% to N38.00 trillion as at September 2021 (from N35.47 trillion as at June 2021). The q-o-q rise in the country's total debt stock was chiefly from the rise in external debt (commercial category) credits. Specifically, external debt rose q-o-q by 13.58% to N15.57 trillion (or USD37.98 billion at N410.30/USD) as at September 2021 from N13.71 trillion (or USD33.47 billion at N409.66/USD) in June 2021. Within the quarter, Nigeria received additional USD4 billion worth of commercial loans (Eurobonds). More so, the depreciation of the Naira against the greenback increased external debt; q-o-q, Naira depreciated further against the USD by 0.16% to close at N410.30/USD as at September 2021.

Evolution of Total Debt, External & Local Debts



Source: Debt Management Office, Cowry Research

Amid rising foreign loans, external debt service payments rose to N143.18 billion (or USD348.96 million) in Q3 2021 from N84.50 billion (or USD206.26 million) in Q2 2021. Notably, Nigeria paid down part of its Multilateral (USD110.45 million) and Bilateral (USD61.38 million) principal which amounted to USD171.83 million.

Further breakdown of the total external debt stock in Q3 2021 showed that Multilateral loans accounted for 48.17% (USD18.28 billion) of which loans from International Development Association (IDA) was USD11.57 billion, loan from IMF was USD3.47 billion while others stood at USD3.24 billion. Bilateral loan accounted for 11.59% (USD4.39 billion) of which loan from China (Exim Bank of China) was USD3.59 billion and loan from France was USD0.52 billion in Q3 2021. Commercial loans accounted for 38.65% (USD14.67 billion) of which Eurobonds was USD14.37 billion while Diaspora bond was USD0.30 billion. Promissory notes accounted for 1.59% (USD0.60 billion). Meanwhile, local debt stock increased by 5.41% to N22.43 trillion in Q3 2021 (from N21.75 trillion in Q2 2021). Breakdown of the domestic debt figure showed that FG's domestic debt stock rose to N18.23 trillion in Q3 2021 (from N17.63 trillion in Q2 2021). Hence, local debt service payment skyrocketed by 69.45% to N678.59 billion in Q3 2021 from N322.75 billion printed in Q2 2021.

Debt Management Performance (Q3 2021)

Debt Indicator	Actual (%age)	Target (%age)
Domestic to External Debt	59-41	70 max-30 min
Long term to Short term Debt	77-24	75 min-25 max
Concessional to Non-Concessional	61:39	To Maximize
Debt to GDP (annualized)	54	40

Total Debt Service as %age of FGN Retained Revenue (TDSRR)

Year	FGN Retained Revenue (N 'Bn)	Total Debt Service (N' Bn)	TDSRR
2019	4,530.28	1,661.30	36.67%
2020	3,660.02	1,878.12	51.31%
H1 2021	2,322.59	1,145.97	49.34%

Source: Debt Management Office, Cowry Research

REVIEW OF THE FIXED INCOME SPACE IN 2021

CBN Maintains Accommodative Monetary Policy Amid Interest Rate Volatility

In the first half of 2021, interest rates moved northward despite CBN's desire to maintain dovish a monetary policy plan. The increase in rates, and yields which was in line with our expectations, became necessary as CBN battled with a depreciating Naira against other foreign currencies, and inflationary pressure. The apex bank enticed investors with other competitive investment options when pressure on the local currency, majorly speculative, became alarming. Obviously, the lender of last resort was more concerned about the depreciating Naira, than the structurally- and insecurity-linked inflationary pressure, over which it has little or no control. Eventually, CBN moved to harmonize the official exchange rate with the market-reflective NAFEX rate (i.e. Investors and Exporters window rate) in May 2021. The rational was that this would have the tendency to boost dollar inflows into the country, especially from the World Bank which had been nudging local authorities to harmonise the exchange rate and which later approved USD1.5 billion to Nigeria to help the country recover from the impact of COVID-19 on the condition of FX rate harmonisation. This afforded the CBN the latitude to pursue its accommodative monetary policy in support of the real sector which should also have greater access to FX to import critical inputs. Given CBN's commitment to drive greater output growth, it maintained Monetary Policy Rate (MPR) at 11.50% and discourage banks from saving with the apex bank as it further moved asymmetric band to +100 bps and -700 bps (from +200 bps and -500 bps) around the MPR.

Investors Become Cash Strapped as Yields Spike

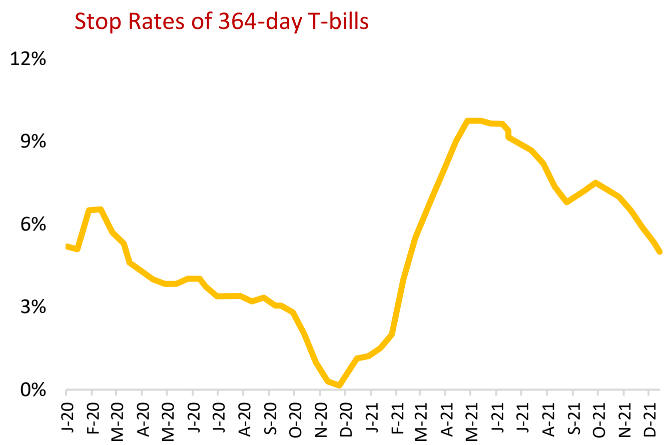
In our *2020 Economic and Financial Market Review plus Outlook & Investment Strategy* report in January 2021, we stated the following: "Surprisingly, we saw a sudden jump in 364-day stop rate in December to 3.20% (from 0.15%), albeit it fell back to 1.21% to close for the year 2020. The same trend was 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 rates in 2021, in order to attract foreign funds and stabilize exchange rate".

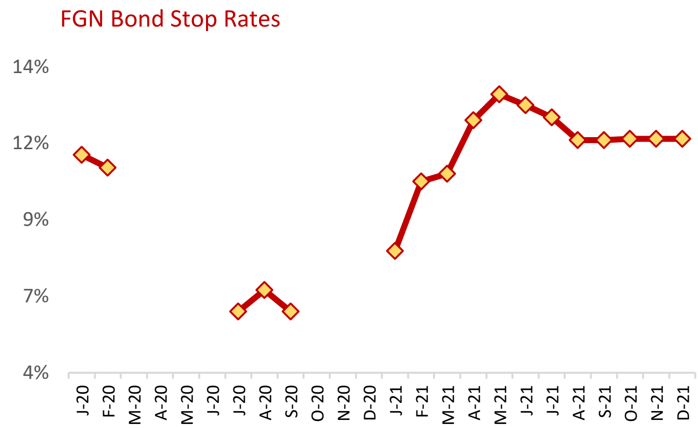
In line with our expectations, the rise in yields across most maturities, especially the long-dated FGN Bonds as well as the 364-day T-bills, partly contributed to the financial system liquidity strain as investors' funds were locked-in as they tried to avoid huge loss that would arise from selling their position which was done at a very low rate. Consequently, they searched for new funding – a situation that also contributed to the high Repo transactions, jump in interbank lending rates, and the humongous borrowings from CBN in the review period given the spike in the value of Repurchase transactions in 2021.

In H2 2021, interest rates (stop rates and yields) began to moderate, thus generating secondary market trading activities in line with our expectation according to our outlook for 2021, albeit, with increased volatility at the long end of the yield curve in the last quarter of 2021.

