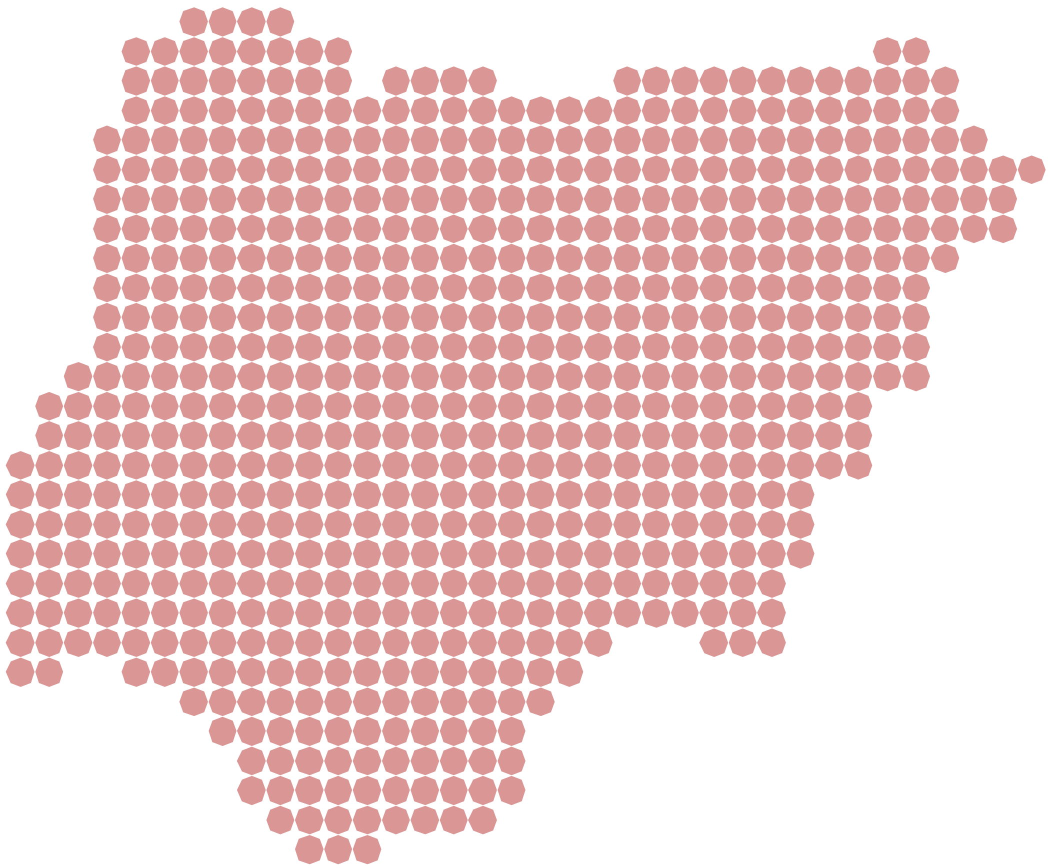


Outlook & Investment Strategies for 2020

Table of Content

Executive Summary

International Monetary Fund projects global output to grow by 3.4% in 2020, higher than 3.0% forecast for 2019. The Bretton Woods institution predicated its global growth forecast on increased output in emerging and developing economies, especially in Asia and Europe, which are currently witnessing strong domestic demand and rising wages amid monetary and fiscal stimuli. This is in spite of the ongoing global trade tensions, especially between the U.S. and China as well as economic and trade uncertainties over the Brexit saga – in deed, the IMF projects slower growth rates for U.S. and Chinese economies of 2.1% and 5.8% respectively in 2020 (from 2.4% and 6.1% projected for 2019).

The IMF projects Nigeria's economy to grow by 2.5% in 2020 (higher than 2.3% forecast for 2019). We expect the Nigerian economy to benefit from solid crude oil revenues which should support economic growth in 2020 as well as provide boost to its external buffers. Sustained expansionary fiscal policies should, especially from the angle of infrastructural development around the country should also provide at least minimal support to growth giving lag effects due to their long gestation period.

We expect general price level of goods and services to be upbeat in 2020, mainly as a result of structural factors and less of consumer demand. Continued border closure by the fiscal authority, premised on the need to support local industries, is expected to exacerbate cost push inflation – although there are expectations that the protectionist measure should stimulate domestic output and improve the balance of payments.

We believe the monetary authority will remain aligned with the fiscal authority's economic growth objective by seeking to create and sustain conditions that will boost liquidity in the financial system in order to drive down interest rates to single digit. Thus, we expect interest rates to remain suppressed in 2020. In a complementary move, we suspect the Monetary Policy Rate may be adjusted downwards from 13.50% to 13% in order to further signal its expansionary monetary policy regime.

We expect 2020 to be a favourable year for equities against the backdrop of low interest rate environment. This is because companies would be able to access funds at cheaper cost, thus reducing their interest expense and positively impacting their bottom lines. Also, investors are expected to make a switch from fixed income securities yielding negative real returns to equities presenting positive real returns both in terms of dividend yields as well as possible capital appreciation especially in the first quarter of 2020.

Nigeria's Macroeconomic Environment in 2019

Nigerian Economic Growth Sustained Above 2% Mark on Non-Oil Sector

Nigeria's real Gross Domestic Product grew year-on-year (y-o-y) by 2.28% to N18.49 trillion in Q3 2019, faster than 2.12% growth to N16.93 trillion registered in Q2 2019 (see Exhibit M1). The non-oil sector which accounted for the improved GDP number grew y-o-y by 1.85% to N16.69 trillion. Also, Oil & Gas sector expanded y-o-y by 6.49% to N1.81 trillion in Q3 2019, chiefly due to the relatively higher crude oil output in the quarter under review (compared to Q2 2019; see Exhibits M1 and M2).

