

Monthly Equities Market Report: July 2023

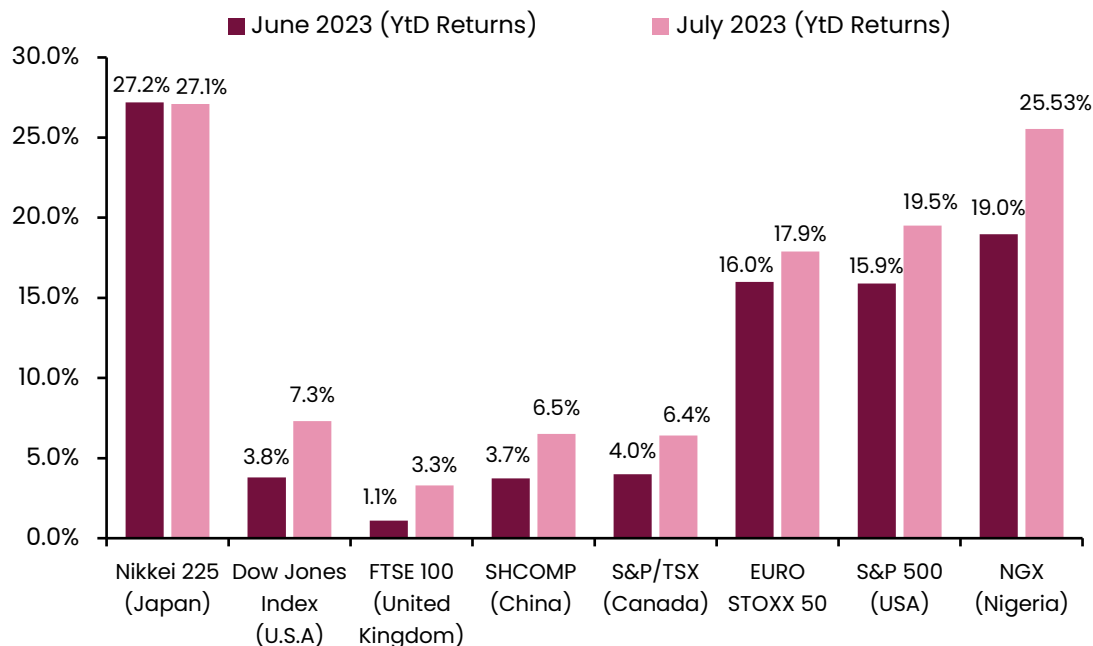
Global Market Overview

The global equities market ended July 2023 on a positive note, following a slowdown in inflationary pressures. This necessitated major central banks to ease off on their interest rate hikes. During the month, both the US Federal Reserve and the European Central Bank (ECB) raised their benchmark interest rates by 25bps each to 5.25%–5.50% and 3.75% respectively. In the United Kingdom, we anticipate that the Bank of England (BOE) will follow suit and raise its key interest rate by 25bps–50bps in their August meeting, seeking to bring inflation down to their targeted rate of 2% (June 2023 inflation: 7.9%).

Due to a less aggressive monetary policy approach across major global economies, most of the major indices under our coverage exhibited higher returns in July 2023 compared to June 2023, with the exception of the Nikkei 225 index, which declined marginally by 1bp (*see Figure 1*). We anticipate this bullish trend to continue following the more tempered monetary policy stance of the US Fed, ECB, and BOE. Additionally, stronger-than-anticipated global economic data is expected to contribute to further gains in the global equities market. However, we believe that the recent downgrade in the US credit rating by Fitch to AA+ (from AAA), may act as a counterforce, potentially offsetting some of the gains in the global equities market. For context, the US Treasuries have historically been perceived as a safe-haven for investors during times of economic turbulence. The previous AAA credit rating has been an underlying factor contributing to this perception, further bolstering investor confidence and stability in the US economy. Due to the potential for higher borrowing costs for the US Treasury Department, this downgrade may be a cause for concern. Furthermore, the observed decline in Chinese economic activity, as indicated by a low Purchasing Managers' Index (PMI) reading of 49.3 points in July 2023, along with a slow growth of 0.8% quarter-on-

quarter (QoQ) in Q2:2023 GDP (compared to 2.2% QoQ in Q1:2023), could potentially limit gains in global equities market.

