AFRINVEST
ASSET MANAGEMENT

Dear Client/ Prospects,

Market Report - First Quarter Ended March 31, 2017

Global and Economic Perspective.

Prospects for global growth for the year have been majorly hinged on the socio-political uncertainty as well as improvement in commodity prices. While the reality of Donald Trump as the President of the United States of America as well as the official activation of the process that will bring about BREXIT were two critical factors considered to likely worsen uncertainties across the global economy. The decision of OPEC to implement a production cut in December 2016 was a positive development for oil-dependent economies. Oil prices in Q1:2017 have since stabilized above US$50.00/b yet increased shale oil production continues to threaten further uptrend in oil prices.

Notwithstanding the above, global equity markets in Q1:2017 witnessed a rather positive performance. In the Developed markets, the US NASDAQ was the best performer for the period, appreciating 9.9% to reach a record high in the last trading week of the quarter, while the US S&P 500 followed with a 5.8% appreciation. Similarly, the UK FTSE closed 3.0% higher. In the European and Asian markets, all indices, save for the Japanese NIKKEI which lost 1.1%, closed in the green. The Hong Kong HANG SENG surged 9.6% in the quarter, followed by the German DAX (+6.7%), France CAC (+4.4%) and China Shanghai Composite index (+3.0%).

Other indices in the BRICS classification also closed bullish for the quarter as the Indian BSE appreciated 11.2%. The Russian RTS and Brazilian IBOVESPA followed suit, advancing 8.6% and 8.4% in that order. Likewise, the South African FTSE rose 3.0% in the period despite political tension in the country.

Performance across the African markets was mixed as two indices gained while two declined. The Ghana GSE was the best performing index, up 11.3% followed by the Egyptian EGX (+5.3%) as reforms implemented in the domestic FX market continue to stoke investor sentiment. On the flipside, the Nigerian All Share Index declined 5.1% in the period as weaker macroeconomic fundamentals as well as poor earnings releases pressured sentiment lower while the Kenyan NSE slid 2.0% inQ1:2017.

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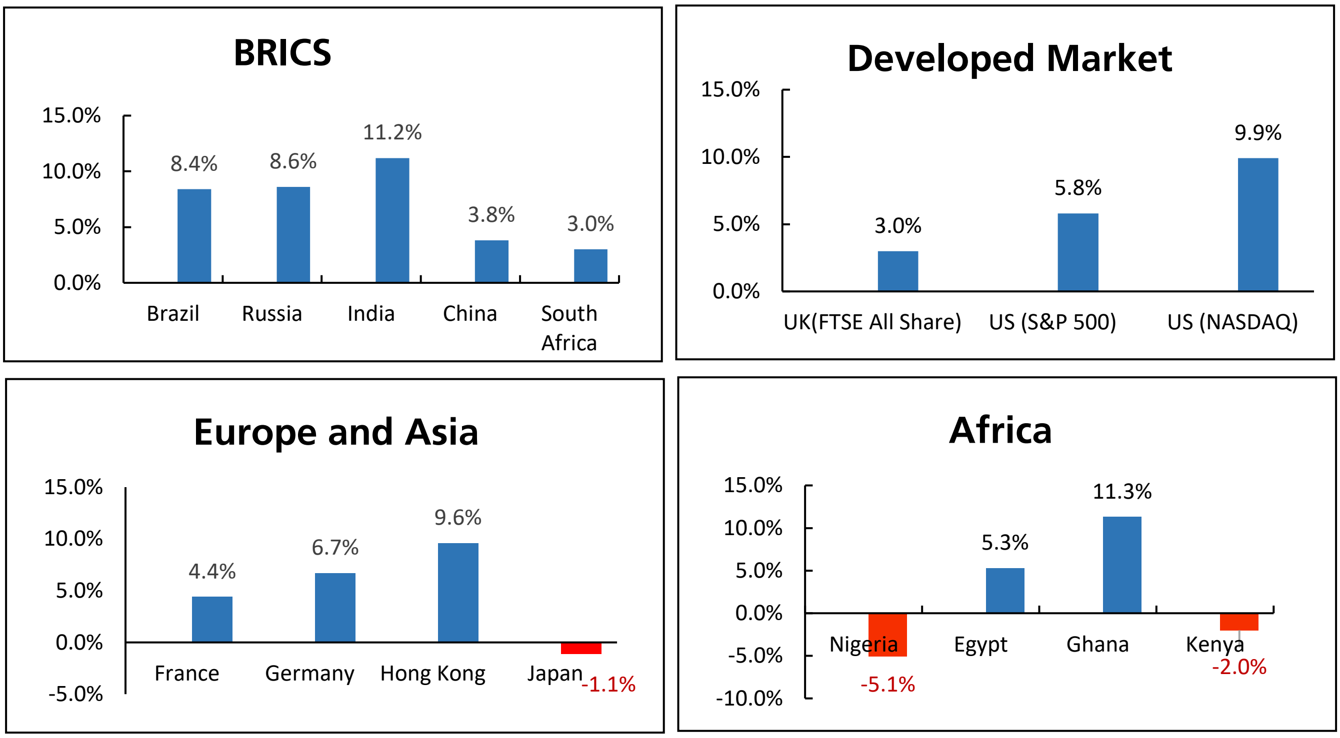
Market Return in 2017 Across Global Equities



