INVESTMENT ONE

Walking a Tight Rope

JULY 2022

2022 H1 Review and H2 Outlook

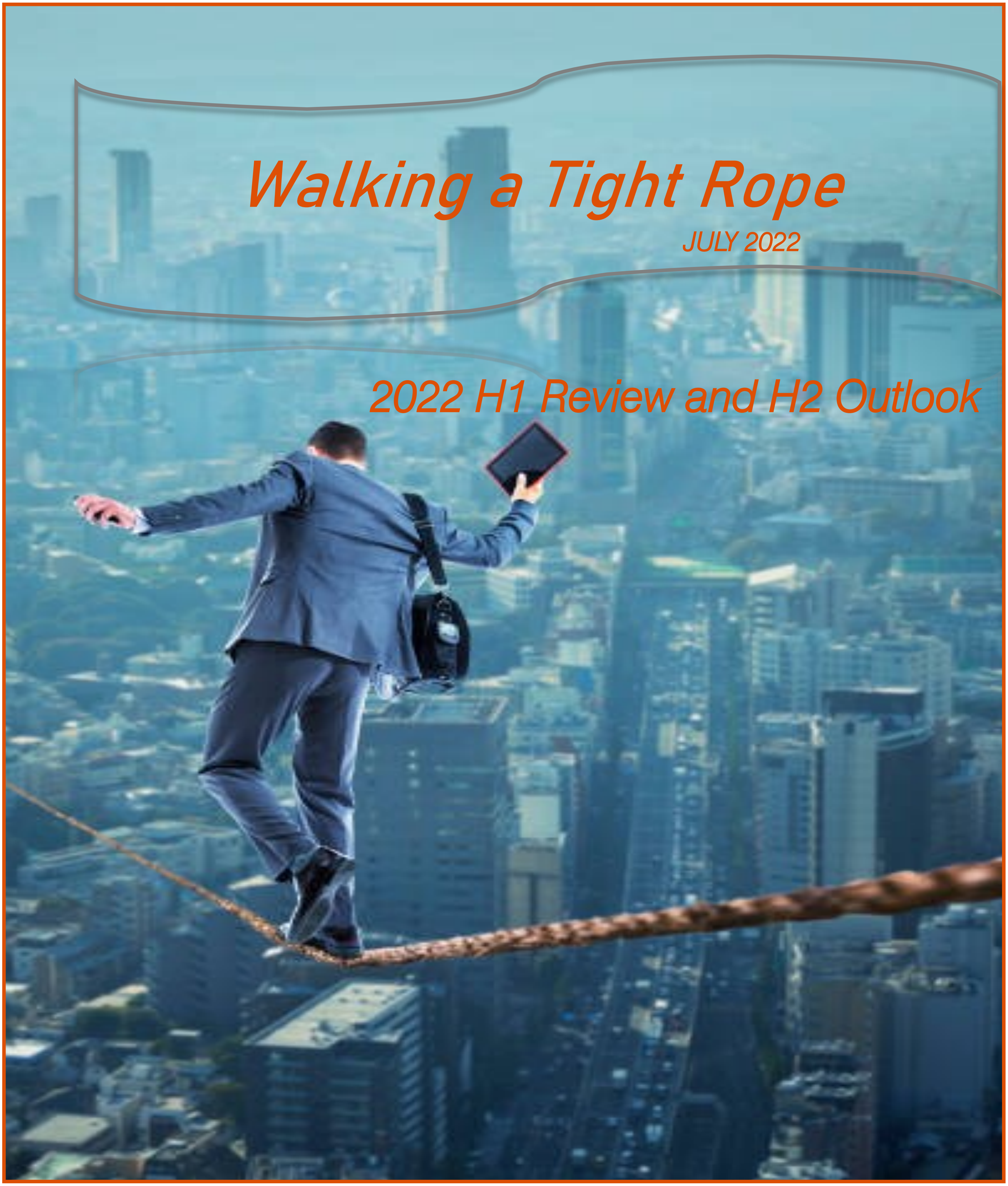


Table of Contents

Executive Summary

Global Growth was expected to strengthen significantly in 2022 against the backdrop of the perceived marginal impact of the omicron variants, abatement in supply chain disruptions and expected deceleration in inflationary pressures. However, things turned for the worse as the geopolitical tensions between Russia and Ukraine rattled the commodities market, worsened supply chain bottlenecks, propelled inflationary pressures and heightened uncertainties. As such, major economies witnessed a deacceleration in growth, which is expected to linger in the near term given the aforementioned factors.

In Nigeria, the oil sector was ridden with continuous divestment in the upstream sector, pipeline vandalism and leakages, poor pipeline maintenance and oil theft. These factors may continue to impede the country's ability to improve its volume production in line with OPEC's output expansion in 2022. We opine that the resilience seen in the agricultural sector is not unconnected with the intervention efforts of the CBN. Hence, the sector could maintain its slow growth pattern in 2022 on the back of CBN's intervention effort. However, insecurity challenges, tough macro environment, electioneering activities, remains key downside risk in that space. Overall, we expect GDP growth to register at around 2.50% in 2022.

We expect consumer prices to sustain its uptrend in coming months driven by spike in global commodities prices, exchange rate pressure, power outages, PMS scarcity, and rising energy prices. Secondly, the increased money supply usually associated with electioneering activities may further exert pressure on inflation.

Contrary to our expectations of rising yields at the beginning of the year, we saw rates trend significantly downwards in Q1 2022, (up slightly in Q2 2022).