Figure 1: Year to Date Returns of Major Indices in June and July 2023



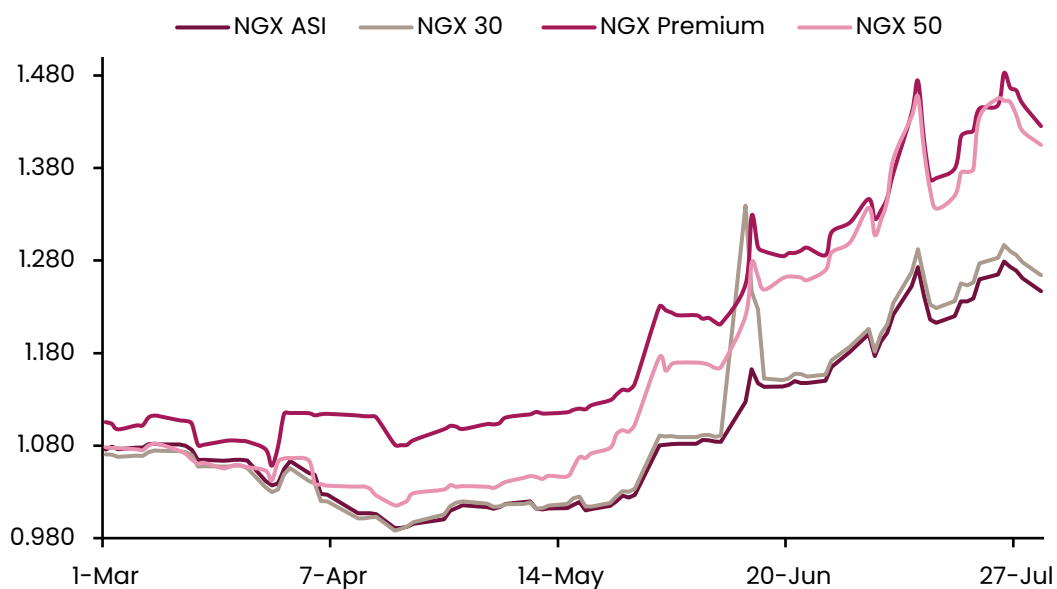
Source: Bloomberg, NGX, ARM Research

Domestic Market: Bullish Streak Maintained

The Nigerian equities market continued its bullish trend for the ninth consecutive month, albeit with a slightly slower pace. As a result, the year-to-date (YtD) returns surged from 18.96% in June 2023 to an impressive 25.53% in July 2023. This sustained growth is following the continued positive impact of pro-market policies implemented by the new administration since its inauguration. During July 2023, positive investor sentiment was sustained as the equities market recorded gains in 12 out of 21 trading days, compared to 11 out of 19 trading days in June 2023. Moreover, on a Month-on-Month (MoM) basis, both the average volume and value traded on the NGX increased significantly by 67.00% and 67.63% to NGN 1.14bn and NGN 17.90bn respectively. Notably, the NGX 30 Index, which tracks the performance of the top thirty (30) tickers in terms of market

capitalization and liquidity in the market, matched the performance of the NGX ASI, which settled at an impressive 64,337.52pts in July 2023 compared to the 60,968.27pts recorded in June 2023.

Figure 2: Trend Analysis of the Performance of NGX ASI, 30, 50 and Premium Indices from March to July 2023



Source: NGX, ARM Research

In our [H2:2023 outlook report](#), we highlighted that the equities market will be driven by factors such as corporate earnings performance, fixed income yields direction, government policies, dividend-hunting activities, external conditions and exchange rate directions in the second half of the year. As per our expectations, we have begun to see some of these factors at play. We believe that the slowdown in MoM growth in the equities market (5.53% MoM in July 2023 vs 9.32% MoM in June 2023) is on the back of the recent rise in yields in the fixed income market. During the majority of July 2023, we observed a consistent decline in the average yield within the fixed income market. However, a notable shift occurred following the Monetary Policy Committee (MPC) meeting, during which the Committee reinforced its hawkish stance and announced measures to curb excess system liquidity. Following this announcement, fixed income yields reversed their downward trajectory and trended upwards (+45bps MoM to 10.11%).

Subsequently, the equities market began to decline, shedding an average 63bps in the four days following the meeting. Furthermore, the release of H1:2023 earnings results by numerous companies has prompted investors to actively seek stocks with strong fundamentals and attractive dividend prospects.