Meanwhile, Nigerian Interbank Treasury Bills True Yield (NITTY) for 12 months traded upward to 5.53% on December 31, 2021 from 0.77% on December 31, 2020.

Stop Rates of Auctioned FGN Securities



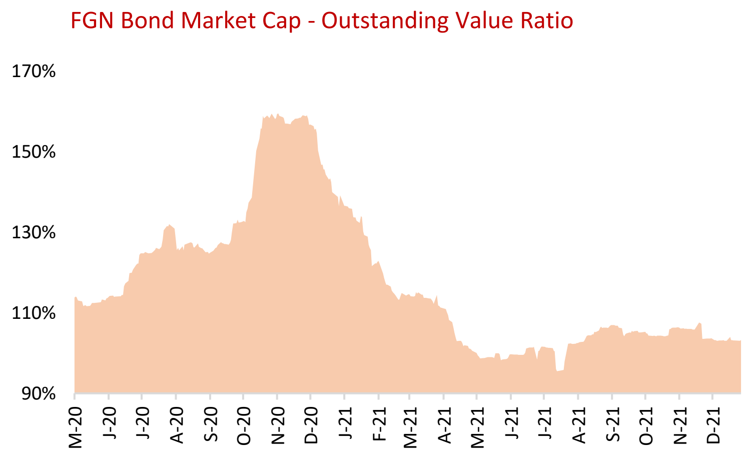


Source: FMDQ, Cowry Research

FGN Bonds Trader See Increased Volatility Towards the End of 2021

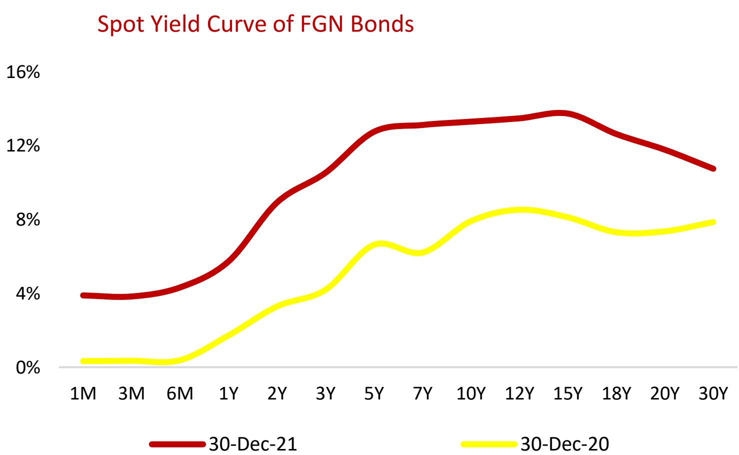
In the first half of 2021, Debt Management Office (DMO) auctioned most of its bond maturities at higher rates in tandem with the rising rates in the money market, especially the 364-day T-bills. The action of the DMO which took most traders by surprise kept them in a tight corner as they were reluctant to sell off their holdings to avoid huge losses. Specifically, the 15-year FGN Bonds stop rate rose to 13.50% in June 2021 (from 6.95% in December 2020). In tandem with the significant rise in rates at the Primary market, the over-the-counter FGN bond market witnessed bearish activity in H1 2021, resulting in price depreciation (and corresponding sharp rise in yields). The ratio market capitalization to outstanding bonds value fell to 100.55% on June 30, 2021 lower than 139.15% on December 31, 2020. In the second half of the year, yields became volatile, requiring caution from traders who parked their funds at the short end of the yield curve in order to mitigate interest rate risk.

FGN Bond Performance



Bond Prices Trades Lower as DMO Increases Rates…

The performance of the FGN bond market in 2021 was bearish, leaving traders with much loss to deal with given the significant rise in yields as DMO increased rates at the primary market. The market capitalization to outstanding value ratio (a performance measure) plunged from 139.15% at the end of December 2020 to 103.18% at the end of December 2021. Amid the bearish trend, FGN Bond prices fell the most at 95.53% in the month of July.



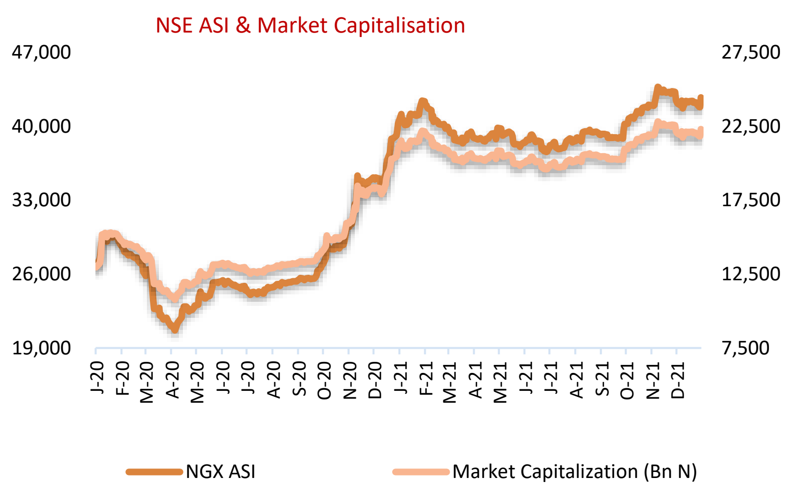
Nigerian Fixed Income Yield Curve was relatively higher in 2021 Compared to 2020 …

Against the backdrop of increasing yields of fixed income instruments, the yield curve was higher in 2021 relative to 2020 as investors demanded for better yields. This appeared more pronounced in the middle of the curve which was humped, suggesting greater bearish disposition of investors amid relatively inflation rate, foreign exchange volatility and uncertainty concerning the pre-election year.

REVIEW OF THE EQUITIES SPACE IN 2021

Stock Investors Witness Marginal Gain Despite Wobbly Year

The domestic stock market was generally bearish in the first half of the year as investors shifted base to the fixed income space given the significant rise in rates; thus, taking advantage of the uptrend in relatively less risky interest rates. Specifically, we saw the stop rate for 364-day T-Bills surge to 9.75% in May 2021 from a very low level of 1.14% in December 2020. Hence, the Nigerian Exchange Limited All-Share Index (NGX ASI) printed loss of 5.87% to 37,907.28 points at the end of H1 2021. The bourse however took a positive turn in H2 2021 as local institutional investors swooped on shares for relatively better dividend yields as the T-Bills stop rate moderated to 4.9% in December 2021. Also, the interest of the local institutional investors in the equities space picked in Q3 2021 following the release of corporates' 9 months financial results which were largely positive – even as it further substantiated the capacity of the companies to sustain good dividend payouts in FY 2021. As investors flocked to the local stock market, the benchmark index finally closed in green territory at the end of 2021, despite material sell-off in the month of December, as it rose by 6.07% to 42,716.44 points while market capitalization increased by 5.59% to N22.30 trillion.