In the coming months, our expectation is for a marginal movement in rates in either direction. We see yields in the fixed income space trading at current levels or at a range of +/-10bps.

The local bourse began the year with a bullish momentum driven by the trio impact of impressive earnings releases, corporate actions and unattractive yields in the fixed income space. In H2 2022, we expect the bullish momentum recorded in H1 to be sustained for the rest of year, albeit at a slower pace.

In the first half of the year, the higher oil price but low reserves conundrum continued to plague the foreign exchange market. Looking ahead, our outlook for reserves and the exchange rate remains biased to the downside due to the poor production capacity, low FPI participation due to rising global interest rates and FX scarcity.

Contacts:

Ayomikun Awolo
Ayomikun Awolo@investment-one.com

Oluwasanmi Akosile
Oluwasanmi.Akosile@investment-one.com

Hannah Agbai
Hannah.Agbai@investment-one.com

Dampened Global Growth

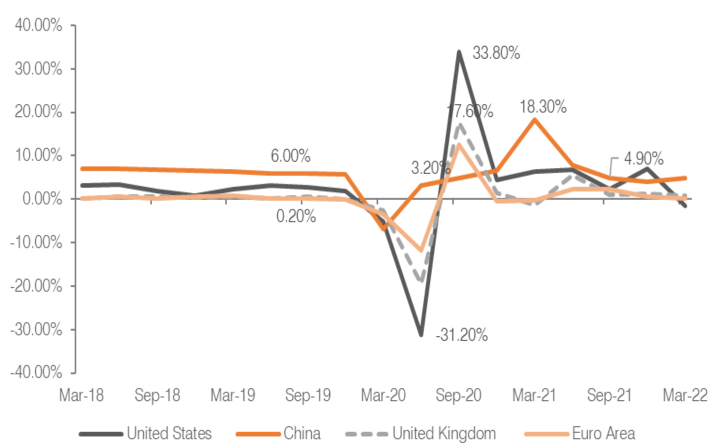
Global Growth was projected to strengthen significantly in 2022 given the little impact of the Omicron variants, abatement of supply chain disruptions and moderation in inflation. The global economy had barely recovered from the COVID-19 pandemic when things turned for the worse at the onset of the geopolitical tensions as Russia invaded Ukraine in February 28, 2022. The conflict in Ukraine and sanctions against Russia, a major exporter of natural resources, worsened supply chain bottlenecks and volatility in the commodity market as oil (and other staples) prices jumped.

Furthermore, the re-emergence of covid in China led to frequent lockdowns in key manufacturing hubs as China enforced its Zero Covid 19 policy.

As such, the aforementioned factors were instrumental to the subdued growth witnessed in major economies.

For emphasis, the US. recorded a contraction in Q1 GDP numbers by 1.40% (Q4 2021: 6.90% growth) due to a large trade deficit even as consumption (which accounts for 70% of GDP) improved by 2.80%. Other developed economies such as the UK and Euro Area recorded slow paced growth by 0.80% and 0.30% in Q1 2022 compared to 1.30% and 0.30% in Q4 2021 respectively.

GDP growth rates over the previous quarter



Source: Bloomberg, Investment One Research

Outlook:

Going forward, we expect the challenging macro environment to continue to undermine growth as the global economy is projected to slow to 3.60% in 2022 and 2023 – lower than 4.40% and 3.80% initial IMF projections. In addition, the possible surge of covid infections remains an headwind to growth.

USA: According to the IMF, growth is expected to slow down to 3.70% and 2.60% in 2022 (prev est:4.00%). In our opinion, persistent inflationary pressures is expected to limit economic growth. In addition, consumption spending which is the backbone of the US economy is expected to weaken due to restrictive policies by the FED. While the risk of recession hovers in the air due to concerns about the apex bank being unable to achieve a soft landing, we opine that the tight labour market should provide a respite in H2 2022.

Emerging and Developing Asia: We highlight that the outbreak of more covid infections and the prospect of more frequent lockdowns due to China's zero covid strategy has wider ramifications for Asia and commodity exporters. Consequently, growth outlook remains biased to the downside as growth is projected to moderate to 5.40% in 2022 (prev est:5.90%) according to the IMF.

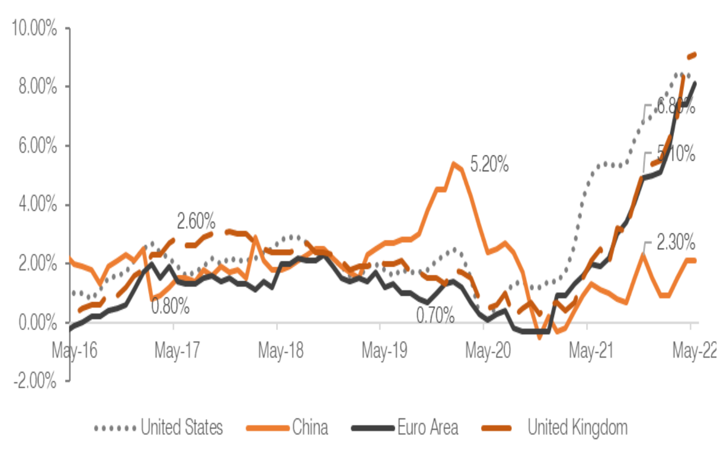
Euro Area: According to the IMF, growth outlook is expected to slow down to 2.80% in 2022 (prev est:3.90%) due to the ongoing uncertainties related to the war, soaring inflation, as well as a fragile growth outlook reflected by most leading indicators.

