INVESTMENT Insights

LEADWAY
ASSET MANAGEMENT

Food, Energy and Inflationary Concerns Weigh On Global Economic Growth Outlook

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Updated OECD Economic Outlook Projections as at June 2022

	Average 2013-2019	2020	2021	2022	2023	2021 Q4	2022 Q4	2023 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.3	-3.4	5.8	3.0	2.8	4.3	1.9	3.0
G20[2]	3.5	-3.0	6.2	2.9	2.8	4.3	1.9	2.9
OECD[2]	2.2	-4.6	5.5	2.7	1.6	4.8	1.5	1.6
United States	2.4	-3.4	5.7	2.5	1.2	5.5	1.2	0.7
Euro area	1.9	-6.5	5.3	2.6	1.6	4.6	1.2	1.8
Japan	0.8	-4.5	1.7	1.7	1.8	0.3	2.5	0.9
Non-OECD[2]	4.3	-2.3	6.1	3.3	3.8	3.8	2.3	4.2
China	6.8	2.2	8.1	4.4	4.9	3.9	4.9	4.5
India[3]	6.8	-6.6	8.7	6.9	6.2			
Brazil	-0.4	-4.2	5.0	0.6	1.2			
Nigeria	2.9	-1.8	3.7	2.1	1.8			
OECD unemployment rate[4]	6.5	7.1	6.2	5.2	5.3	5.5	5.3	5.3
Inflation[1]								
G20[2,5]	3.0	2.8	3.8	7.6	6.3	5.0	7.8	5.8
OECD[6,7]	1.7	1.5	3.7	8.5	6.0	5.2	8.9	5.2
United States[8]	1.4	1.2	3.9	5.9	3.5	5.5	5.1	2.8
Euro area[8]	0.9	0.3	2.6	7.0	4.6	4.6	6.8	3.9
Japan[8]	0.9	0.0	-0.2	1.9	1.9	0.5	2.4	1.6
OECD fiscal balance[10]	-3.2	-10.4	-7.4	-5.0	-3.8			
World real trade growth[1]	3.4	-8.1	10.0	4.9	3.9	8.5	2.6	4.1

Source: OCED Economic Outlook, as at 30 June 2022

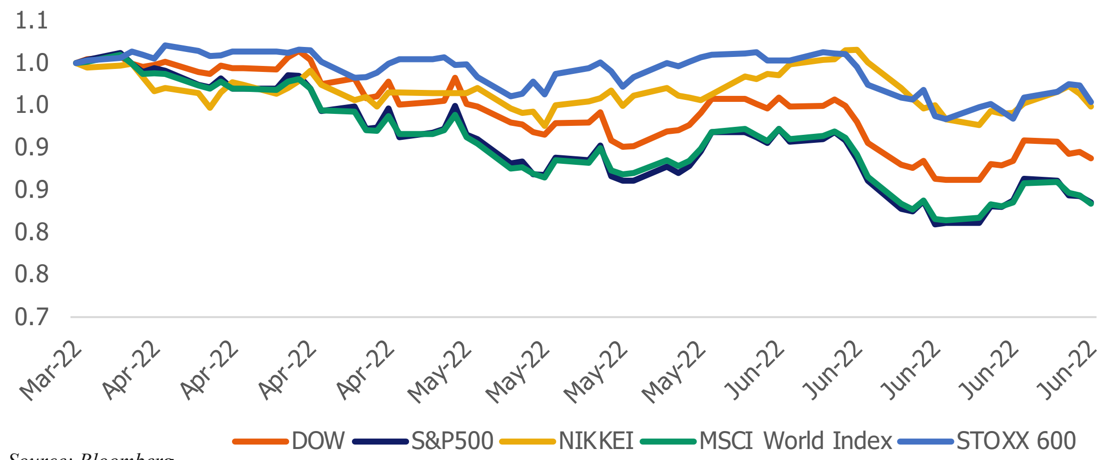
- The Russian invasion of Ukraine is creating a severe economic shock of uncertain duration and magnitude. Prior to the conflict, the global recovery from the pandemic was expected to continue in 2022 and 2023 despite rising inflation. However, the war has further excercebated the negative supply shock and triggered a food and energy crisis. These are expected to hinder global growth as central banks grapple with significant inflationary pressures.

- In addition to the war and related sanctions, shutdowns in major cities and ports in China due to the zero-COVID policy, has generated a new set of adverse shocks and financial instability

- Looking ahead, We believe the magnitude of the economic impact of the conflict is highly uncertain, but it is clear that the war will result in a substantial near-term drag on global growth.

