Macroeconomic and Market Review

CORONATION

Outlook

Nigerian financial markets were mixed in September as bond markets reversed their trajectory, equity markets continued to deliver positive performances, and pressure remained on the NAFEX and parallel exchange rates of the Naira. However, the economic outlook appears to be improving as headline inflation fell for the fifth consecutive month.

The meeting of the Monetary Policy Council of the CBN in late September concluded with a decision to keep the Monetary Policy Rate on hold at 11.50% pa. Given annual inflation in August of 17.01%, this marks a continuation of the CBN's pro-growth stance, albeit with considerably higher market interest rates than at the beginning of the year.

Fixed Income

The rally in the fixed income market came to a halt in September amid the uncertainty on the direction of yields and as system liquidity thinned out. In the T-bills secondary market, yields expanded by 57 basis points across the T-bill yield curve, on average, to 5.29% pa, with the yield on the 1-year bill rising by 10 basis points to 7.49%. Stop rates also rose on average across the three T-bill primary auctions held in the month. The stop rate of the 1-year bill increased by 70 basis points to 7.50% pa (annualised yield 8.11%); the rates on the short and mid-tenor bills were unchanged for the fifth consecutive month. In our view, it seems clear that the monetary authorities have finished with the effective tightening of market interest rates that characterised the first half of the year, and for the time being, are content to see 1-year yields substantially below 10.0%.

Activities in the FGN bond secondary market were mixed with a bearish tilt in September, with the average yield rising by 5 basis points during the month. At the short end of the spectrum, the yield of a 2-year bond compressed by 120 basis points to 8.83%. At the long end, the yield of a 10-year bond expanded by 38 basis points to 12.02%. Similarly, at the monthly primary auction, yields rose by an average of 7 basis points following the dip in the total subscription (Bid-Offer: 2.23x vs 2.40 in August). In our view, a future rise in bond yields, if any, is unlikely to be sharp over the coming three months due to unaggressive borrowing as the Debt Management Office (DMO) manages its debt service costs.

Equities

The equities market continue to perform positively in September, gaining for the third consecutive month, following late investor interest in bellwether stocks. The consistently low yields in the fixed income market also continued to encourage participation in risk assets like equities.

As a result, the NGX All-Share Index (NGX-ASI) rose by 2.55% m/m – the largest monthly gain since January 2021 – to 40,221.17 points. Notably, the index crossed the 40,000 psychological mark to hit its highest level since February 24, 2021, almost erasing all its losses for the year (YTD: -0.12%). On market movers, end of month upticks in market heavyweights, Dangote Cement (+15.23%) and Nestle Nigeria (+5.71%) were the primary drivers of the overall market's gains.

The third quarter results of listed companies are due to be released in October, and it is possible that these will give further support to the market if pessimistic expectations are dispelled. It is noticeable that the market has traded in a quite narrow range, of roughly seven percentage points performance below and above its starting point this year, in contrast to the very high level of volatility recorded during 2020 when the market gained 50.03%. Whereas high volatility plays into the hands of traders, low volatility requires careful stock selection which can be enhanced considerably by paying attention to dividend yields, such as those available from some of the major bank and telecom stocks. In general, it seems that there may be continued support for the market over the coming month, if not months, unless the interest rates rise significantly.

Oil

Our stance on oil prices is that, in general, Nigeria's public finances (i.e., the budget of the FGN and the foreign exchange reserves of the CBN) work much better when oil prices are above US$60.00. Overall, we have seen oil prices sustain their upward trend this year. Specifically, in September, Brent crude rose to as high as US$79.53/bbl – the highest level since October 2018 – before settling at US$78.51/bbl (+7.56% m/m) by the months end. Year-to-date, Brent is up 51.56% and has traded at an average price of US$67.99/bbl, 57.32% higher than the average of US$43.22/bbl in 2020.

Over the month, the price rallied following the sustained output disruptions from Hurricane Ida. Reports from the Bureau of Safety and Environmental Enforcement (BSEE) showed that 31 production platforms in the Gulf of Mexico were still evacuated at of end-September. As a result, approximately 16.18% (300,000 bpd) of the crude oil production in the Gulf was still shut-in. Elsewhere, supply from the Organization of the Petroleum Exporting Countries and its allies (OPEC+) remains below target as some of its members, e.g., Nigeria, Angola and Kazakhstan have been unable to increase production in line with their increased quotas as under-investment or maintenance delays persist from the pandemic. According to OPEC+, its global oil demand forecast remains unchanged at 96.7 million bpd for the whole of 2021, while the forecast for Q4 21 was revised downwards slightly by 110,000 bpd to 99.7mbpd (previously: 99.82mbpd). OPEC+ are expected to meet during the first week of October and will likely maintain its agreement to ease supply cuts by 400,000bpd over H1 21. In light of these, we expect Brent crude price to continue to trend well above the US$60.00/bbl level during the coming months.