Reflective of the moderate GDP growth, inflation rate was somewhat muted, trending around 11% but aggravated in Q4 2019 on account of the border closure and its impact on food prices. Business confidence remained positive at 29 points in November 2019, better than 24 points in November 2018; while consumer goods 3.8 points in Q3 2019, better than 1.8 points in Q3 2018. However, external reserves generally trended lower in 2019 amid sustained efforts by the apex bank to defend the local currency, Naira, against the U.S. greenback via weekly interventions.

Exhibit M1: Analytical Presentation of Nigeria's Real GDP

Major Sectors	Q3 2019	Q2 2019	Q-o-Q %Change
Oil & Gas (N 'Trn)	1.81	1.52	18.88%
Y-o-Y %Change	6.49%	7.17%	
Non-Oil Sector (N 'Trn)	16.69	15.41	8.28%
Y-o-Y %Change	1.85%	1.64%	
Quarter GDP (N 'Trn)	18.49	16.93	9.23%

Share of Real GDP (%)	Q3 '19 Share of Real GDP	Q3 '19 y-o-y Growth (%)	Q2 '19 y-o-y Growth (%)
Agriculture	29.25%	2.28%	1.79%
Trade	15.23%	-1.45%	-0.25%
Info & Comm	11.34%	9.88%	9.01%
Manufacturing	8.74%	1.10%	-0.13%
Mining & Quarrying	9.90%	6.19%	7.00%
Real Estate	6.21%	-2.31%	-3.84%
Construction	3.01%	2.37%	0.67%
Profes, Sci & Tech Services	3.57%	-2.62%	1.21%
Financial Services	2.49%	1.07%	-2.24%
Education	2.12%	1.19%	0.96%
Other Economic Activities	8.15%		
Qtr 2019 Real GDP	N18.49 Trn	2.28%	2.12%

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

Purchasing managers index pointed to better expansion in 2019 in both manufacturing and non-manufacturing activities amid sustained new orders and production level. Similarly, expansion in employment level continued; although appearing to have faltered.

Nigeria's Composite Purchasing Managers' Index

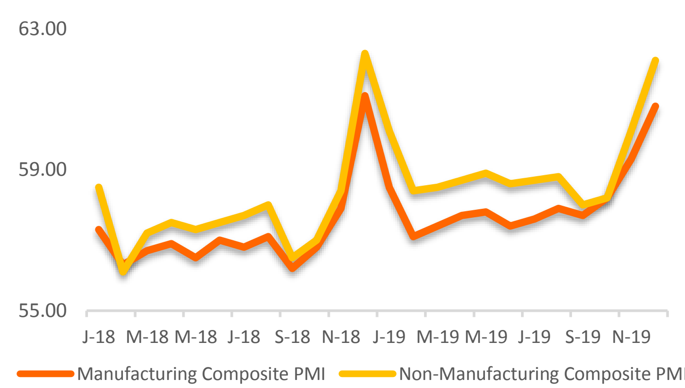
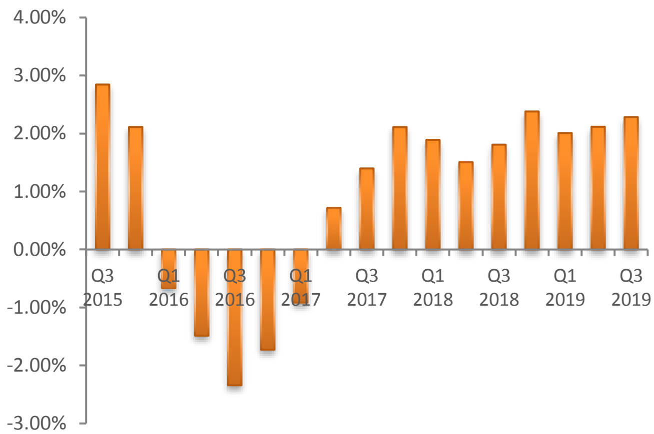
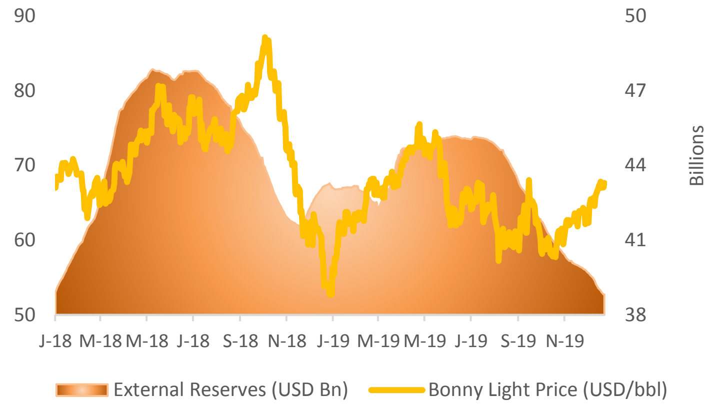


