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Dear Valued Client/Prospect,

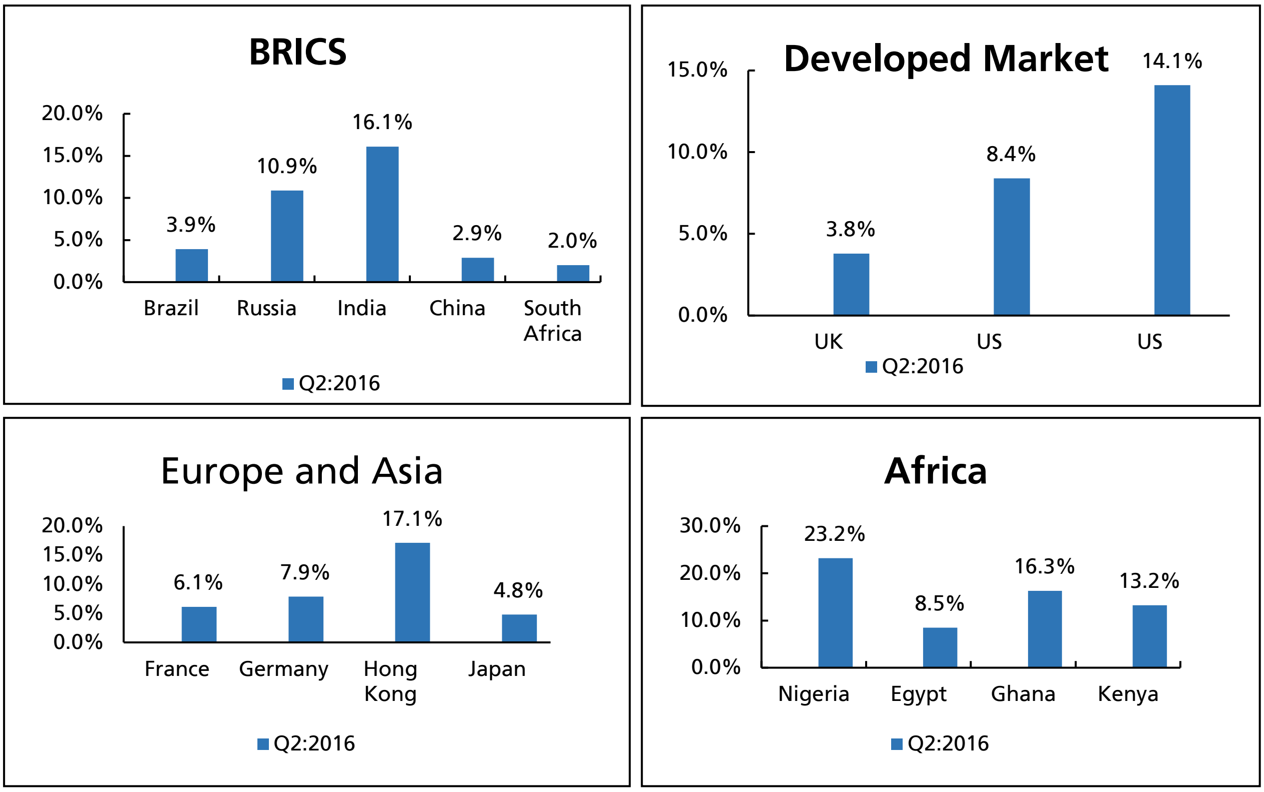
Market Report For the 1st Half Ended 30 June 2017

Global and Economic Perspective

Equity markets globally recorded strong positive returns in H1:2017 despite renewed downward volatility in commodity prices, tighter monetary policy by systemic central banks and increased geopolitical risks. Oil prices, which had earlier stabilized above US$55.0/b before the turn of the year, fell below US$50.0/b as the half year was closing out due to sustained supply glut in the oil market despite OPEC/Non-OPEC deal to extend production cuts till 2018. The US Federal Reserve also raised its benchmark Fed Fund rate twice in the period (by 50bps cumulatively) as the US economy continues to record below trend unemployment rate which is driving inflation expectation northwards. Nonetheless these headwinds, investors remained bullish on equities, buoyed by renewed optimism on global economic growth and positive outcomes from elections in European countries facing populists' threat.

Across developed markets in North America and Eurasia, Hong Kong Hang Seng led gains with a YTD return of 17.1% in H1:2017 while US equities trailed, with the NASDAAQ and S&P 500 indices returning 14.1% and 8.4% respectively against the backdrop of a strong earnings season as well as expectations of tax cut and improved fiscal spending by the Trump administration. The German DAX and France CAC returned 7.9% and 6.1%, partly driven by improving growth fortune in the Euro Area and softening geopolitical concerns following victories of centrists' candidates in elections held in France and Netherlands.