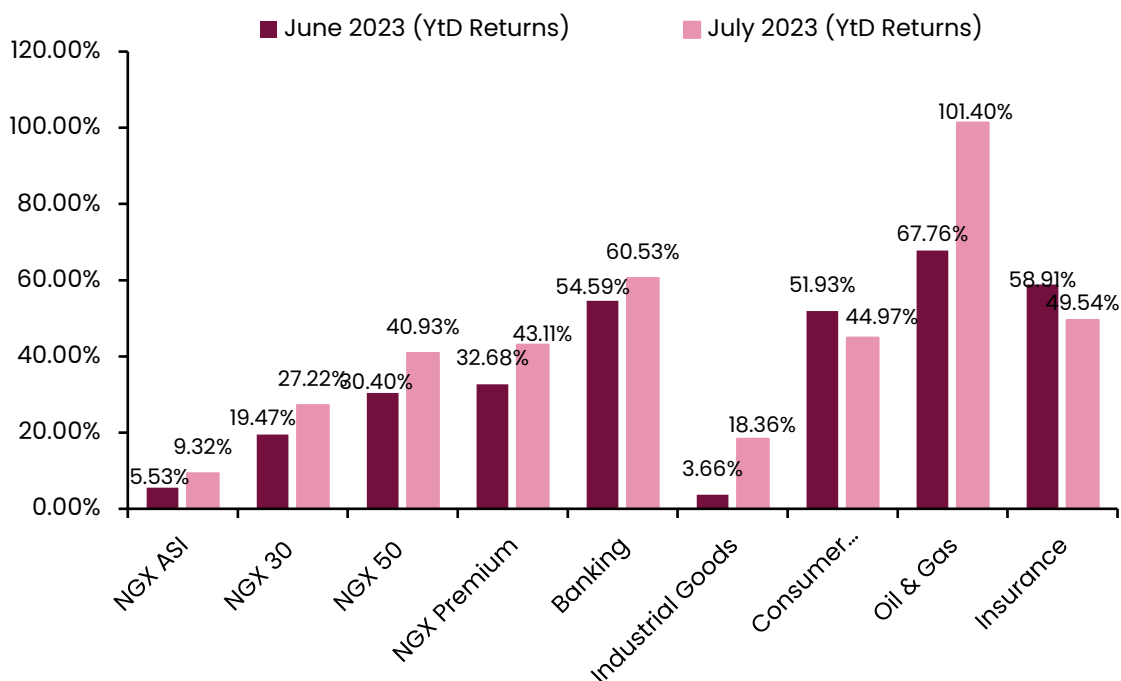
Sectoral Performance: Favorable Policies Spur Impressive Performance in the Oil and Gas Sector

In July 2023, all sectors under our coverage, except for the Consumer Goods and Insurance sectors, ended the month on a stronger note compared to June 2023. Notably, the Oil and Gas sector displaced the Consumer Goods sector as the highest performing sector, with an impressive YtD return of 101.40% (vs. 67.76% in June 2023). We opine that the removal of Premium Motor Spirit (PMS) subsidy, the implementation of the Petroleum Industry Act (PIA) and the liberalization of the exchange rate served as catalysts for the positive sentiment in the Oil and Gas sector, hence driving the gains recorded in the sector in July 2023. Trailing behind the Oil and Gas sector were the Banking (+60.53% YtD), Insurance (+49.54% YtD), Consumer Goods (+44.97% YtD) and Industrial Goods (+18.36% YtD) sectors.

High performing tickers such as MRS (+676.24% YtD), JAPAUFGOLD (+412.00% YtD), CONOIL (+315.09% YtD), ETERNA (+287.89% YtD), GEREGU (+131.54% YtD) and TOTAL (+99.48% YtD) contributed to the impressive performance of the Oil and Gas sector.

Furthermore, UNITYBNK (+136.36% YtD), STERLINGNG (+135.71% YtD) and STANBIC (+107.77% YtD) drove the significant gains recorded in the banking sector.