Exhibit M2: Nigeria’s Key Macroeconomic Variables

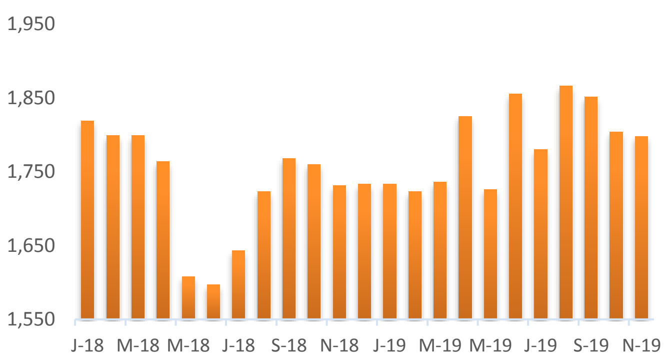
Y-o-Y Real GDP Growth Rates



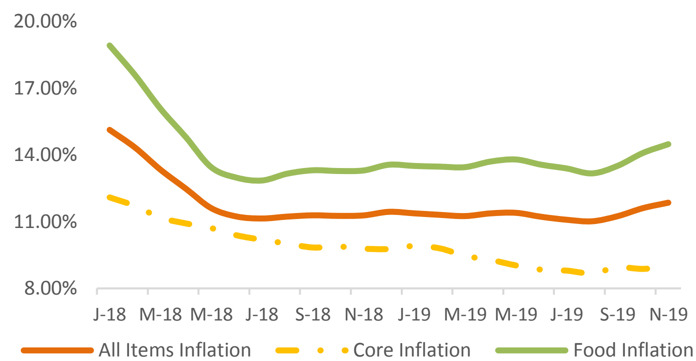
External Reserves and Bonny Light Price



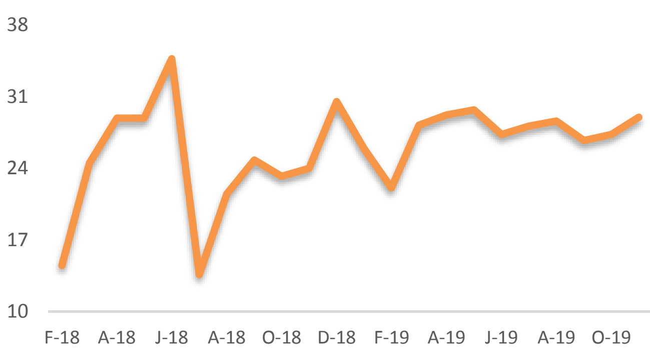
Nigeria's Daily Crude Oil Production '000 bpd



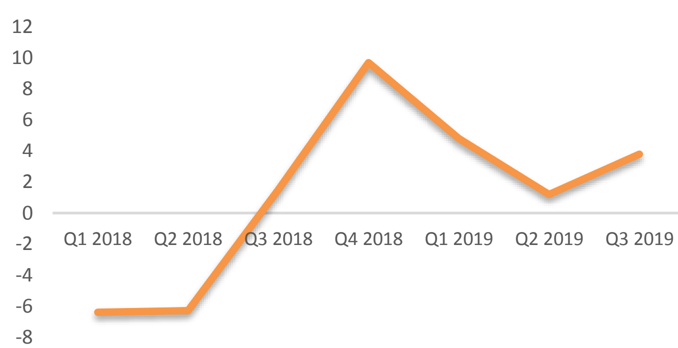
Consumer Price Inflation



Business Confidence Index: All Sectors



Overall Consumer Confidence Index



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

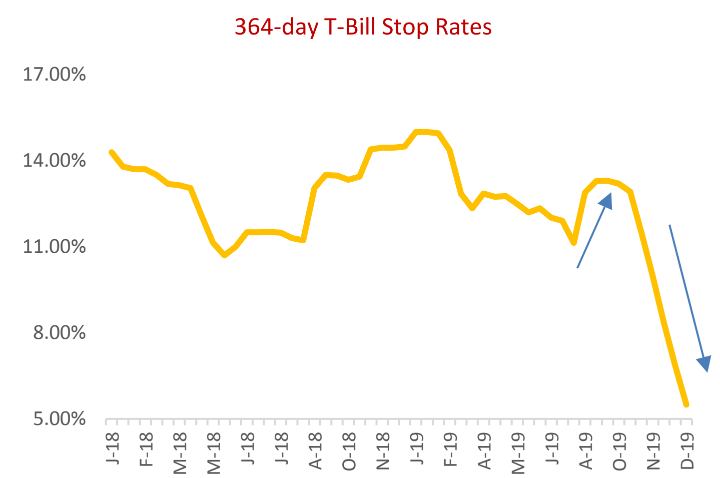
Review of Fixed Income Space in 2019

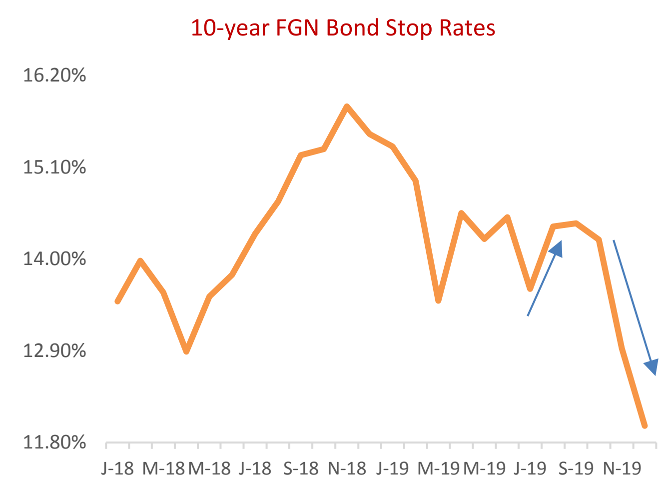
Stop Rates Decline at Primary Market Auctions on Increased Investor Demand

In the review year, stop rates of auctioned Federal Government debt instruments generally moved southwards, but especially in the last quarter which recorded significant investor demand. The demand was induced by a liquidity glut created by a Central Bank of Nigeria directive which banned high net worth individuals and non-bank financial institutions from participating in its Open Market Operations in line with international norms. This effectively shifted demand from OMO window to auctioned T-Bills and FGN Bonds. Stop rates which initially fell from 14.50% in January 2019 to 11.14% in June 2019, rebounded to 13.30% in September 2019 amid expectations that the Federal Government would access the debt market to finance is expenditure programmed following the conclusion of the March elections and the appointment/swearing-in of cabinet members in July/August.