Source: *NGX, Cowry Research*

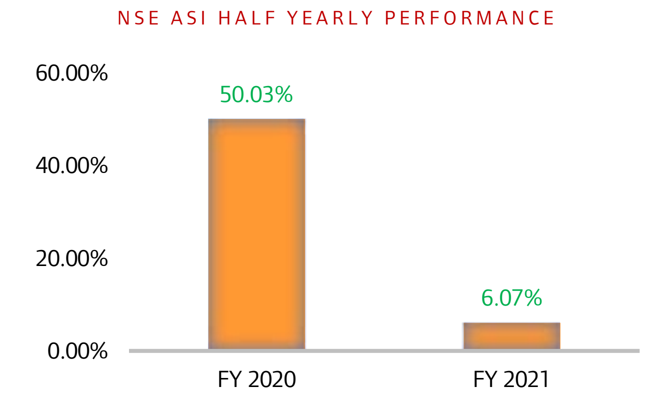
Local Players Dominate Equities Market in 2021 amid Sustained FPIs' Weak Appetite

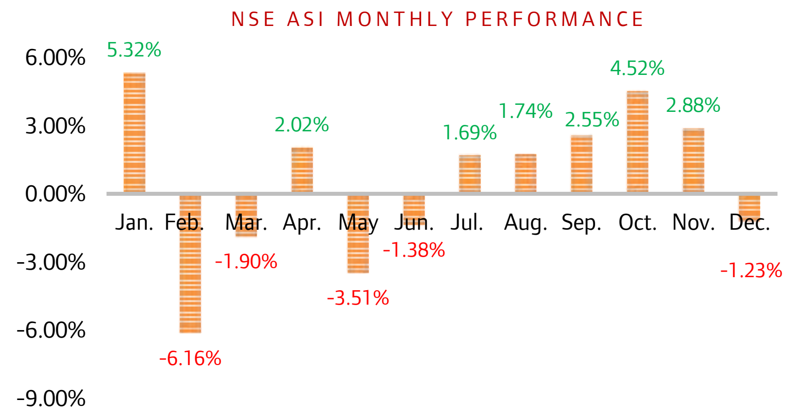
Total equities market transactions moderated year-to-date in November 2021 compared to the value of transactions executed in the corresponding period of 2020. The decline in total transaction was chiefly due to the weak appetite of foreign portfolio investors (FPIs) amid fears of foreign exchange volatility eroding their returns on investment. However, we saw local investors dominate the equities market as they accumulated more shares to take position in some fundamentally sound stocks following the release of corporates' 9 months financial results which were largely positive.

Participation by local players in the equities market increased in the second half of the year than in the first half – as fixed income yields, especially treasury bills yield, slid southward in H2 2021 contrary to its northward direction in H1 2021. Further breakdown showed that domestic institutional investors generated the highest transaction value, followed by retail investors; while foreign portfolio investors' contribution remained the least with a 9.69% net increase in outflows. Hence, the ratio of total domestic transactions to total foreign transactions tilted higher to 77:23 year-on-year (y-o-y) in November 2021 compared to 65:35 in November 2020. Total domestic transactions increased by 8.24% while total foreign portfolio transactions plummeted by 39.45% as foreign investors outflows rose. As depicted by the numbers, total transactions on the NGX mellowed to N1.74 trillion year-to-date in November 2021 (from N1.89 trillion in eleven months to November 2020); of which total domestic transactions rose y-o-y to N1.34 trillion (from N1.24 trillion). However, the FPI transactions decreased significantly to N399.18 billion in the review period (from N659.28 billion in the corresponding period of 2020).

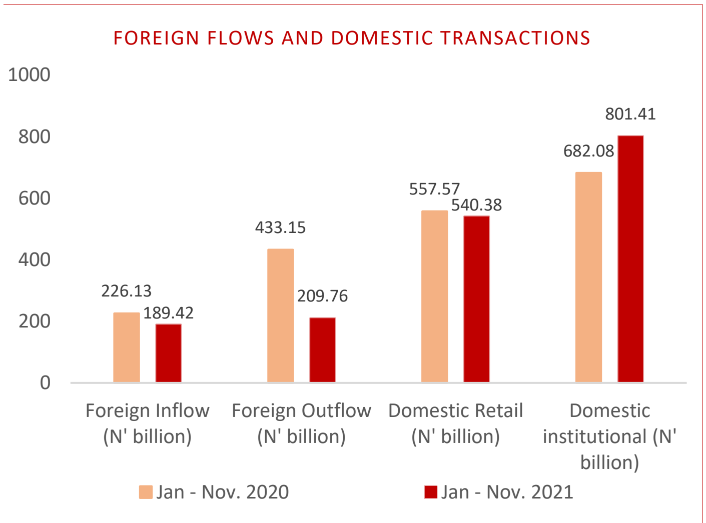
A further breakdown of the FPI transactions in eleven months to November 2021 showed that foreign portfolio inflows moderated to N189.42 billion (as against N226.13 billion in the corresponding period of 2020); also, foreign portfolio outflows decreased to N209.76 billion year to date in November 2021 from N433.15 billion from January 2020 to November 2020. On the part of local investors, we saw increased stake in the equities market – their purchase transactions totaled N679.29 billion, higher than N662.45 billion worth of outflows. Further breakdown showed that retail inflow transactions was N264.95 billion, lower than N275.34 billion outflows as they largely sold off than they bought. The domestic institutional investors' inflow transactions were N414.24 billion, higher than the N387.17 billion worth of outflows from them.

Stock Market Performance





Source: *NGX, Cowry Research*



Source: *NGX, Cowry Research*

Market Activity

	YTD 2021	YTD 2020	Change
Deals	1,048,687	1,151,164	-8.90%
Volume (Mn)	85,466	95,590	-10.59%
Value (N 'Mn)	907,208.26	1,023,991.55	-11.40%

Investors Accumulate Oil & Gas, Banking and Insurance Stocks in 2021

The oil & gas, insurance and banking sub-sectors closed in positive territory in 2021 as investors were bullish on stocks in these sub-sectors hence, lifting the local equities benchmark index by 3.83% in 2021. Specifically, the NGX Oil & Gas sector increased sharply by 52.52% to 345.01 points as SEPLAT shares gained 62.00% amid rising crude oil prices at the international market – spot Bonny light crude oil price increased to USD77.90 per barrel in December 29, 2021 from USD50.59 per barrel it closed in December 31, 2020. Also, TOTAL share price increased by 71.00% to close at N221.90 in December 2021. The NGX Insurance sector, as expected, rose by 4.54% in the year under review, returning significant value to shareholders amid its ongoing recapitalization by some names. Notably, share prices of Royal Exchange Insurance (ROYALEX), Lasaco Assurance (LASACO), Consolidated Hallmark Insurance (CHIPLC) and Regency Alliance Insurance (REGALINS) rose by 238%, 200%, 147% and 132% respectively. Also, given the interim-dividend payout by most Tier-1 banks, Zenith Bank (ZENITH), United Bank for Africa (UBA), Access Bank (ACCESS) and Guaranty Trust Holding Company (GTCO), and increased profitability so far in 9M 2021, the banking sector shares got investors' attention. Hence, the NGX Banking index rose by 3.32% to 406.07 points. On the flip side, the NGX Consumer Goods index moderated by 2.78% to close at 589.28 points even as the NGX Industrial index fell by 2.51% to close lower for the year 2021.