Sub-Saharan Africa: Growth in SSA has weakened this year due to raging commodity prices, sustained inflationary pressures induced by supply disruptions owing to the war in Ukraine and structural challenges. Notwithstanding, the IMF expects growth in the region to improve to 3.90% majorly due to an upgrade in Nigeria's forecast to 3.40% (prev est:2.70%). However, we highlight that growth should remain subdued in this region as factors impeding a positive outlook are expected to linger in the near term.

Monetary Policy Turns Restrictive

In the first half of the year, monetary policy tightening was the prevalent theme in most developed economies as the heightened global liquidity (buoyed by historic low policy rate), worsened supply chain bottlenecks and the negative shock to commodities continued to drive inflationary pressures. As such, alongside winding down their respective net asset purchases, the Federal Reserve and Bank of England raised policy rates to 1.75% and 1.25% respectively (from 0.25% and 0.50% as at FY 2021). Similarly, the European Central bank stated that it will end its asset buyback program whilst raising rates for the first time by 25bps in July.

Accelerating Inflation



Source: Bloomberg, Investment One Research

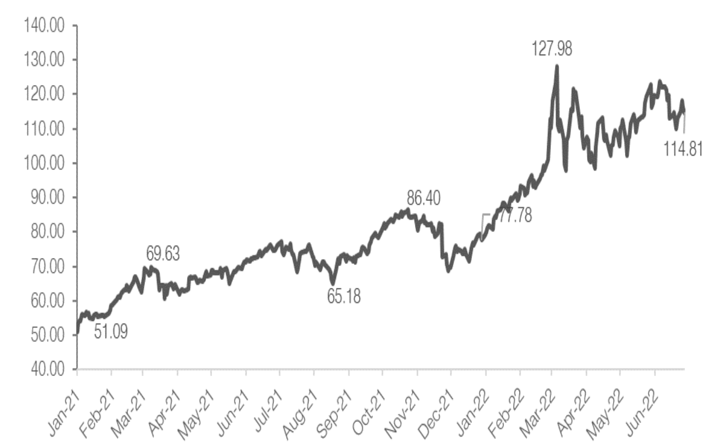
Looking ahead, we understand that it is a herculean task for most apex banks to tame the persistent inflation without tipping the economy into recession. However, price stability remains the core of most central banks and we expect this to reflect in the policy rate. We posit that the pace of rate hikes in H2 2022 depends majorly on sustained deacceleration in inflation despite the current gradual decline in personal consumption expenditure (the Fed's preferred measure of inflation), commodities prices, mortgage rates amongst data.

Oil Prices Remain Resilient

Oil prices continued to trade strongly at the beginning of the year amid tight supply (sustained production issues in some OPEC countries), fall in oil inventories and resilient recovery in demand. This was further buoyed by uncertainties surrounding oil supply disruptions due to the geopolitical tensions and the partial phaseout of Russian oil by the European Union.

We highlight that the impact of OPEC+ gradual increase in production quota first to 648,000mpbd in its meetings was not significant in the market. Resultantly, we saw oil prices trade above $100 per barrel for most of H1 2022. While lockdowns in major cities in China posed a threat to demand, the tight supply conditions seemed to be a greater force. Overall, oil prices rose by 41.62% to at an average price of $104.94 per barrel in

Northward Movement in Oil Prices



Source: Bloomberg, Investment One Research

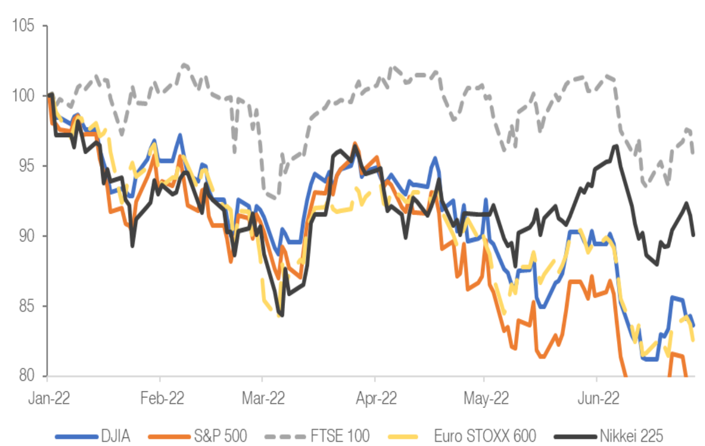
While we expect uncertainties in the geopolitical space to continue to shape the direction of commodities/oil prices in the near term, our outlook is biased to the upside due to the tight supply market. Our prognosis is hinged on the demand/supply imbalance which is expected to linger for a while amid improved demand from China post lockdown. A downside to our outlook is the slowdown in global growth coupled with recession worries in the US which casts a shadow on global demand. Overall, we expect Brent to average $100/b in the second half of 2022.

Equities: Brutal Global Sell-off

Global equity markets recorded the worst selloffs observed in recent history given the double whammy of hawkish policies to tame inflationary pressures and adverse impact of the geopolitical conflict. In addition, investors continued to grapple with recession fears and lower earnings guidance by corporates. All sectorial indices closed negative in the first half of the year save for the energy sector which closed in the green due to the rally in the commodities market.