However, against the backdrop of sustained global monetary policy easing, especially in the U.S. as well as in Nigeria, we saw increased demand for short- and long-term Federal Government debt instruments which resulted in a reversal in stop rates southwards to 5.50% in December 2019.

Exhibit F1: Stop Rates of Auctioned FGN Securities



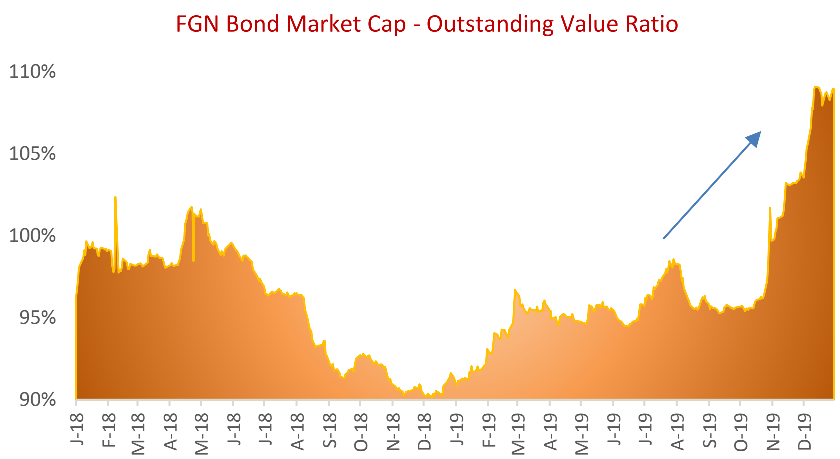


Source: FMDQ, Cowry Research

FGN Bonds Traded Over-the-Counter Appreciate amid Liquidity Ease

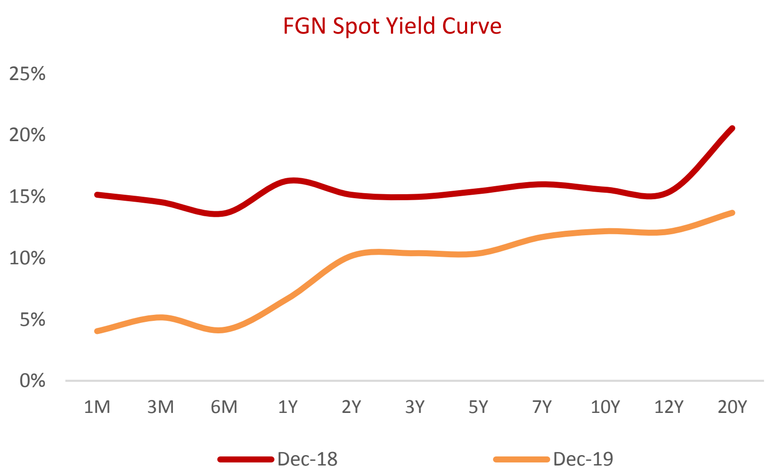
Against the backdrop of ease in financial system liquidity, the over-the-counter FGN bond market witnessed relative bullish activity in 2019 compared to 2018, resulting in price appreciation (and corresponding decline in yields). The ratio market capitalization to outstanding bonds value averaged 97% in 2019, higher than 96% in 2018. FGN bonds traded above par uninterrupted in November and December 2019.

Exhibit F2: FGN Bond Performance



Bond Prices Appreciate amid Boost in Liquidity…

The performance of the FGN bond market in 2019 was in stark contrast to 2018; mainly to a liquidity glut which resulted in increased demand for OTC FGN bonds, thus increasing prices and depressing yields.



Nigerian Fixed Income Yield Curve Normalizes Further in 2019…

Against the backdrop of the decreasing yield environment, especially for short-dated instruments, the yield curve normalized further in 2019 from a more flattish curve in 2018.

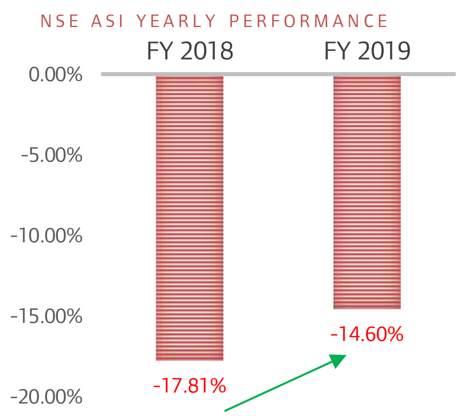
Source: FMDQ, Cowry Research

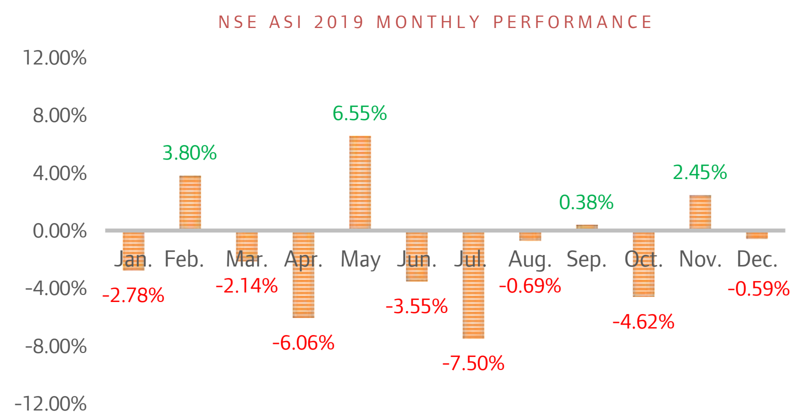
Review of Equities Space in 2019

How Stocks Fared?