In the BRICS markets, all indices appreciated with the INDIA BSE SENS (16.1%) and RUSSIA RTS (10.9%) indices advancing the most. China Shanghai Composite eked out a marginal 2.9% return in spite of tightening regulations on trading rules which led to a bearish spell. Africa Bourses were not left out of the rally as the largest exchanges in the region enjoyed positive momentum in the period. Nigerian equities were the best performing, with the benchmark All Share Index appreciating 23.2% following solid Q1 earnings and recent moves by the CBN to allow greater flexibility in the foreign exchange market. Similarly, the Ghana GSE and Kenya NSE 30 indices gained 16.3% and 13.2% respectively.



Source: Bloomberg

Nigeria Equities and Fixed Income Market in H1: 2017

The Nigerian bourse closed the first half of the year remarkably well, as the NSE All Share index had a Year-to-Date return of 23.2%. The positive swing was largely driven by solid Q1:2017 earnings and increased foreign participation in the market following the launch of the I&E window which reinvigorated confidence in the investment landscape as well as the broader economy. Also, the economy witnessed improvements in core macroeconomic indicators – such as the easing in Inflation rate in March, April and May to 17.3%, 17.2% and 16.3% respectively as well as improvements in PMI data, with the figures for May and June suggesting an expansion in economic activities. Consequently, investors took positions in Nigerian equities in anticipation of better forward earnings by Quoted companies; as such, market capitalization rose to N11.5tn as the benchmark index closed in H1:2017 at 33,117.48 points.

In the fixed Income space, yields remained elevated, as average yield on the sovereign benchmark yield curve rose 23bps from 15.8% in December 2016 to 16.1% in H1:2017 on the back of aggressive liquidity mop-ups by the central bank. Money market rate – Overnight and Open Buy Back – were also elevated and volatile, against the backdrop of frequent FX interventions by the CBN which intermittently squeezed liquidity as well as increased OMO auctions. However, we have observed Investors are beginning to show strong preference for long dated instruments which suggests the market is arriving at a consensus dovish expectation for interest rate in the near term; hence, the aggressive long duration positioning. For instance, the result for the June DMO bond auction shows that the 5-Year benchmark bond reopened was

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undersubscribed compared to the MAR 2027 (1.1x) and APR 2037 (1.8x) bonds which were oversubscribed. Traders were also willing to accept the same marginal rate for the 5-Year and 10-Year bonds and demanded a marginal 0.6bps premium for taking a 20-year maturity risk.

The performance of Sub-Saharan Sovereign Eurobonds under our coverage was bullish as investors took interest in Nigerian, Ghanaian, Kenyan, Senegalese, Ivorian and Gabonese instruments with yields declining across tenors due to moderating sovereign credit risk profile of respective countries. Of the SSA sovereigns we track, the best performing in terms of price gain was the KENYA 2024 (+8.0%), followed by ZAMBIA 2024 (+6.6%) and NIGERIA 2023 (+6.4%).

Similarly, performance of the Nigerian Corporate Eurobonds was overwhelmingly bullish as yields fell across board (particularly Nigerian Tier-2 banks Eurobonds that were hitherto trading at significant discount to par) due to improving macroeconomic and industry fundamentals. The Yield on DIAMOND 2019, FIDELITY 2018, FBN 2020, Subordinated ACCESS 2021, Senior ACCESS 2021 and GUARANTY 2018 bonds fell 930bps, 803bps, 399bps, 251bps, 227bps and 161bps year-to-date respectively in H1:2017.

H2: 2017 Outlook and Recommendation

Following the increase in volume and frequency of interventions in the foreign exchange market by the CBN, as well as the launch of the Investors' and exporters' (I&E) FX window in April, the Nigeria bourse has witnessed renewed interest from foreign investors. This could be observed from foreign portfolio investors participation data which shows inflows into Nigerian equities jumped to a 10-month high of N73.1bn in May 2017 after the I&E Window was launched. Whilst we expect the market to record another positive performance in H2:2017 – to be driven by strong earnings and improving macroeconomic fundamentals - we note that gains are capped for most of the value stocks on the Bourse as valuation multiples are now close to pre-crisis level. Hence, upside potentials are limited and we expect a single digit return in H2:2017. Nonetheless, there are still opportunities for investors to position in dividend paying stocks with strong earnings fundamentals.

In the fixed income space, we expect investors to continue to take long duration positions in the T-bills and Bond markets in anticipation of easy monetary policy by the CBN although we maintain that the moderation in interest rate will not come as early as being speculated. We also expect interest in Nigerian Sovereign and Corporate Eurobonds to be sustained on the back of moderating sovereign credit risk.

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

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