In the US, Technology and growth stocks were the worst hit due to their sensitivity to high interest rate environment while value stocks such as utilities, consumer staples and healthcare closed in single digit negative figures due to their defensive characteristics. Overall, major global equities closed in the red for H1

Global Equities Performance in H1 2022



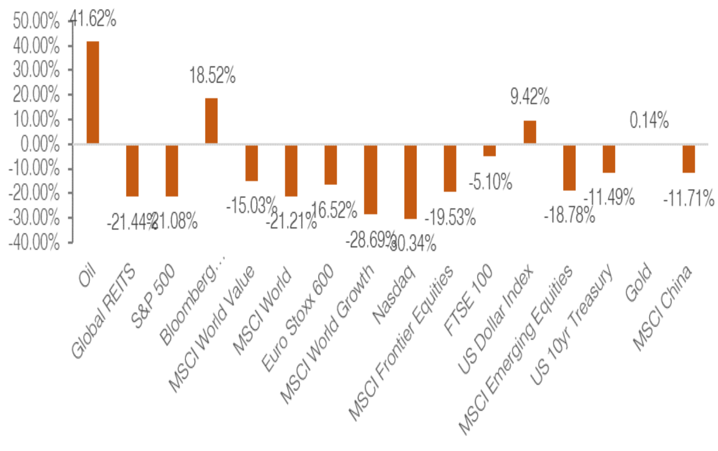
Source: Bloomberg, Investment One Research

Other Asset Classes: Not left out of the Sell-offs

Given investors expectation that interest rate will rise faster than anticipated, the yield curve in the US. inverted twice in the review period while corporate spreads widened amid tightening conditions induced by the persistent inflation. An inverted yield curve often precedes a recession; albeit not all inversion has preceded a recession.

Eurobonds in emerging market witnessed massive price depreciation as tightening conditions in the United global environment as well as deteriorating macro fundamentals for emerging economies especially in Ghana triggered portfolio outflows and capital flights.

Asset Classes Performance in H1 2022



Source: Bloomberg, Investment One Research

Resultantly, the outflows led to expansion in yields which looks attractive from an investment angle. However, we believe that there is apathy by foreign portfolio investors towards this space as it remains very sensitive to the pace of rate hikes in developed economies.

While most asset classes underperformed in the period under review, commodities and the US dollar posted strong gains. The outperformance was majorly due to the impact of the geopolitical conflict as well as tightening monetary conditions. In addition, the US dollar is perceived as a safe haven and given the recession worries in recent times, investors are positioning ahead.

Looking ahead, we highlight that market remains volatile despite the massive selloffs witnessed in the first half of the year, Our premise is based on weak/ slowing economic fundamentals such as corporate earnings, purchasing managers index, declining consumer confidence/spending and most importantly, possibility of a recession as the Fed continues its restrictive policies.

In addition, the current strength of the US Dollar poses a headwind to inflation given its role as the reserve currency.

Positive Growth but losing Momentum

The local economy sustained the positive growth seen in previous quarters albeit at a subdued pace. According to the report released by the National Bureau of Statistics, real GDP growth expanded by 3.11% y/y in Q1 2022, higher than 0.51% y/y recorded in Q1 2021 but lower than the 3.98% y/y printed in Q4 2021.

Specifically, real growth of the oil sector contracted by 26.08% y/y in Q1 2022 – worse than the 8.06% decline in Q4 2021 and 2.21% y/y drop recorded in Q4 2020. The continuous downturn in the oil sector can be attributed to poor production performance due to challenges such as divestment by international oil companies, declining investment in the sector amid transition to greener energies, pipeline vandalism, oil theft and dilapidated infrastructures. For emphasis, the country recorded an average daily oil production of 1.49mbpd, lower than the daily average production volume of 1.72mbpd and 1.50mbpd in Q1 2021 and Q4 2021 respectively.

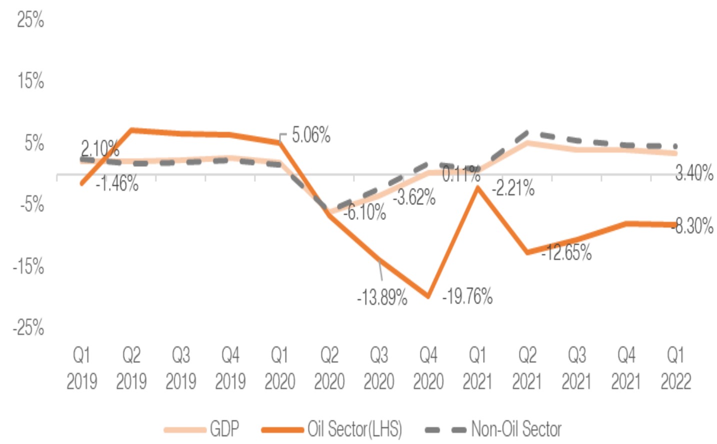
Nigeria's GDP Growth Rate

Source: NBS, Investment One Research

On a positive note, the non-oil sector remained resilient in its recovery as it printed a real growth of 6.08% y/y in Q1 2022 – higher than 0.79% and 4.03% recorded in Q1 2021 and Q4 2021 respectively. The positive performance was largely buoyed by sustained growth in Information and Communication (+12.07%), Trade (+6.54%), Manufacturing (+5.89%), Agriculture (+3.16%) and Financial sectors (+25.43%).

We believe the strength in the non-oil sector was underpinned by solid growth in the Telcos, increased economic activities and intervention schemes by the CBN amongst others.

Oil and Non-oil sector performance



Source: NBS, Investment One Research

Going forward, we expect subdued economic growth as the challenges impeding production performance in the oil sector are expected to linger in the near to medium term. Furthermore, growth in the non -oil sector is expected to slow down given the tough macro -economic environment i.e., soaring inflationary environment, FX scarcity, insecurity issues, increased taxes, and structural challenges. Nonetheless, we opine that the ICT sector should remain resilient given the significant investments in that space. Overall, we expect the economy to grow by 2.50% y/y in 2022.