The stock market was generally bearish, recording a year-on-year loss of 14.60% (see Exhibit E1), although was less severe than 17.81% recorded in 2018. There were eight months of bearishness compared to only four months of stock appreciation. Activity-wise, the stock market also recorded declines in total deals, transacted volumes and Naira votes (see Table E1), partly due to overwhelming attraction of risk averse investors to fixed income instruments. Of note, retail investors may have been pivotal to the improved performance in 2019 relative to 2018 as investments by retail investors fell less sharply compared to those of institutional investors (local and foreign).

Exhibit E1: Stock Market Performance





Source: *NSE, Cowry Research*

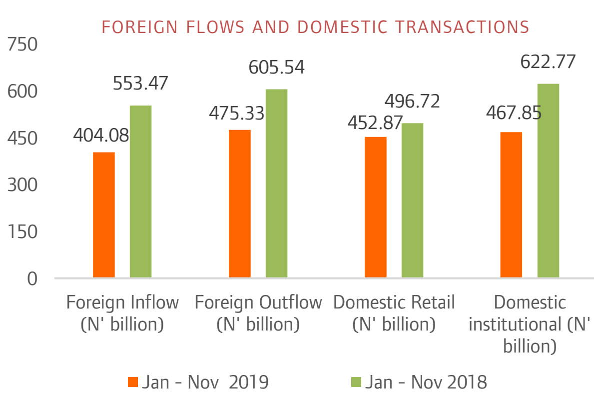


Table E1: Market Activity

	FY 2019	FY 2018	Change
Deals	880,493	1,045,277	-15.76%
Volume (Mn)	78,978	101,242	-21.99%
Value (N 'Mn)	957,982.92	1,198,109.93	-20.04%

Source: *NSE, Cowry Research*

All sub sectors closed in the red: specifically, most hit was NSE Consumer Goods sector which fell sharply by 20.83% to592.85 points as brewery players, International Breweries, Guinness Nigeria and Champion Breweries each shed more than fifty per cent of their market values amid increase in excise duties coupled with increased operational inefficiencies. Next was the NSE Oil/Gas sector which tanked by 13.13%, dragged by shares of Total Nigeria, amid sustained regulation of petrol pump price which thinned gross margins in addition to operational inefficiencies. Finally, NSE Banking sector moderated by 10.55%, dragged by the likes of Ecobank Transnational Incorporated (ETI), amid uncertainties created by a flurry of regulatory pronouncements which threaten to limit their earnings capacity.

Table E2: NSE Sector Gauges Performance

	31-Dec-19	31-Dec-18	Year-to-Date %Change
NSE Banking	356.84	398.94	-10.55%
NSE Insurance	125.82	126.48	-0.52%
NSE Consumer Goods	592.85	748.83	-20.83%
NSE Oil/Gas	262.54	302.23	-13.13%
NSE Industrial	1,075.60	1,237.88	-13.11%

Source: *NSE, Cowry Research*

Table E3: Top 10 Gainers

Company	31/12/2019	31/12/2018	Change (N)	Change (%)
CORNERST	0.45	0.20	0.25	125.00%
ACCESS	10.00	6.80	3.20	47.06%
TRANSEXPR	0.92	0.65	0.27	41.54%
CAVERTON [BLS]	2.67	1.92	0.75	39.06%
ROYALEX	0.30	0.22	0.08	36.36%
EKOCORP [BLS]	4.25	3.37	0.88	26.11%
JAIZBANK	0.62	0.50	0.12	24.00%
WAPCO	15.30	12.45	2.85	22.89%
WEMABANK	0.74	0.63	0.11	17.46%
MTNN	105.00	90.00	15.00	16.67%

Source: *NSE, Cowry Research*

*We used the Thursday, May 16, 2019 listing price of MTNN to its compute change

Table E4: Bottom 10 Losers

Company	31/12/2019	31/12/2018	Change (N)	Change (%)
INTBREW	9.50	30.50	(21.00)	-68.85%
GUINNESS	30.05	72.00	(41.95)	-58.26%
GLAXOSMITH	6.10	14.50	(8.40)	-57.93%
ETI	6.50	14.00	(7.50)	-53.57%
PZ	5.65	12.10	(6.45)	-53.31%
CHAMPION [BLS]	0.95	1.99	(1.04)	-52.26%
UAC-PROP	1.00	1.91	(0.91)	-47.64%
TOTAL	110.90	203.00	(92.10)	-45.37%
UPL	1.28	2.18	(0.90)	-41.28%
UNILEVER	22.00	37.00	(15.00)	-40.54%

Source: *NSE, Cowry Research*

How Our Predictions Panned Out in H2 2019

In evaluating our predictions, we will focus on our outlook for the second line of 2019, being the most recent. Events that played out in the financial markets during the period were fairly in line with our predictions, with the discrepancies mainly due to unforeseen monetary policy moves by the apex bank aimed at shoring up financial system liquidity. Specifically, we were on track in our predictions on the direction of interest rates in the third quarter until the sudden boost in liquidity (caused by exclusion of non-bank financial institutions and high net worth individuals from participating in OMO sales) depressed yields sharply in the last quarter. The resultant sustained demand for fixed income instruments in the primary market essentially shifted attention away from the equities market, thus depressing stock prices contrary to our expectations. Meanwhile, in line with our expectations, the Federal Government issued more domestic debt and no foreign debt. Below is a table comparing our predictions/recommendations for H2 2019 to the actual outcomes in the fixed income and equities markets.