Source: Bloomberg

Domestic Equities and Fixed Income Review.

Performance of the local equities market in Q1:2017 remained underwhelming as the All Share Index (ASI) ended the quarter 5.1% lower. As noted earlier, the weak performance of corporates listed on the exchange, broadly reflected in their scorecards and weaker macroeconomic indicators weighed on sentiment. Activity level was mixed as average volume traded declined 3.8% to 241.0m units while average value traded rose 89.3% to N3.5bn from the preceding quarter. Sector performance for Q1:2017 mirrored the broader index as all indices closed in the red save for the Industrial Good index which was up 7bps Q-o-Q on account of sustained positive sentiments towards **BETAGLASS** (+46.1%) and renewed interest in **WAPCO** (+5.0%). The Consumer Goods index (-11.9%) was the worst performer due to declines in **NIGERIAN BREWERIES** (-14.2%), **NESTLE** (-7.4%) and **GUINNESS** (-27.1%). The Banking sector index also slid 3bps while Oil & Gas and Insurance indices declined 6.5% and 2.0% Q-o-Q respectively.

According to the NSE Domestic & Foreign portfolio participation in equities trading for February 2017 showed that total transactions decreased M-o-M for the first time since November 2016, settling at N74.1bn, a 22.1% M-o-M decline from N95.3bn recorded in January 2017. The figure also came in 36.8% lower Y-o-Y compared to the N117.3bn recorded in the same period in 2016. A segmented analysis of the monthly transactions data showed that domestic participation (53.4%) in the market outstripped foreign participation in February (46.6%) to extend the dominance of domestic investors in equities market transactions.

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In the fixed income market, the appetite for debt securities was sustained owing to the attractive yield environment in T-bills and Bonds with average yields for both segments settling at 17.5% and 15.8% respectively. The CBN also continued with its spate of OMO auctions at attractive rates in a bid to keep liquidity tight. Also, the DMO launched the FGN Savings Bond, an instrument targeted at the retail end of the market with a minimum subscription of N5,000 and maximum of N50.0m with a maturity period of 2 and 3 years. The first auction was held in February in which N2.1bn was raised at 13.1%. Participation in subsequent auctions is expected to increase. In the Eurobond market, Nigeria successfully raised US$1.5bn of Global Medium Term Note due FEB 2032 in two tranches of US$1.0bn at 7.8% yield in February and US$500.0m at 7.5% yield in March. The two instruments, which have the same maturity date, have subsequently been consolidated into a single US$1.5bn bond with the market yield trending further downwards to 7.4% as of writing.

Outlook and Recommendation for Q2:2017

Our outlook on Q2:2017 is majorly hinged on developments in the FX market as well as the expectation of some improvements in macroeconomic indices. We commend the efforts made towards curtailing the disruptions to oil installations in the Niger Delta and stress the need for sustained peace in the region in order to restore previous production levels and benefit from the higher oil prices.

Also, despite the improvements in the FX market in March, increased FPI participation and further FDI inflow will hinge on the sustainability of the CBN's FX market interventions and efficiency of the current market structure. The spread between exchange rates at the official and parallel markets has been gradually declining since the tail end of February 2017 with a possible convergence of rates in sight. However, there are backlogs of FX demand for dividend and investment capital repatriation which are yet to be met. Accordingly, we expect the performance of the Nigerian bourse in the short term to continue to be shaped by domestic participation as foreign investors monitor developments in the FX market. Our medium-term outlook for the fixed income market remains positive although expectation for further moderation in inflation rate will drive yield lower.

Yours faithfully,
For: **AFRINVEST ASSET MANAGEMENT LIMITED**

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