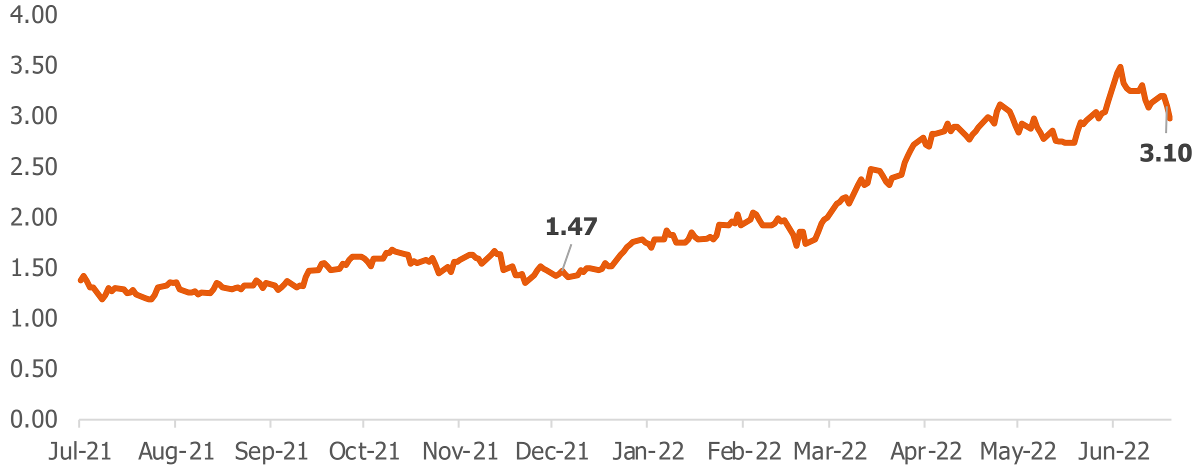
Global Financial markets: Worrisome first half of the year

Global Equity Indexes



Source: Bloomberg,
**Normalized index numbers*

10-Year Treasury Yield (%)



Source: Bloomberg

- It's been a tough first half of the year, with the MSCI All Country World Index declining by 19.6% and the Bloomberg Global Treasury bond benchmark losing about 16%, its biggest half yearly drop since 1978.
- Surging inflation has led to concerted efforts by global central-bank to curb rising prices by raising interest rates. The rise in interest rates has also become more aggressive this quarter with the US FED admitting to underestimating the impact of the ongoing supply side disruptions.
- Most investors have shifted to preservation of capital and how the increase in rates will affect developing/emerging and frontier markets. Faced with higher Eurobond yields, most Sovereigns and corporate Eurobond issuers are unable to refinance their debt at current yield level. Thus they are left with bilateral and development agency funding inclusive of the IMF.
- Similarly, equity market indices have also reacted negatively to the brewing headwinds as uncertainty and worries dominated investor sentiments. Consequently major developed market indices such as the Dow (-11.30% YTD), S&P500 (-4.97% QTD), Nikkei (-3.37% QTD) and MSCI world index (-7.32% QTD) posted negative return during the quarter.

Crude oil rose from US$70 in January to over US$123 in June 2022 further driving inflation up. We expect inflation to normalise post 2025.

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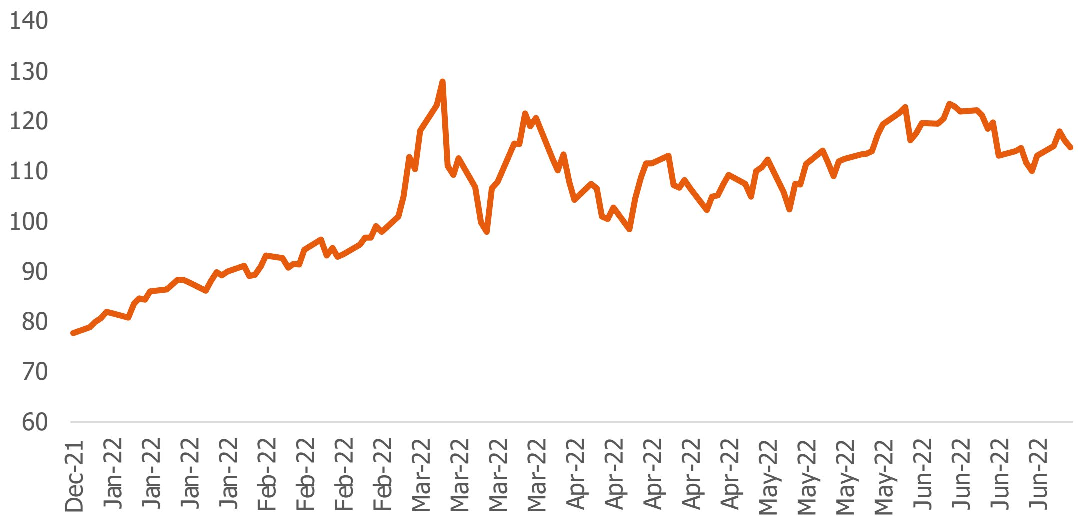
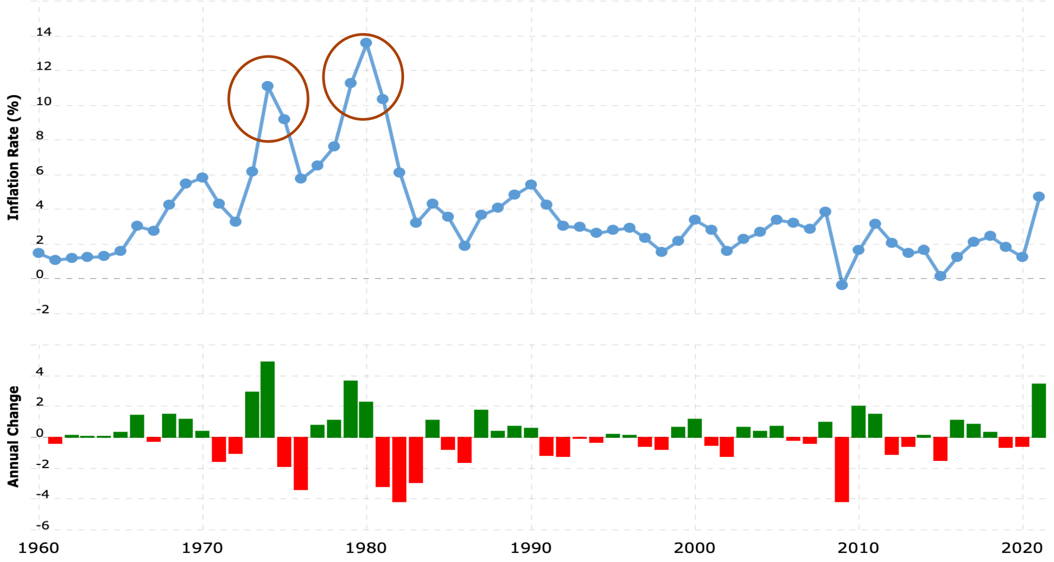
Crude Oil prices ($ per barrel)