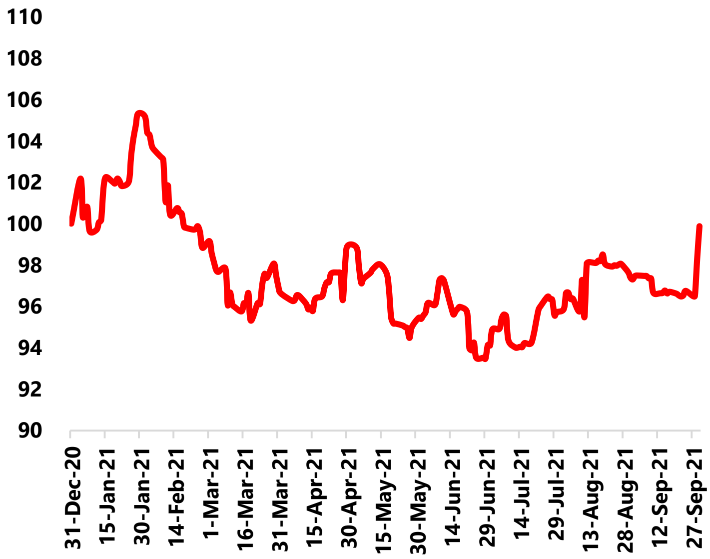
Currency

The exchange rate at the parallel market fell to N570/US$1 (last published rate by AbokiFX's suspension on 17 September) – a record low – implying a 7.7% depreciation in the month of September (YTD -17.5%). This comes as the market is still reeling from the effects of the CBN's move to stop supplying Bureaux de Change (BDC) operators with US dollars in August. Similarly, the I&E Window rate also hit a record low of N414.90/US$1 in September before settling at N414.73/US$1 at the month's end. Elsewhere, total turnover at the I&E window improved by 52.9% m/m to US$4.32bn – the highest level since March 2020 – as the CBN increased its interventions in the space. Notably, the CBN supplied US$616.3mn to the I&E window in the first three weeks of September, the most since December 2020.

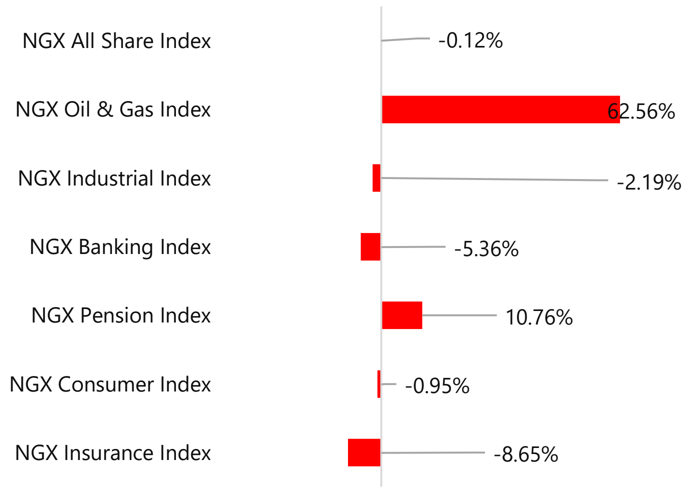
The CBN's FX reserves hit its highest level since January 2021, rising by 6.8% (+US$2.40bn) to settle at US$36.41bn at the end of September, comfortably above the US$30.00bn level that we consider to be critical. In our view, the reserves are beginning to reflect the IMF's Special Drawing Rights (SDR) allocation to Nigeria. In addition, the FGN also successfully raised US$4.00bn in Eurobonds during the month. These should see the reserves rise to above US$40.00bn over the next month, enough to provide the apex bank with enough ammunition to defend the Naira in the short term.

Nevertheless, turnover in official markets remains low. Thus, there may be continued pressure on both the official and parallel exchange rates if CBN supply is not increased

Performance of the NGX All-Share Index – YTD 30 September 2021



NGX Indices Performances – YTD 30 September 2021



Global economic outlook

We have become accustomed to forecasts for global growth in the range of 5.0% to 6.0% pa for 2021, with the latest forecast from the World Bank predicting 5.6% pa growth for this year. However, of concern is the unevenness of the global recovery, with developed economies set to rebound quickly. At the same time, other nations will be held back by low vaccination rates and high debt. In addition, all forecasts carry a warning over the possible effects of a further wave of the Covid-19 pandemic following the spread of the Delta variant.

Coronation Fixed Income Fund

FUND OVERVIEW

The fundamental objective of the Fund is to provide unit holders with long-term capital growth and regular income by investing primarily in diverse portfolios of fixed income securities.

Investment Objective:

The fundamental objective of the Fund is to provide unit holders with long-term capital growth and regular income by investing primarily in diverse portfolios of fixed income securities.

Investment Strategy:

The Fund Manager shall adopt and maintain an investment strategy that is designed to ensure a steady return on capital and assured liquidity.
The fund will strive to maintain an average duration of not more than 6 years.