NGX Sector Gauges Performance

	31-Dec-21	31-Dec-20	Year-to-Date %Change
NGX Banking	406.07	393.02	3.32%
NGX Insurance	198.11	189.50	4.54%
NGX Consumer Goods	589.28	573.35	2.78%
NGX Oil/Gas	345.01	226.20	52.52%
NGX Industrial	2,008.30	2,052.33	-2.15%

Source: *NGX, Cowry Research*

Top 10 Gainers

Company	31-Dec-21	31-Dec-20	Change (N)	Change (%)
ROYALEX	0.88	0.26	0.62	238%
LASACO	1.05	0.35	0.70	200%
VITAFOAM	22.50	7.80	14.70	188%
HONYFLOUR	3.40	1.20	2.20	183%
CHAMPION [BLS]	2.35	0.86	1.49	173%
CHIPLC	0.79	0.32	0.47	147%
REGALINS	0.51	0.22	0.29	132%
UPL	2.94	1.28	1.66	130%
MANSARD	2.32	1.05	1.27	121%
UCAP	9.90	4.71	5.19	110%

Source: *NGX, Cowry Research*

Bottom 10 Losers

Company	31-Dec-21	31-Dec-20	Change (N)	Change (%)
FTNCOCOA [RST]	0.37	0.66	(0.29)	-44%
JAPAULGOLD	0.37	0.62	(0.25)	-40%
AIICO	0.69	1.13	(0.44)	-39%
STERLNBANK	1.50	2.04	(0.54)	-26%
UPDCREIT	4.05	5.50	(1.45)	-26%
CORNERST	0.46	0.59	(0.13)	-22%
NEIMETH	1.75	2.23	(0.48)	-22%
INTBREW [BLS]	4.70	5.95	(1.25)	-21%
GTCO	26.00	32.35	(6.35)	-20%
CILEASING	4.20	5.20	(1.00)	-19%

Source: *NGX, Cowry Research*

Corporate Actions in 2021

The NGX recorded three new listings and five supplementary listings which added to the market capitalization of the bourse. Noteworthy was the listing of the Nigerian Exchange Group following the demutualization of the Nigerian Stock Exchange (now known as Nigerian Exchange or NGX). The entire issued and fully paid 1,964,115,918 ordinary shares of 50 Kobo each of the NGX Group Plc were listed by Introduction on the Main Board of the Exchange at N16.15 per share on Friday, 15 October 2021.

Company	Listing Date	Number of Shares Listed
New Listing in 2021		
Ronchess Global Resources Plc	17-Dec-2021	91,000,000
Nigerian Exchange Group Plc	15-Oct-2021	1,964,115,918
Bricklinks Africa Plc	5-Feb-2021	10,000,000
Supplementary Listing in 2021		
Jaiz Bank Plc	4-Oct-2021	5,076,923,077
Chemical and Allied Products Plc	8-Sep-2021	88,259,520
Mutual Benefits Assurance Plc		8,888,888,889
eTranzact Plc	8-Apr-2021	2,434,566,483
Transcorp Hotel Plc	18-Jan-2021	2,642,124,511

Source: *NGX, Cowry Research*

Company	Date Delisted	Reason for Delisting
11 Plc	7-May-21	Voluntary
EVANS MEDICAL PLC	14-Jun-21	Regulatory: NGX
NIGERIA-GERMAN CHEMICALS PLC	14-Jun-21	Regulatory: NGX
ROADS NIGERIA PLC	14-Jun-21	Regulatory: NGX
UNIC DIVERSIFIED HOLDINGS PLC	14-Jun-21	Regulatory: NGX
PORTLAND PAINTS & PRODUCTS NIGERIA PLC	17-Sep-21	Merged with Chemical & Allied Products Plc

Source: *NGX, Cowry Research*

Share Capital Reconstruction

NEM Insurance Plc: Trading License Holders were notified that the full suspension placed on trading in the Company's shares was lifted on Wednesday, 29 December 2021 following the completion of the share capital reconstruction by the consolidation of every two (2) shares held by each shareholder into one (1). Consequently, the nominal share value of NEM Insurance Plc's ordinary shares of 50 Kobo each is now N1.00.

AXA Mansard Insurance Plc: Trading License Holders were notified that the full suspension placed on trading in the Company's shares was lifted on Monday, 27 September 2021 following the completion of the share capital reconstruction. Consequently, AXA Mansard's entire issued share capital of 36,000,000,000 ordinary shares of 50 Kobo each at 83 Kobo per share was delisted from the Daily Official List of NGX while the 9,000,000,000 ordinary shares of N2.00 each at N3.32 per share arising from the share capital reconstruction were listed on NGX's Daily Official List on the same day.

Lasaco Assurance Plc: The NGX notified Dealing Members of the completion of Lasaco Assurance Plc's (trading symbol: LASACO) share capital reconstruction; hence, the full suspension placed on trading in the Company's shares was lifted on Monday, 22 February 2021. Consequent to the completion of the reconstruction exercise, LASACO's entire issued share capital of 7,334,343,421 ordinary shares of 50 Kobo each at N0.42 per share prior to the share capital reconstruction was delisted from The Nigerian Stock Exchange's (The Exchange) Daily Official List, while the 1,833,585,855 ordinary shares of 50 Kobo each at N1.68 per share arising from the share capital reconstruction were listed on The Exchange's Daily Official List on the same day.

Outlook & Investment Strategies

GLOBAL ECONOMIC OUTLOOK

Tepid Growth in Global Output Anticipated in 2022

Following the sharp economic recovery witnessed in many nations around the world in 2021, a number of critical issues have emerged which will largely shape the discuss for 2022. Emerging issues in the business operating environment include challenges bordering on inflation, rising input costs partly caused by staffing shortages, supply chain bottlenecks and rising commodities prices, and possibility of more pandemics not too far down the road.

Given the afore mentioned headwinds, we expect sluggish but sustained global economic recovery in 2022 even though we do not anticipate waves of global lockdown measures on account of the COVID-19 pandemic (and its many mutating variants) that characterized most of 2020 and encroached into 2021. We do not expect the threat of ongoing and future pandemics to evoke such fearful and extreme responses by governments as these are partly the reasons for the current and near-term economic headwinds such as rising inflation – although the current trend of countries selectively closing their borders to nationals who come from places perceived to constitute public health risk may continue. More so, the emerging strains although more virulent are adjudged to be less deadly. We therefore opine that slower growth projection for 2022 by global institutions such as the International Monetary Fund and Goldman Sachs which forecast output growths of 4.9% (from 5.9% in 2021) and 4.5% (from 5.9% in 2021) respectively appear probable and in line with our outlook.

Global Output Forecasts

	2021	2022
World Output	5.9	4.9
United States	6.0	5.2
Euro Area	5.0	4.3
China	8.0	5.6
India	9.5	8.5
Nigeria	2.6	2.7
South Africa	5.0	2.2

Source: International Monetary Fund

The "Great Resignation"

An emerging new phenomenon coined in the United States as the "Great Resignation" is expected to create labour shortages in firms around the world. According to Coursera Industry Skills Report 2021 published on December 03, 2021, "four million U.S. employees quit their jobs in April 2021 and many more are expected to do so by the end of 2021. Thirty-eight percent of workers in the UK and Ireland plan to quit in the next 6-12 months and more than half of employees globally say they would consider leaving their jobs after the pandemic if they weren't offered enough flexibility on where and when they work. Worker burnout was cited as the top reason for a potential exit (32%) and a lack of opportunities for job growth was a close second (29%)". We expect that the staffing pressure would lead to higher wage rates and higher cost of doing business.

Higher Global Inflation Expected on Cost-Push Factors

In 2021 inflation has been on the rise in terms of consumer and commodities prices and although the rising inflationary trend could be attributed to resumption in economic activity, much more problematic are the cost-push factors bordering on limited infrastructure required to support demand as well as renewed lockdown measures by governments spooked by emergence of new COVID-19 variants. We expect supply chain bottlenecks which resulted from earlier lockdowns to persist into 2022, thus exacerbating upward price pressures and signal a global stagflation – slower output growth and rising inflation.

