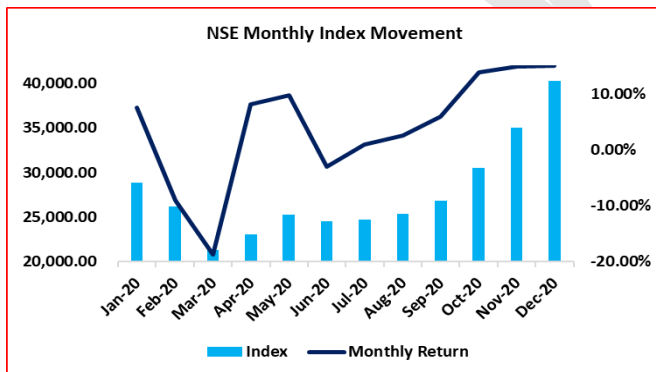


Quarterly Financial Markets Update – December 2020

NIGERIA EQUITIES MARKET UPDATE



- The Nigerian equities market ended Q4:2020 on a positive note as the primary health indicator of the Exchange – the All Share Index (ASI), appreciated by 50.09% compared to the 9.61% recorded in Q3:2020.
- The positive sentiments showed by the investors during the quarter could be attributable to the seeking of alpha-yielding opportunities in the face of increasingly negative real returns in the fixed income market and the positive reactions to the Q3: 2020 corporate earnings and actions of some highly capitalized stocks that declared dividends despite their mixed performances. With the Year-to-Date (YtD) return at 50.03%, the Nigerian bourse is one of the best performing markets in the world.



- All NSE Indices closed in the green zone during the quarter with NSE Industrial Goods appreciating most by 71.92% and was followed by NSE Premium Index with a gain of 46.43%. However, NSE Oil & Gas index led on the losers' chart with a loss of 13.84% in 2020 and was followed by NSE Consumer Goods Index with a loss of 3.29%.
- *We are of the opinion that the equity market will continue to rally on the back of liquidity in the fixed income space. Majority of the N5.1 trillion slated to mature in 2021 will find its way into the equity market and with many businesses returning to full operation in 2021, the potential of listed companies recording profit will also improve the performance of the market. However, we advise investors to continue to trade cautiously and invest in fundamentally sound stocks.*

FIXED INCOME MARKET UPDATE



FGN BONDS:

- Activities in the secondary bond market were generally bullish during the quarter as investors continued to hunt for better yields. Average yields contracted by 72bps to 6.12%. Yields contractions were noticed across the entire curve following huge buying interests especially in the mid and long tenured instruments - APR-49, JUL-45 and MAR-35 bonds declining by 194bps (to 7.38%), 183bps (to 7.33%) and 174bps (to 7.06%) respectively.

- During Q4:2020, the Debt Management Office (DMO) conducted bond auction offering a total of ₦170.00bn through re-openings of the 12.50% FGN MAR 2035 (₦85.00bn) and 9.80% FGN JUL 2045 (₦85.00bn). Overall, the auction was oversubscribed at a bid to offer ratio of 3.26x while the DMO allotted a total of ₦155.00bn – MAR 2035 (₦80.00bn) and JUL 2045 (₦75.00bn) respectively. The respective average marginal rates of the instruments were 5.64% and 6.26%.

- In the coming quarter, we expect the bond market to experience increased activities as the deficit of N5.2 trillion in the FGN 2021 budget will be financed mainly by borrowing. However, government's efforts to achieve debt sustainability, could result in suppressed yields in early parts of 2021. We are also of the opinion that the market will be bearish in the early months of 2021 as investors reprice yields given stretched valuations.*

TREASURY BILLS:

- During Q4:2020, the CBN offered bills worth ₦793.48bn. A total subscription of ₦3.13tr was received and allocation of ₦813.48bn made across all tenors. The sale was at an average stop rates of 0.37%, 0.60% and 1.23% for the 91, 182 and 364-day instruments, respectively

- The CBN also offered N190.00 billion and issued a total of ₦190.00bn across three tenors. The bills were all oversubscribed at 5.03x with an average stop rates of 3.88%, 4.55% and 6.02% for the short, mid and long tenured bills.

- Though the introduction of the CBN Special Bill could stabilize the fixed income market, we are of the opinion that the government still holds a strong bargaining power over the excess liquidity in the system and therefore we expect primary auctions to continue to offer low yields.*

MONEY MARKET:

- The overnight (O/N) and Open-buy-back (OBB) rates closed at 0.83% and 0.50% respectively on December 31, 2020 compared to 1.75% and 1.00% respectively on September 30, 2020. The O/N and OBB averaged 1.84% (vs Q3 7.68%) and 1.36% (vs Q3 6.78%) respectively in Q4 2020.

- With over N5.1 trillion expected to mature in 2021, liquidity in the system will increase further. Consequently, yields on CBN Bills alongside other rates will remain low in the early part of the year.*

INFLATION RATE



- The published Consumer Price Index (CPI) report for November 2020 by NBS showed that inflationary pressures intensified in the month as supply chains came under pressure. The headline inflation rate surged to 14.89% (34-Month High), a 65 basis points increase from 14.23% in October 2020.

- Inflation rate has increased consistently since August 2019 following the effect of the land border closure along with structural challenges. As in previous months, food inflation continued to be the major driver of inflation in Nigeria. In November, average prices rose by 2.04% on a month-on-month basis.

- While the key drivers of inflation include infrastructure deficit, exchange rate depreciation, rising transport costs, VAT increase and disappointing harvest season due to COVID-19 restrictions during the planting season, we are of the opinion that inflation will continue its upward trajectory in the early months of 2021 as long as these drivers are still present.*

PENSION INDUSTRY NEWS



PENSION FUND ASSETS:

- Valuation Report as at November 30th, 2020 showed that total pension fund assets in Nigeria as at the period under review increased to N12.29 trillion from N12.05 trillion recorded at the end of October 2020. This represents 1.98% growth rate. About N8.14 trillion of the total pension funds is invested in Federal Government Securities. Further breakdown showed that the pension managers invested N731.58 billion in Corporate Debt Securities, Local Money Market N1.79 trillion while Mutual Funds gulped N145.22 billion.

RSA TRANSFER WINDOW:

- The Retirement Savings Account (RSA) Transfer Window officially opened on Monday 16th November 2020. This means that RSA holders may transfer their accounts from one Pension Fund Administrator (PFA) to another once in a year, in line with Section 13 of the Pension Reform Act 2014.
- According to the Commission, the activation of the RSA transfer process will engender competition and improve service delivery in the pension industry, while asserting the right of RSA holders to determine which PFA manages their pension contributions and retirement benefits.

VG PENSIONS: INVESTMENT



- Despite the low yield environment, Veritas Glanvills Pensions Limited continues to perform well in all the Fund categories. Please see the table below:

Funds	Unit Price (N)				YTD
	Q1: 2020	Q2:2020	Q3:2020	Q4:2020	Growth (%)
Fund I	1.1846	1.3380	1.4295	1.5584	37.73%
Fund II	3.1997	3.3971	3.5210	3.7409	18.93%
Fund III	1.2291	1.2883	1.3314	1.4102	16.96%
Fund IV	3.7388	3.9231	4.0398	4.2200	16.94%
Fund V	1.0208	1.0319	1.0421	1.0673	5.30%

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