Deteriorating Fiscal Position

No doubt, the year 2022 has being a tough one for the fiscal authorities as the Federal Government continues to grapple with revenue shortfalls, high petrol subsidy financing and worsening debt profile. In line with our outlook for the year, the absence of the political will to carry out the action of subsidy removal with the 2023 general elections just few months away eventually played out. As such, the Federal Government announced the extension of the removal of fuel subsidy by 18 months as the resultant effect of higher inflationary pressures and potential increase in the cost of living were the major factors behind the subsidy suspension.

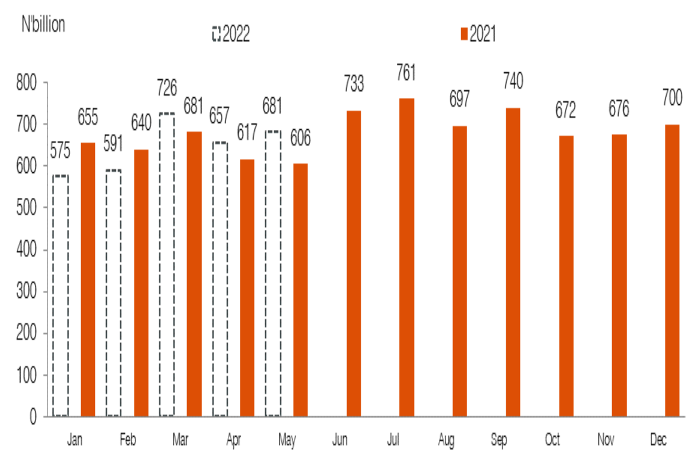
Consequently, a supplementary budget of N2.56trillion was proposed to the legislative house by the President. to cater for the huge differential between the N443.00billion allocated in the 2022 Appropriation Act (for January to June subsidy funding) and the N3.00 trillion requested for by the NNPC.

During the review period, the 2022 Budget was revised upwards as requested by the President and passed into law by the National Assembly. Specifically, aggregate expenditure was increased by ₦192.52bn (1.12%), non-debt recurrent expenditure and debt service provisions rose by 2.88% and 2.35% to ₦7.11tn and ₦3.97tn respectively, while provisions for statutory transfers and capital expenditure were lowered by 5.99% and 1.00% to ₦817.60bn and ₦5.41tn respectively. Provision for petrol subsidy was raised by 803.51% from ₦442.72billion to ₦4.00trillion on the back of the suspension of subsidy.

Elsewhere, Nigeria's debt status deteriorated further as the total debt stock of the nation rose to N41.61tn as at the end of Q1 2022. This represents an increase of 25.67%y/y and 5.16%q/q relative to the N33.11tn and N39.56tn recorded in Q1 2021 and Q4 2021 respectively. Further details showed that external and domestic debt surged by 33.28%y/y and 21.08%y/y to N16.62trn and N24.99trn in Q1 2022. Also, debt-to-GDP ratio rose to 23.27% from the previous 22.47%. We highlight that the N2.05tn debt incurred in the first quarter of the year was majorly as a result of the Eurobond of $1.25billion issued in March.

Elsewhere, monthly FAAC disbursements for H1 2022 averaged at N645.70bn. This represents a marginal increase of 0.92%y/y compared to what was recorded in H1 2021 (N639.83bn). This was largely driven by increases in Value Added Tax (VAT) and Companies Income Tax (CIT) collections as the Federal Government continues to grapple with high subsidy payments inhibiting the inflow of oil revenues to its coffers.

Federation Account Allocation Committee (FAAC) Disbursements



Source: NBS, Investment One Research

Going forward, we reiterate our opinion of significant shortfalls in budget implementation for the year as the nation grapples with dwindling revenues, increased fiscal deficit and high debt service to revenue ratio. Our outlook is hinged on the abysmal performance of the oil sector which has been characterised by persistent weak and declining oil production volumes. We highlight that the Federal Government will continue to struggle to meet up to its projected oil revenue of ₦5.52trn (51.50% of projected total revenue) as oil production so far this year has averaged at about 1.32mbpd, 17.50% and 25.42% below our production benchmark and recent OPEC production quota respectively. Furthermore, the continuous elevated subsidy payments will continue to be a major pressure on FAAC disbursements.

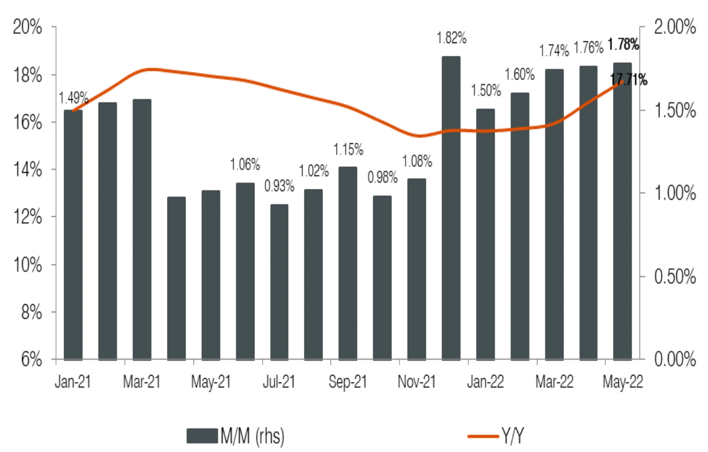
Lastly, the trend of increasing debt stock should continue given the deficit of N7.36tn in the revised 2022 budget. Thus, if revenue estimates do not fall short, we envisage that by the end of the year total public debt and debt-to-GDP ratio will settle at N46.92tn and c.25.00% respectively.