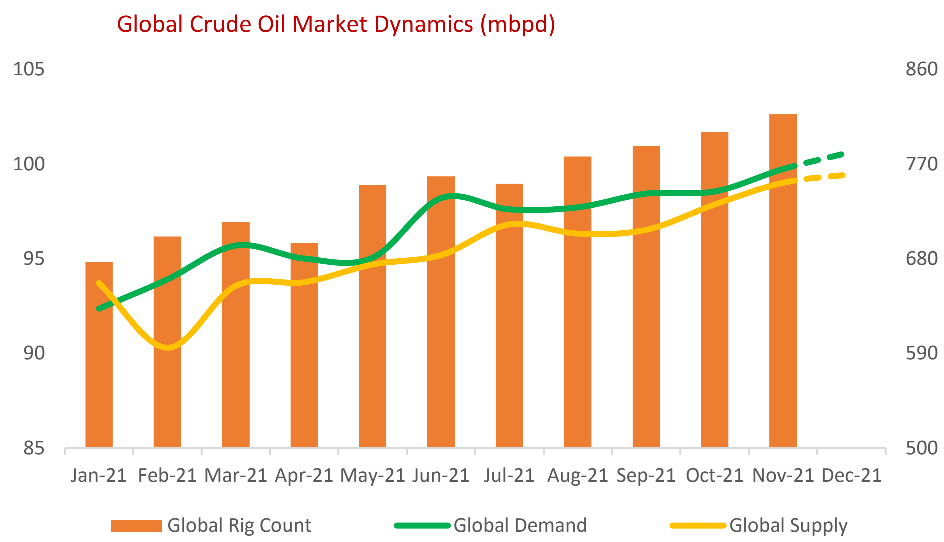
Following the reopening of the global economy in 2021, increased consumer demand towards the holiday season has put greater strain on supply chain logistics given lower manufacturing activities especially in China (partly due to earlier power outages and ongoing COVID-19 lockdown measures) as well as strain on available shipping containers following congestion at major ports in addition to shortage of trucking and rail facilities in the United States. Thus, logistics difficulties should keep global prices of manufactured goods, services, food and other commodities on the rise.

Global Oil Prices to Rise

Global energy prices should also remain elevated in the short to medium unless there is increased output from major oil producers such as the United States and Opec+ (how many barrels do these counties produce daily). According to Energy Information Administration's Short-Term Energy Outlook report as at November 2021, the eleven-month average global crude oil demand of 96.56 mbpd outstripped the eleven-month average global crude oil supply of 95.24mbpd in November 2021 even as demand is expected to exceed supply in December 2021 by 1.18 mbpd. President Biden's green energy policies had reversed the gains of his predecessor's energy-independency policy (which made the United States a net producer of crude oil at some point) thus contributing to rising gasoline prices in the United States.

Opec and its 10-country partners in the Declaration of Cooperation (DoC), Opec+, are currently faced with the threat of other oil producers such as the United States releasing their strategic reserves, in the midst of rising oil prices, as this could have a moderating impact of oil prices in the short term to medium term. At the same time, the threat of rising inflation which in the short term could reduce demand for refined petroleum products such as fuel.

Nevertheless, we feel the odds are still in favour of Opec+ on the supply side of things as reducing strategic reserves is not sustainable without commensurate investments, especially in the United States, to increase production. On the demand side, mounting inflationary pressures, especially from cost-push factors such as supply chain bottlenecks, and the resultant reduction in purchasing, could spell lower demand for crude oil and could temper the rate of anticipated increase in crude oil price.



Source: US Energy Information Administration, Baker Hughes

What Use for Monetary Policy Tightening?

The present inclination of global central banks to adopt monetary policy tightening in response to the seemingly chronic inflationary trend is to keep inflation expectations anchored to long term targets and preempt inflation becoming a self-fulfilling prophecy by the actions of workers and business alike as the former demand higher wages to protect their purchasing power and transfers the higher input cost to the final consumer in order to protect their margins. However, we opine that this may not be the appropriate approach, as long as the underlying conditions discussed above do not improve, and may have the negative effect of increasing borrowing cost of businesses which are already facing cost pressures which would lead to thinner profit margins and lower corporate earnings.

We therefore expect fiscal authorities to improve the ease of doing business by decongesting the ports, investing in public goods and promoting a more favourable business operating environment. We also expect businesses, in the face of the aforementioned workforce trend, to be more innovative in the way they do business in order to retain their good hands while also investing in critical assets in order to increase their productivity. For now, we expect monetary authorities to reduce quantitative easing before considering hikes in monetary policy rates in order to allow time for global economic recovery.

2022… An Electioneering Year

The year 2022 is an electioneering year before the 2023 general elections in Nigeria. It is also a new fiscal year which is expected to see the public sector commence the implementation of its fiscal programmes right from the get go in conformity with the January to December calendar year. Often in keeping with the trend in election cycles, the public sector tends to be more focused on activities that would enhance the chances of public office holders getting reelected into office as they jostle for various political appointments/positions than governance which would tend to be incidental. However, in the case of the incumbent President Muhammadu Buhari, we expect to see a slight break from the norm.

This is because the number one citizen who is not expected to return to office appears determined that his administration does all that is necessary to implement its programmes in line with his desire to leave a lasting legacy, especially of infrastructure to future generations. Thus, as the Federal Government plans to spend a whooping N17.13 trillion in the 2022 fiscal year (in part, due to higher exchange rate of N410.15/USD assumed for 2022 from N379/USD in 2021), there are serious concerns about the cost implications of implement such a huge budget given he increasing budget deficit and the mounting cost of servicing Nigeria's growing debt profile in an economy still struggling to diversify its revenue base.

It is also sad to note Nigeria is yet to diversify its economy away from exporting commodities such as crude oil and is largely a net importer of finished goods and services. Eight years of President Buhari has seen the Naira devalued several times and the exchange rate is still expected to continue on that path except

drastic measures are taken otherwise the country risks being trapped in the vicious cycle of sustained foreign exchange pressure, higher inflation, low economic output, high youth unemployment, disruptive insecurity, low productivity and low government revenue. Thus, given the gravity of the situation, we expect the current administration to do all it takes to delivery on its promise of improving the livelihoods of ordinary Nigerians.