Figure 3: Sectoral Performance Analysis for June and July 2023



Source: NGX, ARM Research

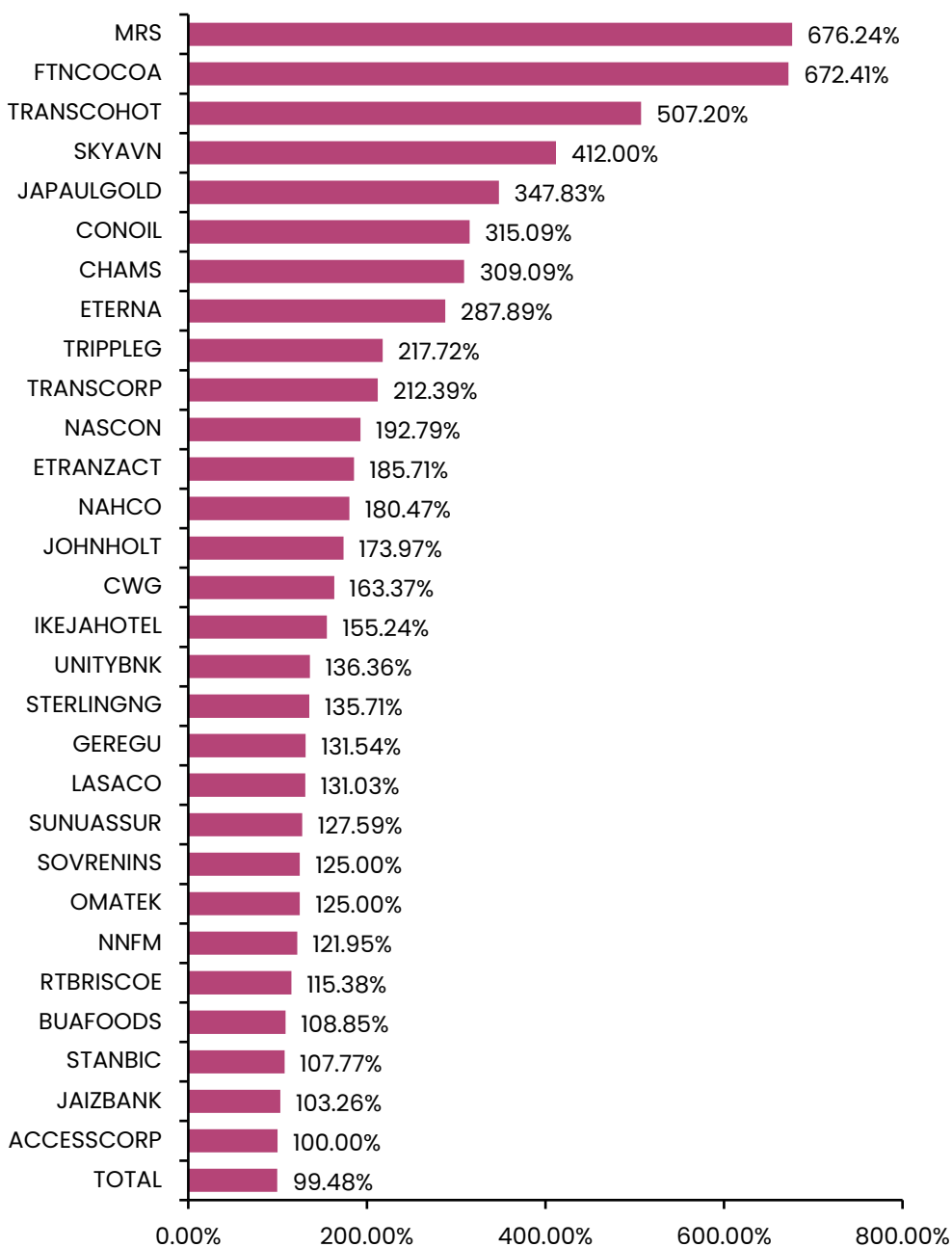
The Insurance sector slightly declined in July 2023, however, gains in tickers such as LASACO (131.03% YtD), SUNUASSUR (+127.59% YtD) and SOVERENNINS (125.00% YtD) kept the sector's performance in the positive.

Similarly, the Consumer Goods sector recorded a marginal decline in July 2023 and we opine that this is on the back of FX losses incurred from foreign obligations and persistent inflation, which has eroded consumers' purchasing power. However, tickers such as FTNCOCOA (+672.41% YtD), NASCON (+192.79% YtD) and BUAFOODS (+108.85%) drove the sector's performance.

The Industrial Goods sector rebounded significantly in July 2023 from its decline in June 2023. Tickers such as DANGCEM (+34.87% YtD), WAPCO (+10.83% YtD) and BUACEMENT (+1.49% YtD) played major roles in the strong performance of the sector.

On a balance of factors, tickers such as MRS (+676.24% YtD), FTNCOCOA (+672.41% YtD), TRANSCOHOT (+507.20% YtD), SKYAVN (+412.00% YtD), JAPAUFGOLD (+347.83% YtD) and CONOIL (+315.09% YtD) recorded the highest YtD gains in July 2023.

Figure 4: Top 30 Best Performing Tickers for July 2023



Source: NGX, ARM Research

August 2023 Outlook

In the coming months, we expect the Nigerian equities market to be influenced by the following factors; corporate earnings performance, direction of fixed income yields and dividend hunting activities. Overall, we expect:

- Given the liberalization of the exchange rate, which led to the devaluation of the Naira, some companies posted negative H1:2023 earnings result due to the foreign exchange losses incurred. Consequently, we might note incessant sell-offs in the equities market in the coming month.
- With the new narrowing of the asymmetric corridor to +100/-300 basis points around the Monetary Policy Rate (MPR) and the Central Bank's recent clampdown on liquidity, we expect that yields will rise and shift investors' focus to the fixed income market.
- We believe that investors will stay long on stocks with attractive interim and final dividend payouts.
- We posit that the pro-business policies will improve foreign participation in the Nigerian equities market and help the local bourse sustain its positive performance

Overall, given the uncertainties in the domestic economy, we maintain our stance that investors should consider tickers in the **Banking, Oil & Gas and Industrial Goods sectors**, which have strong fundamentals particularly in this era of new policies.