Our Prediction / Recommendation for H2 2019	Actual Outcome
Having seen moderation in fixed income yields in H1 2019, especially for T-Bills, we anticipate an increase in the yield environment in H2 2019. Hence, we advise active portfolio managers to avoid investing the long end of the yield curve in order to mitigate interest rate risk.	Stop rates for 91-day and 364-day T-Bills rose on average from 9.8% and 12.18% respectively in June to 11.1% and 13.29% in September. Similarly, stop rates for the 5-year, 10-year and 30-year maturities rose from 13.35%, 13.64% and 14.12% in July to 14.39%, 14.43% and 14.64% respectively in September. However, in an unexpected move, spot rates generally began to decline from October amid increased demand from portfolio investors who brought more liquidity to the market and sought safety over positive real returns. This followed a 25bps cut in target range of the U.S. federal funds rate to 1.75% - 2% in September and another 25bps cut to 1.5% - 1.75% in October. Liquidity level rose further on account of CBN's surprise policy to restrict local domestic institutional investors and HNIs from participating in its Open Market Operations. Specifically, 91-day, 182-day and 364-day stop rates crashed to 4%, 5% and 5.49% respectively in December as investors swooped on short-dated safe assets – all offering returns lower than inflation rate of 11.85%. Similarly, long-dated bonds fell, but not as dramatic; 5-year, 10-year and 30-year stop rates moderated to 11%, 12% and 13% respectively.

Notably, FPIs and domestic institutional investors are also expected to have renewed interest in equities market (in H2 2019), given the likely indication that the US Fed would lower its monetary rate to support its country's economic growth. In the same vein, the current low fixed income yields environment in Nigeria which has moderated towards lower double digit should make investors see the need to gravitate towards patronizing the local equities market. Indeed, the need to invest in short term fixed assets makes less investment sense to investors now, as real return on fixed asset investments, especially treasury bills, have become negative amid increasing inflation rate; inflation rate trended upward to 11.40% in May from 11.25%, the lowest it touched in H1 2019.	In August and September FPI inflows in the equities market exceeded outflows, indicative of renewed interest by foreign investors – foreign inflows in August and September were N34.92 billion and N47.73 billion respectively while outflows were N28.98 billion and N546.72 billion respectively. Save for those two months, the rest of the year saw higher monthly outflows than inflows as FPIs prioritized safety over risk. As for domestic institutional investors, PFA investments in equities fell from N536.97 billion in June 2019 to N475.67 billion in October 2019 while their investments in FGN Bonds, T-Bills and local money market securities increased from N4.44 trillion, N1.94 trillion and N1.04 trillion to N4.59 trillion, N2.24 trillion and N1.15 trillion, over the same period, despite negative real returns on fixed income investments.
These same factors would also create northward pressure on the interest rate as Federal Government is likely to be forced to increase its cost of fund to attract enough subscription for its debts issuances. We expect the Federal Government debts to chiefly be issued locally, which would spur higher rate, given the increasing foreign debts, which put a dwindling pressure on the country's external reserves, and its servicing, which obviously has become more expensive (external debts service rose to 7% in 2018 from 3% in 2017).	In a surprise move by the apex bank, CBN, barred local non-bank institutional investors and high net worth individuals, HNIs, from participating in its OMO sales. Following their exclusion, the financial system became more liquid, and in the absence of other risk-free investments, we saw increased demand for T-Bills and FGN bonds; thus, driving their yields lower. Lower yields occasioned by enhanced liquidity would eventually allow the public sector access cheaper finance to execute fiscal spending plans. Although this was against our expectation of higher cost of fund, the Federal Government issued domestic debt in H2 2019 and no foreign debt in line with our expectation.
Nevertheless, we feel that the equities market has been over-beaten by investors. Hence, an upward movement of the general market gauge looks inevitable in H2 2019. Many companies' share prices are way undervalued and their dividend yields have become incredibly high. This portends good entry-price opportunity for investors to make a "finger-licking" gains in the near term.	The equities market remained generally bearish as investors were unwilling to take on risk assets, being overweight on fixed income securities. Performance declined in four out of six months – July (-7.5%), August (-0.7%), October (-4.6%) and December (-0.6%). This eclipsed only two months in the green – September (+0.4%) and November (+2.5%).

2020 Macroeconomic & Financial Markets Outlook

Global Economy

International Monetary Fund projects global output to grow by 3.4% in 2020, higher than 3.0% forecast for 2019. The Bretton Woods institution predicated its global growth forecast on increased output in emerging and developing economies, especially in Asia and Europe, which are currently witnessing strong domestic demand and rising wages amid monetary and fiscal stimuli. This is in spite of the ongoing global trade tensions, especially between the U.S. and China as well as economic and trade uncertainties over the Brexit saga – in deed, the IMF projects slower growth rates for U.S. and Chinese economies of 2.1% and 5.8% respectively in 2020 (from 2.4% and 6.1% projected for 2019).

To support economic expansion in their respective economies, major central banks in advanced economies adopted accommodative monetary policy measures even as central banks in several emerging market and developing economies have also cut policy rates – a stance that is expected to be sustained in 2020.

Meanwhile, amid a relative weaker U.S. dollar, resource rich economies are expected to benefit from expectations of increased global demand for their exports. Specifically, Opec anticipates a 1.08 mbpd increase in global oil demand to average 100.88 mbpd in 2020 is anticipated to (up from 99.80 mbpd), with significant demand coming out of Asia (particularly from India and China). On the other hand, non-Opec supply in 2020 is forecast to grow by 2.17 mbpd to average 66.46 mbpd while Opec supply in 2020 is expected to keep the market in balance, via the instrumentality of the output quota agreement, in order to ensure favourable crude oil prices in 2020.

Table O1: Real GDP Growth Forecasts

Region	2020 Forecast	2019 Forecast
World	3.4%	3.0%
United States	2.1%	2.4%
Euro Area	1.4%	1.2%
China	5.8%	6.1%
India	7.0%	6.1%
Nigeria	2.5%	2.3%
South Africa	1.1%	0.7%

Nigerian Economy

The IMF projects Nigeria's economy to grow by 2.5% in 2020 (higher than 2.3% forecast for 2019). We expect the Nigerian economy to benefit from solid crude oil revenues which should support economic growth in 2020 as well as provide boost to its external buffers. Sustained expansionary fiscal policies should, especially from the angle of infrastructural development around the country should also provide at least minimal support to growth giving lag effects due to their long gestation period. However, growth expectation is also subject to risks of possible Naira depreciation occasioned by foreign portfolio exits on account of any disincentive to remain invested in the domestic financial markets, weaker consumption activities due to increased indirect taxes and significant economic leakages due to recurring petroleum subsidy.