Federal Government Announces Increased Fiscal Spending Plan for 2022

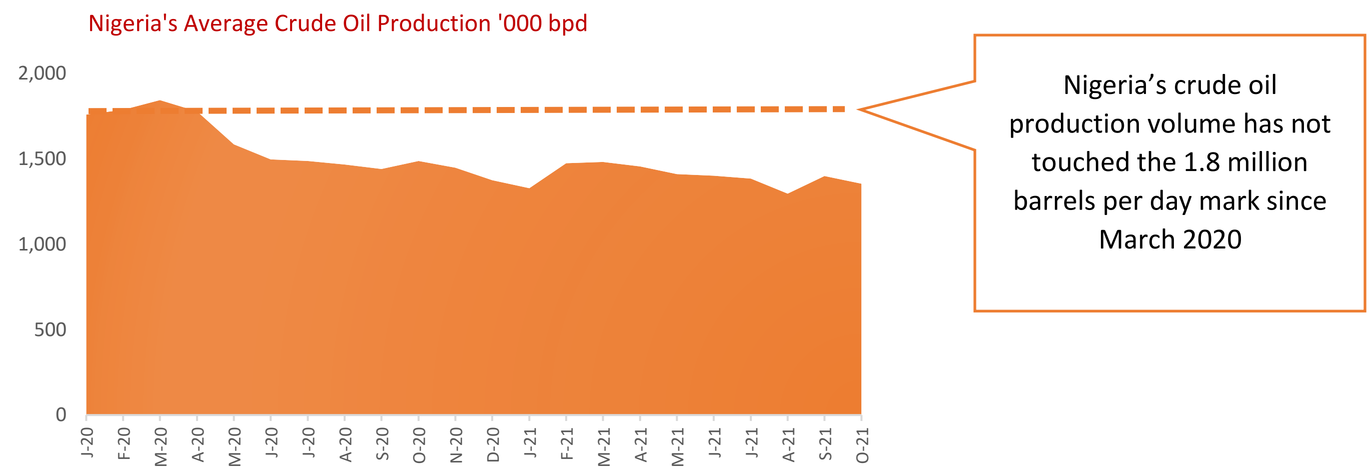
According to the 2022 Appropriation Act signed by President Muhammadu Buhari into on December 31, 2021, the Federal Government indicated its plan to spend N17.12 trillion in the coming year, 17.5% higher than N14.57 trillion appropriated in 2021 (and higher than N16.39 trillion initially submitted to the National Assembly), while revenue is expected to grow by 24.8% to N10.13 trillion next year. This translates to a budget deficit of N6.99 trillion, 2.9% lower than N6.45 trillion in 2021. Of the total expenditure, government proposed an 19.73% increase in recurrent non-debt expenditure to N6.90 trillion and a 24.20% increase in debt service to N3.88 trillion. Proposed capital votes for 2022 was put at N5.56 trillion, 11.45% lower than N4.99 trillion in 2021. Meanwhile, a breakdown of the Federal Government's projected revenue shows oil-related revenue of N3.53 trillion, non-oil tax revenues of N2.13 trillion, independent revenue of N1.82 trillion and retained Government Owned Enterprise revenue of N1.73 trillion among others.

2021 Appropriation Bill Highlights (Amounts in NGN Billion)

	2022 Proposed Budget	2021 Approved Budget
Aggregate Expenditure	17,126	14,570
Recurrent Non-Debt	6,909	5,763
Debt Service	3,879	3,124
Sinking Fund	Nil	200
Capital Expenditure	5,547	4,989
Statutory Transfers (recurrent + capex)	869	497
Share of Capex in Total Expenditure	32.39%	34.24%
Aggregate Revenue	10,132	8,121
Budget deficit	6,988	6,449
Key Assumptions		
Benchmark Crude Oil Price per Barrel	62	40
Crude Oil Production (mbpd)	1.88	1.86
Exchange rate (Naira/USD)	410.15	379.00
GDP Growth rate	4.20%	2.50%
Inflation	13%	15%

Source: Budget Office, Cowry Research

The underlying basis for its oil-related revenue projection includes: crude oil benchmark price of USD62 per barrel, crude oil output of 1.88 million barrels per day and an exchange rate of N410.15/USD. In our view, the crude oil price benchmark of USD62/barrel seems quite realistic as the currently tightness in global oil market may persist well into 2022. However, the oil production estimate faces the risk of missing the target owing to long-drawn-out production disruptions caused by sabotage of pipelines and oil wells as well as lack of required investment in the sector (see crude oil production chart below). According to S&P Global Platts, Bonny Light, Escravos and Forcados have all faced production issues in 2021, while the output of other key grades, such as, Qua Iboe, Brass River, Agbami, Akpo and Egina, has also remained consistently low.



Source: Opec, Cowry Research

The Finance Bill 2021

The finance bill 2021 would attempt to address the budget constraint as it identifies avenues for boosting revenue, some of which include:

1. Federal Inland Revenue Service to be empowered to assess the Company Income Tax on the turnover of a foreign digital company involved in transmitting, emitting, or receiving signals, sounds, messages, images or data of any kind including e-commerce, app stores, and online adverts.

2. Lottery and Gaming business to be specifically taxable under CITA including betting, game of chance, promotional competition, gambling, wagering, video poker, roulette, craps, bingo, slot or gaming machines and the likes.

3. 5% capital gains tax to be applied on disposal of shares in a Nigerian company worth N500m or more in any 12 consecutive months except where the proceed is reinvested in the shares of any Nigerian company within the same year of assessment. Partial re-investment is expected to attract tax proportionately.

4. Mandatory payment of gross revenue collected by federal ministries, departments or agencies to the federation account or consolidated revenue fund as the case may be except otherwise authorized by law. Any officer who violates this requirement may be liable on conviction to imprisonment of up to 5 years or a fine of N5m or both.

Economic Growth to Be Sustained in 2022

The Nigerian economy is expected to record modest growth in 2022, especially against the backdrop of the apparent normalization of economy to pre-pandemic levels – the IMF estimated a 2.6% real growth rate for Nigeria in 2021. Again, being an electioneering year and given the higher spending plan by the Federal Government, we expect to see increased economic transactions and increased velocity of money, especially with the early implementation of the 2022 budget.

The major risk factors that could slowdown growth include insecurity and foreign exchange volatility. Government appears better equipped to tackle insecurity following its recent acquisition of additional weaponry in 2021, including a dozen Tucano fighter jets, among others. Growth sectors would include Information & Communication, Agriculture, Trade, Construction and Manufacturing. We expect to see a growth rate of around 3% in 2022.

Information & Communication

Information Technology is increasingly becoming a mainstay in the Nigerian economy, recording consistent growth and increasing its share to GDP (about 15% of GDP and the third largest contributor).

Remote work which was triggered by the 2020 pandemic has been a big enabler of business and is gradually becoming the new normal; changing the way businesses operate. Telecom companies are therefore expected to record further wins, especially with respect to data and voice while also competing in digital and fintech businesses. Fintech companies are fast gaining traction locally, by driving financial inclusion even in rural areas inter alia, and globally, is terms of international trade. We therefore expect to see increased investments and output by players in this sector, given the need to expand market reach.

Agriculture Sector

We expect the agricultural sector, the largest contributor to GDP (about 25% share of GDP) to continue to thrive as farmers continue to return to their farmlands following the removal of restrictions on movement imposed by government on account of the global pandemic as well as gradual resettlement of internal displaced persons. This is in addition to sustained government support to farmers of key crops via the central bank's Anchor Borrowers Programme (ABP). However, insecurity remains a major limiting factor militating against food production especially due to activities of armed herdsmen and bandits who tend exploit and even destroy farmlands.

Trade Sector

The trade sector is the second largest contributor to GDP is expected to see increased activity given the reopening of economy, free movement of persons and goods and increasing adoption of e-commerce via diverse digital platforms. In addition, trade activity is also expected to improve on improving road and rail infrastructure network. Furthermore, the electioneering season is expected to bolster demand for goods and services in 2022. However, downside risk to trade also include insecurity and falling purchasing power, particularly for discretionary spending, due to the lingering effect of inflation.