Investment Strategy:

The Fund may be suitable for investors looking to invest for the medium to long term with moderate risk appetite.

Investment Philosophy:

We employ a fundamental investment process to construct a diversified portfolio of high-quality, fixed income securities that aim to deliver consistent excess returns (income) with low volatility.

Our bottom-up credit selection and tactical trading in the most liquid instruments and fundamental process combined with robust, top-down rigorous risk management tools designed to meet liquidity objectives and consistent excess returns over the long term.

Risk management and controls are the foundation of the team's process integrated in the valuation, analytics, trading and portfolio management, which is vetted by research with market insight of the investment team to minimise risk exposure.

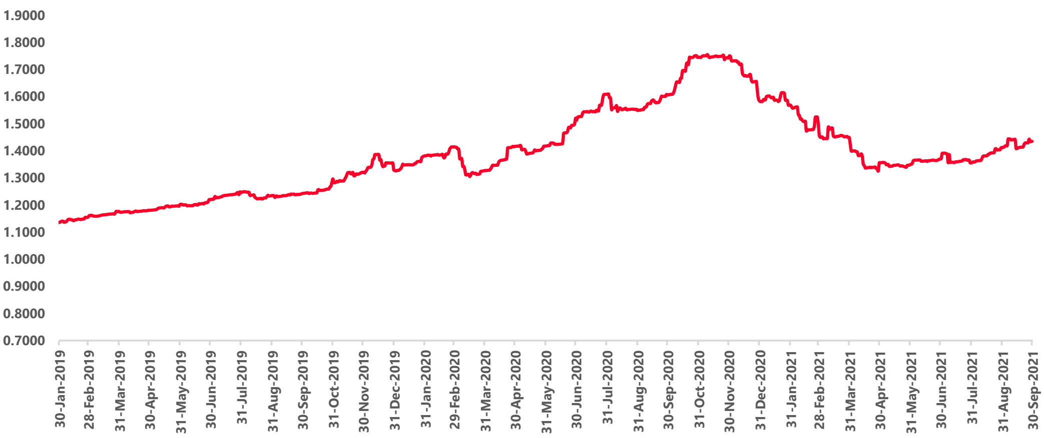
Risk Management

- High-quality issuer to reduce credit risk and durations limit to mitigate interest rate risk
- Issuers concentration limits and rigorous selection criteria
- Research based macro risk analysis and independent risk and compliance review
- Disciplined investment process and continuous value analysis relative to opportunity set
- Multiple level review and clear accountabilities and cross checks

HISTORICAL FUND PERFORMANCE

	January	February	March	April	May	June	July	August	September	October	November	December	YTD
2021	-0.98%	-4.54%	-3.30%	-6.43%	-0.47%	1.49%	-0.98%	4.06%	1.70%				-9.45%
2020	3.93%	2.39%	-6.18%	6.73%	0.10%	7.24%	5.84%	-3.73%	3.74%	8.64%	-0.15%	-9.08%	19.23%
2019	1.42%	1.65%	1.83%	0.32%	1.85%	1.50%	2.07%	-0.85%	0.61%	4.35%	1.88%	0.66%	18.63%
2018	3.50%	-1.10%	3.83%	0.89%	0.92%	1.34%	5.96%	-10.34%	0.33%	4.31%	0.91%	0.66%	6.74%
2017									0.91%	0.65%	1.21%	2.07%	4.92%

HISTORICAL OFFER PRICE



RISK – REWARD PROFILE

1	2	3	4	5	6	7

Lower risk / Lower return — Higher risk / Higher return

FUND FACTS

Fund launch date	23 September 2017
Fund type	Open - Ended
Asset class	Fixed income
Risk profile	Moderate
Benchmark	Weighted average of 3-year + 10-year FGN bond
Currency	Nigerian Naira
Accounting	Market-to-Market
Fund size	₦1.13 billion
Offer price	₦1.4342
Income distribution	Semi-annually
Minimum holding period	90 Days
Minimum initial transaction size	₦10,000
Minimum additional transaction size	₦5,000
Fund rating	

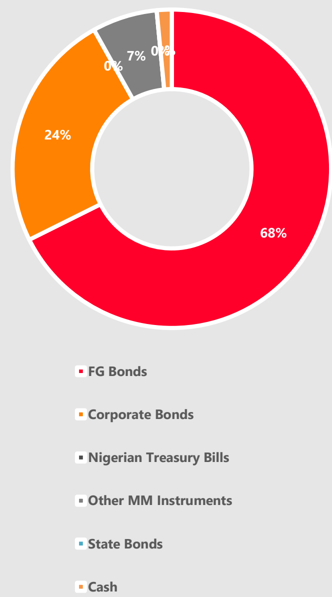
FUND FEES

Management	1.50% p.a.

FUND CHARGES

Entry charge	None
Exit charge	None
Early redemption charge	1.5% of income earned

FUND ASSET ALLOCATION



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DISCLOSURES & DISCLAIMERS