Inflation

We expect general price level of goods and services to be upbeat in 2020, mainly as a result of structural factors and less of consumer demand. Continued border closure by the fiscal authority, premised on the need to support local industries, is expected to exacerbate cost push inflation – although there are expectations that the protectionist measure should stimulate domestic output and improve the balance of payments. Inflation could be further aggravated in the event of deprecation of the Naira relative to the U.S. dollar triggered by external shocks, especially foreign portfolio outflows. There is also the upside risk of an upward review of electricity tariffs statutorily expected during the year.

Fiscal Sector

The Federal Government budgeted N10.59 trillion for 2020, comprised of N4.84 for recurrent (non-debt) expenditure; N2.73 trillion for debt service; N2.47 trillion for capital expenditure and N560.47 billion for statutory transfers. The budget (an increase over N9.12 trillion in 2019) was predicated on crude oil production of 2.18 million barrel per dollar (mbpd); crude oil price benchmark of USD57 dollar per barrel; exchange rate of N305/USD; GDP growth rate and inflation rates of 2.93% and 10.81% respectively.

While the projected N4.84 trillion recurrent expenditure is expected to gulp about 57.5 per cent of projected N8.41 trillion revenues, N2.72 trillion in debt servicing is expected to claim 32.3 per cent while

N0.56 trillion in statutory transfers should absorb a further 6.6 per cent; thus necessitating borrowings to fund its N2.47 trillion capital expenditure plan of, albeit inefficiently.

We however feel that the revenue projection is quite optimistic given that actual revenues in the preceding years underperformed forecasted revenue at 54% and 52% in 2018 and 2017 respectively. Thus, assuming 55% (or N4.62 trillion) revenue performance for 2020, the projected recurrent (non-debt) expenditure, assuming 90% performance (or N4.36 trillion) based on average performance of 2018 and 2017, should gulp over 94% of revenues; hence, we anticipate a much higher borrowing rate in 2020. On a positive note, however, the Federal Government's debt is expected to refinanced at lower interest rates.

In its attempt to shore up government revenues, the fiscal authority presented its finance bill for 2019 to the legislature. The Senate also introduced a new bill which to aims take the responsibility of road construction, rehabilitation and maintenance away from the Federal Government and place it in the hands of local and foreign investors once passed into law.

Meanwhile, we view the speedy passage the N10.59 trillion 2020 appropriation bill in December 2019 – an increment of N264 billion from N10.33 trillion originally presented – and its enactment into law by the President in the same month as a positive, paving the way for early implementation of the budget, as early as January 2020, which should stop the late implementation which in the past resulted in a vicious cycle of underperformance by the fiscal authority.

Foreign Sector

Nigeria's foreign exchange market should witness stability in 2020. We expect CBN to sustain its OMO sales at high interest rates in order to attract foreign portfolio investors and maintain foreign exchange rate stability as OMO interest mature. This is because anticipated liquidity glut will depress interest rates and result in negative real returns on investment – a situation that could lead to a reversal of foreign exchange flows as well as speculative attacks on the Naira. Furthermore, we anticipate favourable global crude oil prices which in addition to sustained crude oil output – on account of relatively stability in the Niger Delta – should lead to sustained crude oil dollar revenues, boosting Nigeria's external buffers.

Monetary Sector

Events in the financial sector in the year 2020 will be shaped by a central theme – Liquidity Creation. We know that the apex bank plans to increase the Loan-to-Deposit ratio further to 70 per cent in 2020, up from 65 per cent in December 2019. This is expected to boost liquidity in the financial system as a result of increased money creation. Other potential sources of liquidity include matured bills and FAAC disbursements. Hence, the resultant effect would be the reduction in interest rates to allow the real sector obtain much needed financing more cheaply and hence, support economic growth. By the same token, the anticipated reduction in interest rates amid increased money supply would help reduce the cost of financing the N2.18 trillion Federal Government fiscal deficit. In managing liquidity in the financial system, we expect the monetary authority to engage in Open Market Operations to mop up created liquidity at attractive interest rates, in part, due to the need to maintain foreign exchange stability and to forestall speculative attacks on the local currency.

Interest Rates

We believe the monetary authority will remain aligned with the fiscal authority's economic growth objective by seeking to create and sustain conditions that will boost liquidity in the financial system in order to drive down interest rates to single digit. Thus, we expect interest rates to remain suppressed in 2020. In a complementary move, we suspect the Monetary Policy Rate may be adjusted downwards from 13.50% to 13% in order to further signal its expansionary monetary policy regime. This should result in a downward spiral of deposit rates as well as lending rates of commercial banks. Furthermore, we expect the monetary authority to continue to perform OMO auctions at attractive interest rates above the prevailing inflation rate in order to retain foreign portfolio investors, and hence, ensure exchange rate stability.

Fixed Income

We expect to see increased government and corporate debt issuances in 2020 as cheaper interest rates provides opportunities for refinancing. According to its borrowing plan for 2020, Federal Government is expected to issue at least N850 billion worth of domestic debt – although we expect an increase in actual borrowings to finance its capex plan as revenue forecasts appear quite optimistic.