Construction Sector

Construction activities are expected to improve given the administration's desire to leave a legacy of physical infrastructure across the country in line with its Economic Recovery and Growth Plan (ERGP). Against the backdrop of strained revenues, government is increasingly collaborating with the private sector via its ongoing Road Infrastructure Tax Credit (RITC) scheme and the planned concession of twelve highways spanning 1,000km of the federal road network under the first phase of the Highway Development and Management Initiative (HDMI).

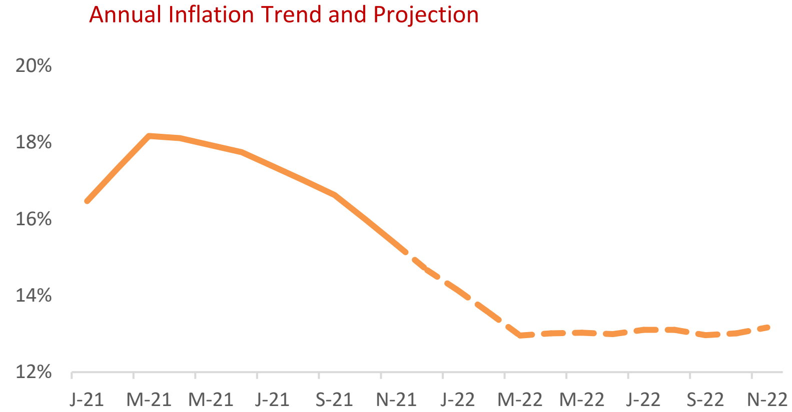
However, there is limited scope for capex in the 2022 budget given limited funds and historically low level of implementation. The Federal Government's proposed capital expenditure (excluding transfers) of N5.55 trillion is lower than N4.99 trillion in 2021 even as capital expenditure as a percentage of total expenditure would be lower at 32.39% in 2022 from 34.24% in 2021.

Manufacturing Sector

The fourth largest contributor to GDP, the manufacturing sector is expected to witness modest growth given harsh economic headwinds. The foreign exchange shortage is expected to raise input cost such as the cost of imported capital goods and raw materials. This is, in addition to weakening purchasing power, would tend to reduce to profit margins of manufacturers. That said, we see a few bright spots among manufacturers of building materials needed for construction, pharmaceutical products necessary for healthcare delivery, and Fast Moving Consumer Goods which should benefit from the splurge being anticipated during the electioneering season.

Inflation Expected to Rise in the Year 2022

With respect to inflation, we expect to see a persistent double-digit number even after the high base effect caused by the 2020 pandemic wears out. Upside risk factors that would play out include sustained foreign exchange pressures and volatility, increased budgetary and electioneering spending, and insecurity which has negatively impacted food distribution across the country last year. On average, we expect an inflation rate of around 13.30% in 2022, although it may be higher if the Federal Government makes good its plans to remove fuel subsidy on premium motor spirit in 2022.



Source: Cowry Research

On average, we forecast an inflation rate of 13.30% for 2022, higher than the Federal Government's inflation forecast of 13% in its 2022 budget assumption and CBN long term inflation target of 9%.

FOREIGN EXCHANGE OUTLOOK

We expect the foreign exchange rate to remain at an elevated level, at least in the first quarter of 2022, for as long as the supply of the greenback remains challenged. Specifically, based on the Nigerian Autonomous Foreign Exchange (NAFEX) or I&E FX rate, the Naira appears overvalued and we expect the Naira to depreciate further given the differential between the current exchange rate of N415/USD and our estimated real exchange rate of about N442/USD. However, at the parallel market, we feel the Naira is undervalued at current rate of N578.27/USD and should be trading at around N552/USD.

Nigeria's foreign currency earnings remains weak; predicated on the low volume of crude oil output currently being exported and the near absence of complementary non-oil exports. Although the country is expected to record significant transfers from abroad, there is a limit to which foreign remittances can help provide stability in the foreign exchange market. Also, the several initiatives/efforts concurrently seeking to promote import substitution (for instance in the area of medical tourism, local refining of crude oil, etc) and thus limit pressure on the external reserves are not expected to yield results in the short term.

The central bank is therefore expected to continue its managed exchange rate policy and ration its supply of foreign exchange, especially in favour of manufacturers which need to import critical capital goods in order to scale up production activities to further pursue the output growth agenda of the monetary authority. That said, the much-anticipated 650,000 barrels per day Dangote Oil Refinery which is expected to commence operations in H1 2022 may provide much needed succor to the foreign exchange market as the project not only meets the local demand for PMS but also exports same to earn much needed foreign exchange to complement the USD sources and ease pressure on the foreign exchange rate.

The parallel market, however, remains the elephant in the room and in the light of ongoing market reforms, it will be interesting to see how CBN deals with this market segment. We opine that the CBN should put in place mechanisms to unify the foreign exchange markets and encouraging surplus units, especially the participants at the parallel market, to adopt the already established foreign exchange market; in this case, the NAFEX market.

INTEREST RATE OUTLOOK

Cowry Research is of the opinion that the monetary authority would sustain its expansionary policy so as to keep supporting the fiscal authority on its effort to boost economic activities. Hence, we do not anticipate any possible increase in monetary policy rate (MPR) in 2022. Nevertheless, given the increased level of budget deficit of close to N7 trillion in 2022 and the anticipation of a volatile foreign exchange rate in the pre-election year, we expect stop rates on debt issuances to be relatively volatile.

Leaning on past experience, we expect a strong demand for foreign currency which usually accompanies pre-election year to negatively impact on the country's exchange rate; hence, leading to depreciation of the Naira against other foreign currencies, especially the USD. Consequently, we anticipate a reasonable fluctuation of the stop rates on bonds and T-bills maturities that would be issued by Debt Management Office (DMO) and the Central Bank of Nigeria (CBN) in 2022. The actions of the issuing authorities and the anticipated sell-off by some investors to boost liquidity, are expected to impact on the secondary market yields, particularly, at the longer end of the curve. Hence, yields at the longer end of the curve should swing between higher band of 12.50% and 14.50% as traders adjust to market reality while rates in the money market would range between 2.5% and 8.00% across 91-day to 364-day maturities.

We note that the cost-push inflation rate that Nigeria is grappling with, would limit the decision of the monetary authority to increase the benchmark rate as this could impact negatively on the country's economic growth. Hence, we are unlikely to see inflation rate induce upward revision of the interest rate in 2022 despite the pre-election year spending which may give rise to a different form of inflation (demand pull). Cowry Research feels that the demand-pull inflation which may be witnessed in the pre-election year would be transient; hence, the monetary authority is less likely to battle this form of inflation with rate hike.

For us, we don't see much of foreign portfolio involvement in the fixed income space amid foreign exchange risk. Thus, we rule out the possibility of the MPC enticing the FPIs with juicy rate. This further strengthen our position of monetary policy rate staying put at 11.50%.

The increase in local bond yields would further be exacerbated by the rush for FGN Eurobonds which investors would see as haven during this electioneering period. We expect a lot of conversion of Naira denominated assets to dollar denominated assets and this singular investor action would further put pressure on the local currency and local bond yields.

In summary, the swing in bond yields between 12.50% and 14.00% in the year 2022 would chiefly be based on the forces of demand and supply amid market dynamics, even as the fiscal authority marginally increases the cost of debt on the issued maturities to further stimulate subscriptions amid large budget deficit in FY 2022.