Inflation: Persistent Rise in Consumer Price Index

Consumer prices remained under pressure driven by the pass-through effect of increased energy and commodities prices fuelled by the Russian-Ukraine geopolitical tensions, subdued food supply amid the ongoing planting season and persistent insecurity challenges and existing structural problems. As such, headline inflation rose to 17.71% y/y in May 2022 from 15.63% in December 2021.

Similarly, the food and core sub-indexes rose by 19.50% y/y and 14.90% y/y in May 2022 compared to 17.37% y/y and 13.87% y/y respectively in December 2021. The effect of FX illiquidity, devaluation, elevated electricity tariffs and energy prices amid PMS scarcity drove the core index further northwards.

Headline Inflation Trend



Source: NBS, Investment One Research

We expect consumer prices to continue its uptrend in coming months due to the earlier stated factors. Secondly, the increased money supply usually associated with electioneering activities may further exert pressure on inflation.

Additionally, we expect food inflation to be pressured given the reduction in food supply amid a sub-optimal planting season due to the security challenges in the food producing part of the nation

Monetary Policy: Symbolic Move by the Apex Bank

During the period under review, the apex bank joined the hawkish parade as it increased the benchmark interest rate by 150bps to 13.00% (first rate hike since July 2016) while other monetary parameters were held unchanged (Cash Reserve Ratio at 27.50%, Liquidity ratio at 30% and asymmetric corridor of +100/-700 basis points around the MPR).

Faced with the policy dilemma to either support output growth or tackle inflation, the apex bank decided to shift from its historically cautious approach to a policy rate hike, to combat inflationary pressures. Further justification for the rate hike was moderating exchange rate depreciation, stemming capital flow reversals, incentivize foreign capital inflows, and sustain remittances. However, to support output growth and recovery, the interest rate of the development finance initiatives of the CBN remains at 5% at least till March 2023.

In our view, we are less optimistic that the hawkish stance will combat inflation as it is mostly driven by cost push and structural constraints. Nonetheless, it might be effective to tackle inflationary pressures arising from increased money supply due to the upcoming elections. To stem exchange rate depreciation and decline in capital flows, we opine that interest rates must be attractive enough to encourage carry trade even as investors consider other factors such as stability of the Naira over the short to medium term, upcoming elections and the macro environment. Furthermore, we see rising interest rate as a risk to debt sustainability issue given the high debt servicing to revenue ratio.

Surprisingly, stop rates in the OMO market has remained constant at 7.50%, 8.00% and 10.10% for the short, mid and long end of the curve despite the rate hike. This has led us to believe that the CBN hiked rate for symbolic purposes given the little or no effect of an aggressive stance on interest rates.

Fixed Income: More like a Bullish Momentum

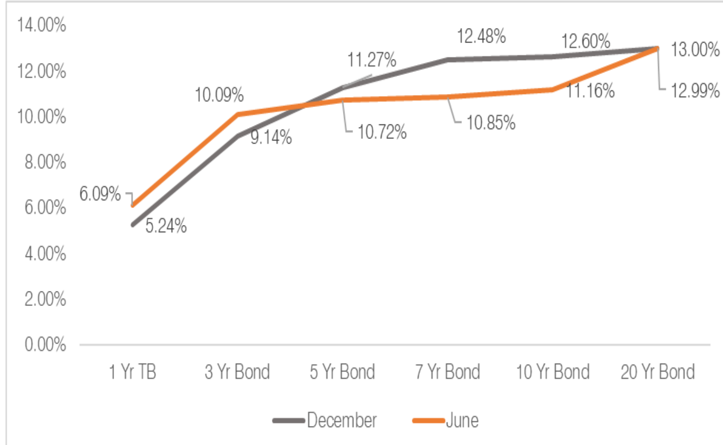
Contrary to our expectations of rising stop rates at the beginning of the year, we saw rates trend downwards in Q1 2022.

The downward trend in stop rates was driven by elevated liquidity in the system given the huge OMO and bond maturities and expiration of the tax waiver granted to financial instruments (ex FG Issued Bonds). Consequently, investors were mandated to pay income tax on corporate bonds and short-term securities. Given the waiver on FGN bonds, government bonds on the short end of the curve were attractive for investors (compared to buying short term securities i.e., treasury bills). Resultantly, the fixed income market in the first quarter of the year was characterized by bullish momentum and sustained decline in yields on FI instruments in the secondary market.

However, in Q2, we saw a reversal in the bullish momentum against the backdrop of tightened liquidity conditions, expanding fiscal deficit and increased supply of instruments as evidenced by the DMO calendar (N225billion vs N150billion per month). Although we expected a sharp rise in stop rates/yields in the 2nd quarter, we witnessed a tepid/gradual movement in rates as the DMO focused on managing borrowing cost while sustaining investors interest at the long end. Interestingly, the impact of the surprise hike in MPC rate was short lived as yields moved in mixed directions in the secondary market. The DMO still maintained the tepid yield movement save for treasury bills which repriced higher by 76bps, 89bps and 179bps across tenors at the primary auction while stop rates in the OMO market remained constant at 7.50%, 8.00% and 10.10% for the short, mid and long end of the curve.

On a half year basis, the government borrowed about c.N4.08 trillion – Bond (N1.84trn), T-bill's overallotment (N687bn), FGN Savings bond (N5.58bn), Ways and Means from CBN (N1.55trn) and Eurobond borrowing of $1.25 billion. Compared with the budget deficit of N7.35trn, the represents c.55% of the fiscal deficit.