We expect the Federal Government to seek more foreign borrowings, preferably from multilaterals at concessionary interest rates, although Eurobond issuance remains a viable option even at relatively cheaper cost. Given the ratio of external debt to total debt of 32% as at June 2019 (see Table O2), it has enough legroom to borrow up to 40% of its total debt stock. We also anticipate more T-bill issuances both for funding its budget deficit and for refinancing maturing short term debt at lower cost.

Table O2: FGN Debt Analysis

FGN Debt Mix (1)	June 2019	2018	2017	2016	2015	Target
External to Total Debt	32%	32%	27%	20%	17%	40%
Domestic to Total Debt	68%	68%	73%	80%	83%	60%
External Debt to External Reserves	60%	59%	49%	44%	37%	
FGN Debt Mix (2)	**June 2019**	**2018**	**2017**	**2016**	**2015**	**Target**
Short Term Debt to Total Debt	20%	21%	30%	30%	31%	25%
Long Term Debt to Total Debt	80%	79%	70%	70%	69%	75%

We also anticipate more corporates to take advantage of the relatively low yield environment by issuing corporate bonds, especially short-term commercial papers as well as long term domestic debt instruments, in order to refinance existing debts more cheaply and to finance new projects.

Equities

We expect 2020 to be a favourable year for equities against the backdrop of low interest rate environment. This is because companies would be able to access funds at cheaper cost, thus reducing their interest expense and positively impacting their bottom lines. Also, investors are expected to make a switch from fixed income securities yielding negative real returns to equities presenting positive real returns both in terms of dividend yields as well as possible capital appreciation especially in the first quarter of 2020. Finally, with the ongoing insurance industry recapitalization exercise, extended to December 2020, we anticipate a flurry of public offers by insurance companies. We also note the possibility of commercial banks approaching the capital market to raise funds to boost their tier one capital in line with their growing risk assets in order to safeguard depositors' funds. Meanwhile, the pension fund managers, balanced fund managers and even retail investors are expected to patronize equities market given the low fixed income yields.

Investment Strategy for 2020

Premise for our 2020 investment strategy include:

- U.S. Fed Rate to be retained at the current band of 1.50% and 1.75% as given the need to sustain economic growth and favourable labour conditions in the U.S.

- Federal Government to embark on foreign borrowings in 2020 while taking advantage of the low yield environment due to excess liquidity to raise more local borrowings.

- CBN to attract foreign portfolio investors using OMO auctions. It is expected to mop up liquidity at higher rates. Currently, CBN has maintained relatively high OMO yield environment (361DAY OMO bills traded at 13.28% as at 27-12-2019)

- Above CBN strategy to keep FPIs on our shores and increase US dollars inflows, although slight depreciation of the foreign exchange rate is expected at the I&E Window in 2020. Nevertheless, with the proposed large foreign borrowings, likely shocks in foreign reserves would have at least been taken care of.

- Expectation of improvement in consumer spending as govt scales up capital projects and implements minimum wage; albeit, unemployment will continue to be a concern.

- Inflation rate to climb in 2020 as federal government embarks on tax reforms, especially VAT, and leaves the country’s border closed.

- Economic growth rate to remain flattish in 2020, at around 2.3% (moderating IMF’s 2.5% 2020 forecast) as increased consumer spending may be hobbled by expected increase in VAT.

- Possible minimal involvement of private participation in viable public projects due to unfavorable government policies. Instead we see government spearhead investments by aggressively borrowing, taking advantage of the low rate environment. The fact is that CBN has successfully created liquidity for federal government short term securities.

- CBN could reduce the MPR to accentuate the permanency of low rate regime, at least in the medium term. Hence, we see rates, especially T-bills, to stay below double digit in the first quarter of 2020.

Equities Market

Generally speaking, the easy access to cheap credit even at the commercial banks would have positive impact on companies listed on the local bourse. We expect the equities market to give better performance this year as the increasing number of capital projects to be undertaken by federal government, and private sector building projects, would rub off on the performance of some quoted companies – especially those in building and construction. We therefore suggest investments in currently undervalued building and construction stocks – such as Dangote Cement and CAP – which have potential for growth and have good to decent dividend yields.

We suggest investment in shares of FMCGs which we expect to give a better performance in both revenue and their bottom lines. This is partly due to the implementation of the new minimum wage of state and Federal Government which should increase disposable income and therefore spending activities of households, especially for fast moving consumer goods. In addition, the recent land border closures by the Federal Government should help boost turnover of certain FMCG such as Okomu and Presco.

However, advise to trade shares of banks cautiously in 2020 due to dwindling capacity of banks to generate income amid low yield environment and lower non-interest bank charges. Thus, we will beam our search light on banks with efficient securities trading capacity.

Any surprises for oil and gas stocks in 2020?

In his New Year address, President Buhari, while not specifically mentioning deregulation of the downstream industry, proceeded to give a hint on his plans by his administration to deliver a more competitive, attractive and profitable oil and gas industry, operating on commercial principles and free from political interference. Notwithstanding, the National Assembly has given assurances that it was working on the Petroleum Industry Bill which it believes would be passed this year, perhaps in the second quarter. We therefore keep our fingers crossed about investing in downstream oil and gas stocks; although shares of upstream players might be favoured in light of a positive global oil outlook.

Fixed Income

We advise investors to participate in Eurobond auctions as this will help mitigate the risk of possible depreciation of the Naira against the U.S dollars.

In the local fixed income space, we expect yields to generally moderate. Nevertheless, for short-term securities such as treasury bills, we expect slight improvement as it trades within the band of 5% and 8%. The long-term securities are expected to be within the band of 9% to 12%.

In the near future, navigating the low single digit yield environment amid double digit inflation rate will be a challenge; requiring a risky active trading strategy in order to beat inflation. However, given the possibility of an upward reversal of interest rates, we suggest holding 91-day treasury bills especially in early 2020 and abstaining from higher maturities in order to mitigate against interest rate risk.