FIXED INCOME INVESTMENT STRATEGIES FOR 2022

We advise traders to buy fixed income securities at the longer end of the curve and lock in positions toward the resistant band amid our outlook that the monetary authority would leave the benchmark rate unchanged but that, the yields in the secondary market would trade at a higher band of 12.50% and 14.00% as government raises rates to stimulate investors interest.

Given the anticipated volatile fixed income market, we expect investors to buy T-bills and bonds around stop rates, that is, immediately after auctions in order to take position at good levels and not miss out on the possible increase in rates. Hence, more of short term, rather than medium to long-term trading strategy should be adopted in order to avoid being trapped in a lower yield position.

Taking short position by selling borrowed bonds at lower yield in order to buy back at higher yield and returning the borrowed bonds profitably, would be a great strategy in 2022 as yields climb higher towards 14.50% at the longer end of the curve, and to 8.00% for 364-day T-bills.

Given the importance of foreign currency during pre-election periods, we note that positioning in FGN Eurobonds within the range of 9% to 10% would be a fantastic move as the rush to foreign denominated assets, particularly in the second half of the year, would drive down yields on this particular asset class.

In the first quarter of 2022, we expect more of funds to flow to the equities market ahead of corporate actions, hence a bit of sell-offs in the fixed income market and slow demand would raise yields marginally. In the second quarter of 2022, specifically in the first two months, we expect some strategic positioning in the T-bills and bonds markets as money flows out of equities market given the end of dividend payment period. However, we expect yields to begin to trend upward in the third month of Q2 2022 as the commencement of intense campaigns and rallies by politicians begin. The third and fourth quarters may experience significant volatility in local bond yields amid uncertainty over the outcome of the February 2023 elections.

EQUITIES OUTLOOK

Cowry Research anticipates a northward run of share prices on the local bourse, especially in the first quarter of 2022, as that period marks the corporate action season when shareholders would be receiving a share of companies' earnings due to them in proportion to the profitability of those corporates that choose to pay dividend, for the year ended 2021. With the benefit of hindsight, we have seen better number of companies with impressive profit after tax in 9 months 2021, when compared with their profitability in 9 months 2020 – the year COVID-19 pandemic held the world in their homes. Since the beginning of the new normal – as characterized by work from homes, introduction and intake of vaccines and the partial re-opening of world economies – so many companies in the hospitality, banking, healthcare and telecommunication sectors have enjoyed increased sales and profitability. Hence, as corporates' final financial reports for 2021 are churned out in the first quarter of 2022, coupled with the announcement of dividend payouts we expect investors to bargain hunt for shares on NGX platform.

Moving into the second quarter of the year 2022, we expect a bit of bearish momentum engendered by profit taking activity (emanating from high prices in Q1 2022) and side-lines positioning of investors as they await corporates' H1 2022 interim financial results. These would filter into the early months in the third quarter of the year before another round of bullish momentum surfaces on the domestic bourse as investors structure their portfolios in line with companies with increased profitability as well as cheering interim dividend announcements. Even as we usher in Q4 2022 on a bullish note, early days in the month of December 2021 is expected to be mildly bearish as investors sell their shares for liquidity reasons, especially the retails and high net worth individuals, amid yuletide season.

Having stated our logical flow of funds in the local equities market in 2022, other factors which would impact on the deepness of the equities market trend as mentioned above include: the direction of the fixed income securities yields, severity of the Omicron threat on the world economy, local inflation rate, federal government position on subsidy removal and exchange rate volatility amongst other factors.

Cowry Research does not envisage a major participation by the foreign portfolio investors in Nigeria's stock market amid high possibility of developed economies raising their benchmark interest rate to curb the rising inflation in their countries even as they further ease out of different variants of COVID-19 threats. In the later part of 2022, more advanced countries' central banks are expected to wind down on COVID-19 intervention programs and its attendant expansionary policies. Also, the FPIs' fears of losing their capital gain or dividend income to the depreciation of the Naira against the USD would further discourage them from participating in Nigeria's financial market, and in particular, the equities market. However, we expect the local institutional, high net worth individuals and retail investors to increase their participation in the stock market as they are less affected by foreign currency translation threat. More so, the continued support of the Central Bank of Nigeria to boost economic growth which would subsist in 2022 is expected to keep the interest rate environment low – albeit, the recent rising rate on FGN Eurobond appears to a risk factor to declining local bond yield.

On a sectoral basis, we anticipate a more favored healthcare sector as the world renews efforts to combat the recent rising threat of the new Omicron variant of COVID-19 which has flu-like symptoms – that would increase the use of prophylactic and anti-viral drugs. In a similar thought, the need to further manage the impact of COVID-19 pandemic should boost public sector and private sector investments in healthcare sector. Hence, we expect the pharmaceutical companies to sustain improved performance in the year 2022.

The banking sector appears to be more resilient and remains poised to sustain their performance even as we expect interest rate to be quite volatile in the penultimate year to 2023 election. The swing in rates to either direction should continue to favor the banks with high liquidity, which are mostly the Tier-1 banks, as the gains reflect on their interest income line (if rates go higher) or investment securities trading line (if rates crash). Deposit Money Banks (DMBs) that devote more funds to trading securities are expected to boost overall profitability via this income line. We expect banks' lending rates to maintain an upward trend as they try to create reasonable margin amid increasing cost of funds.

For the Fast-Moving Consumer Goods (FMCG) companies, we expect an improved turnover in this space given the anticipated boost in consumer spending in 2022 – the year preceding electioneering year – as various political parties engage in rallies and campaigns to win electorates to their sides. The expected spending by the political gladiators this period should impact positively on consumer goods sector. Specifically, we should see increased social gathering that would impact positively on the financials of the brewing companies.

Companies playing in the building material sector are expected to register marginal increase in revenue as capital projects begin to take the back seat in the pre-election year. As usual, the attention of government, especially the executive, would be drifted towards strategizing to win to 2023 elections. Also, the building materials companies and other real sector companies' opportunity to benefit from low interest rate environment to reduce finance cos.t in order to boost profitability would fizzle out in 2022 as rate is expected to fluctuate at high levels.

EQUITIES INVESTMENT STRATEGIES FOR 2022

As part of investment strategy in the equities market for the year 2022, Cowry Research expects investors to keep track and position in companies that have recently recovered from a low base revenue stream and have also boosted profitability, especially in 9M 2021. We note that the share prices of these set of companies would become more attractive in the first quarter of 2022 as they are likely to offer increased dividend payout to those invested in them. This strategy is expected to speedily reward investors in the earliest possible period between December 2021 and March 2022.

Also, we expect medium to long term investors to bargain hunt for undervalued stocks; particularly of those companies that have their share prices trading below their book value per share and have recorded higher profitability with declining leverage ratio. Also, this set of investors should put their monies in dividend paying stocks, especially those with dividend yield that is above 10%, and are likely to increase their dividend payout. Specifically, long-term investors should target second quarter of 2022 to buy the anticipated dip – this would enable them position at a comfortable support price level that comes along with higher dividend yield.

In order to optimize returns on investment, we feel that investors' attention should be concentrated more on the sectors we highlighted above as they are well positioned for higher revenue and profitability in 2022. For companies operating in these sectors emphasis should be on those ones with wider profitability margins, higher EBIT to interest bearing liabilities ratio, improved cash position and increasing returns on average equity. Notably, we embrace the concept of averaging down as mere sentiment could unduly push share prices lower than expected; hence, averaging down concept would help boost returns.