Yield Curve



Source: FMDQ, Investment One Research

In the coming months, we opine that yields in the fixed income space may continue to trade at current levels or at a range of +/-10bps. We neither expect a significant increase nor decrease in stop rates and yields in coming months.

We posit that the direction of yields should be determined by demand and supply dynamics, with the current dynamics in favour of investors amid low inflows/maturities and need to finance the rising budget deficit by the DMO. In addition, we do not see the government tapping the international market given the higher risk premium thus, we expect these borrowings to be sourced locally. Taking all this into account should naturally call for sustained northward movement in interest rates.

However, we believe that interest rates will range bound in H1 2022. Our prognosis is based on the fact the body language of the authorities points towards decline in rates amid concern about its debt service to revenue ratio which was almost 80% in Q1 2022 while the pressure on the Naira and need to sustain local investors' appetite might push the authorities to consider inching up rates at the long end of the curve. Given that the government has borrowed c.55% of its fiscal deficit in H1 2022, we believe that it gives them the leeway to be less aggressive with expanding rates.

Lastly, the uncertainty in the political space might drive apathy towards risky asset as investors stay on the side lines.

Foreign Exchange: Unrelenting Pressure on the Naira

In the first half of the year, the higher oil price but low reserves conundrum continued to plague the foreign exchange. Resultantly, the pressure on the exchange rate intensified buoyed by the low accretion to reserves. Despite Brent Crude trading at multi-year high, we are yet to see the impact on foreign reserves given the country's poor production capacity and rising subsidy payments.

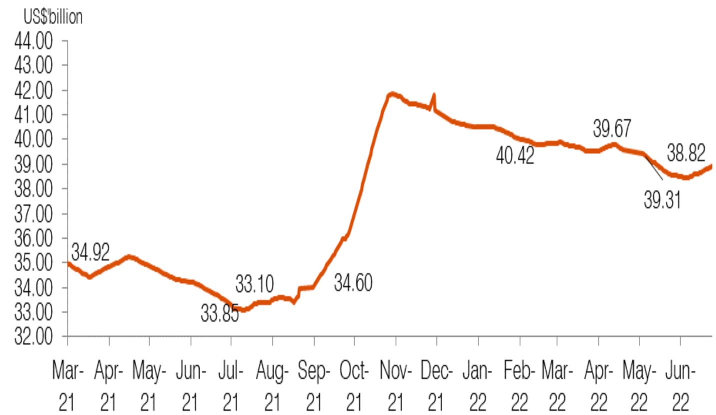
In a bid to reduce the pressure on the Naira, the CBN introduced the RT200 non-oil export proceed repatriation rebate scheme to enhance FX inflow, diversify the sources of foreign inflow, increase the contribution of non-oil exports, ensure stability and sustainability of FX inflows, and support oriented companies to expand their export operations and capabilities. The rebate scheme rewarded exporters with the payment of N65 for every US$1 repatriated and sold at the IEFX Window to Authorized Dealer Banks (ADBs) for other third-party use, and N35 for every US$1 repatriated and sold into IEFX for eligible transactions only.

Consequently, we noted that inflows from exporters via the IEFX window rose to US$1.72 billion in Q2 2022 from US$670million in Q1 2022. However, CBN's participation and FPI inflows via the IEFX window declined on a half year basis.

We highlight that the monetary policy normalisation in developed economies also contributed to the weak Naira amid lower foreign inflows from portfolio investors. For emphasis, Naira assets have not been attractive enough to attract inflows as the one-year treasury rate and 10yr yield averaged around 6.50% and 8.60% in H1 2022 while stop rates remain unchanged across tenors in the OMO space. Resultantly, FX reserves fell 3.37% y/y to $39.16 billion even as Naira appreciated by 2.30% to close at N425.05/$.

Elsewhere, the tight liquidity conditions driven by little or no supply with expanding demand, political activities and speculative demand drove the black-market rate to lows of north of N600/$. Specifically, Naira depreciated at the black market by 8.86% to close at N615.00/$.

FX Reserves Movement



Source: CBN, Investment One Research

Going forward, our outlook for reserves and the exchange rate remains biased to the downside. Our prognosis is hinged on the fact that the challenges impending improved production output should linger in the near to medium term. According to the World Bank, external reserves are projected to decline in 2022. This is based on the clearance of FX backlogs (estimated at USD1.7bn as of October 2021) and FX forward contracts.

Despite the hike in policy rate, the likelihood of FPI in-flows remains low due to slow accretion in oil earnings, weak macro environment, security challenges and electioneering uncertainties. Furthermore, the increased quantitative tightening in developed economies remains a headwind for Emerging and Frontier markets' currencies in the near term.

At the IEFX window, we expect Naira to gradually depreciate to c.$435.00 during the year due to low CBN participation, dwindling reserves amongst others. At the parallel market, we expect pressures to persist on the back of tight dollar liquidity and speculative demand as political activities heat up in full. However, we believe remittances might provide a respite but not enough to quell the pressure on the exchange rate.

We spotlight that an effective/flexible exchange rate system or unification of the multiple exchange rate should be more effective in solving our foreign exchange issues

Equities: Sustained Positivity Amid Global Rout

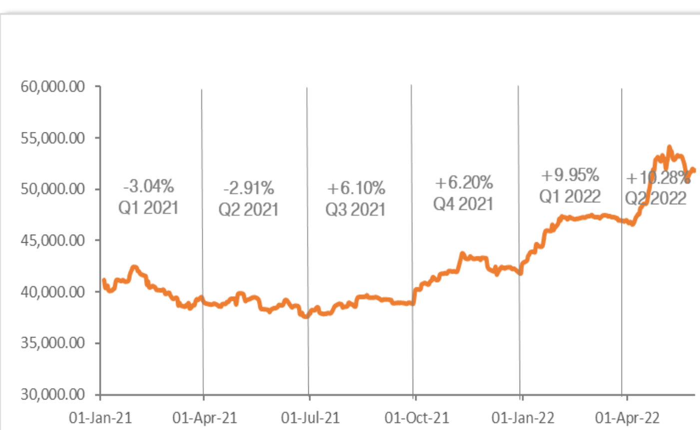
Despite the negative sentiment in the global equities market, the local bourse remained resilient as it began the year 2022 with a bullish momentum. In the first half of the year, the All-Share Index (ASI) closed on a positive note by 21.31%. This positive performance was driven by the trio impact of impressive earnings releases, corporate actions, unattractive yields in the fixed income space and cyclical demand on some sectors such as the Oil/Gas and Consumer space

Another contributing factor was the listing of BUAFOODS, a consolidation of five food (pasta, edible oil, sugar, rice and flour) businesses, which was listed by introduction on the exchange, with a total of 18billion ordinary shares admitted to trading at N40 per unit and a market capitalization of N720billion. Upon listing, the stock joined the top 10 most capitalized company in addition to being the second most capitalized consumer goods company on the exchange.

Furthermore, the Dangote share buy-back and significant buy-interests in the telecom giants (AIRTELAFRI and MTNN) given the full approval by the CBN on their Payment Service Bank license was a tailwind to the positive performance.

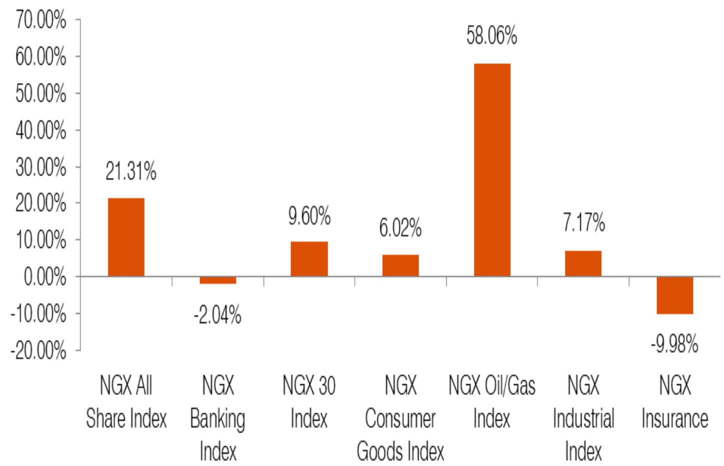
Sector performances in H1 2022, were predominantly positive across board as the Oil/Gas (+58.06%), Industrial (+7.17%) and Consumer Goods (+5.89%) sectors closed in the green territory, while the Banking sector recorded a lacklustre performance of (-2.04%).

Quarter on Quarter Performance of the NGX-ASI



Source: NGX, Investment One Research

Equities Market Return for H1 2022



Source: NGX, Bloomberg, Investment One Research

Our prognosis for H2 2022 is that the bullish momentum recorded in H1 will be sustained for the rest of year, albeit at a slower pace. This positive outlook is predicated on our expectations that earnings performance will remain positive and investors positioning ahead for interim dividend.

In like manner, we expect that at the later part of the year, particularly in Q4, investors will be positioning ahead of full-year earnings result and dividend announcement.

Furthermore, the prevalent uncertainty in the fixed income space as regards the direction of yields despite the recent hike in MPR and the infeasibility of investors achieving positive real returns via fixed income instruments supports our outlook of a positive performance.

Lastly, the change in the structure of the market with domestic investors now significantly outweighing foreign investors is a tailwind to a positive performance. For context, as of May 2022, domestic investors participation in the local bourse stood at 93.00%, while foreign investors only constitute 7.00% of the market. In our view, this significantly mutes the headwind of market selloffs from foreign investors due to the negative sentiments that comes with election seasons and weak macro-economic conditions. Imperatively, we think this will continue to be the major reason the market seems to be immune to the negative sentiments currently holding sway across the global markets.

Disclaimer

This publication is for general information only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed in this article represent the current, good-faith views of the author(s) at the time of publication.

The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by *INVESTMENT ONE Financial Services* to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy, completeness or otherwise. Opinions expressed are our own unless otherwise stated. *INVESTMENT ONE Financial Services* and its affiliates may trade for their own accounts, the company may decide to take a long or short position on any securities, and/or may take the opposite side of public orders.

Past performance is no guarantee of future results. The inclusion of past performance figures is for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This is not in any sense a solicitation or offer of the purchase or sale of securities. Neither *INVESTMENT ONE Financial Services* nor any officer or employee of *INVESTMENT ONE Financial Services* accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents. Investments in general and, equities, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk.

The ratings and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

This material has been issued by *Investment One*, which is regulated by the Securities and Exchange Commission. Further information on any security mentioned herein may be obtained by emailing:research@investment-one.com

Address:

Investment Management & Research

INVESTMENT ONE Financial Services Limited

37, Kofo Abayomi Street,

Victoria Island, Lagos.

Nigeria

Email: research@investment-one.com

Visit us at: www.investment-one.com