Source: Bloomberg, LAM research

US Inflation 1960 - 2022



Source: LAM research

- In the second quarter of 2022, the price of oil continued its bullish trend with both benchmarks trading above $100 due to shortage in global supply amidst increasing demand.
- Our analysis of US inflation over the last 100 years revealed that periods of elevated inflation lasts for 3-4 years. Similar to the Bretton woods financial crisis in 1971, the Iraq and Iran war in 1979, analysts believe higher inflation should return to normal in 2025
- Year-to-date return for Brent and WTI closed the quarter at +6.8% and +5.43% respectively whilst US inflation printed 9.1% in June 2022.

Nigerian inflation has also risen sharply with June Inflation printing 18%

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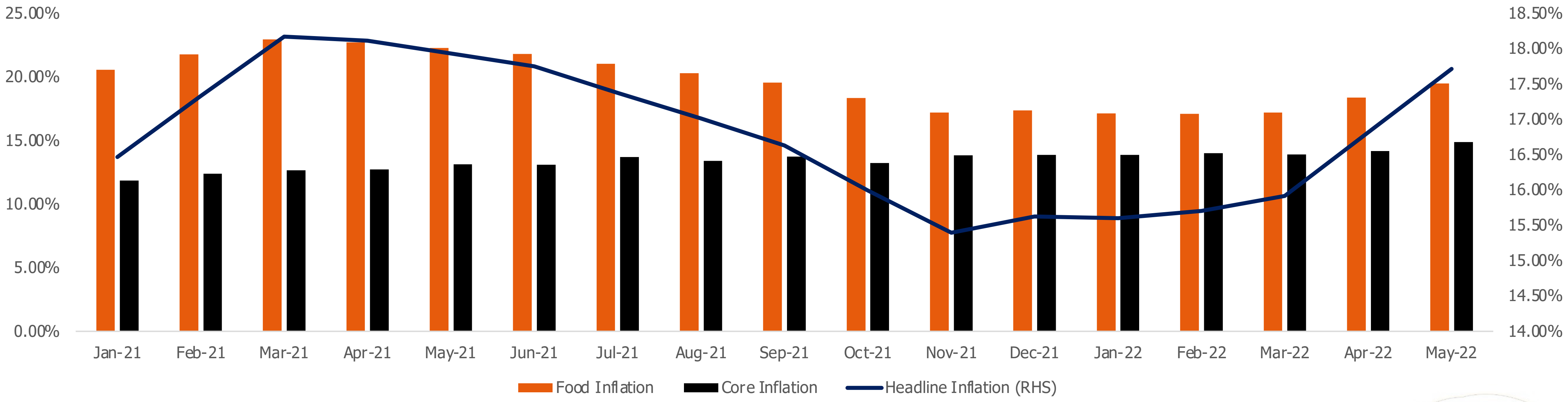
Inflation (YoY %)



- According to NBS, headline inflation rose by 89bps to settle at 17.7% y/y in May-2022. The surge in May's inflation shows the multiplier effect of surging energy prices, rising food prices (as we exit the harvest season) and thinned out impact of the high base effect.

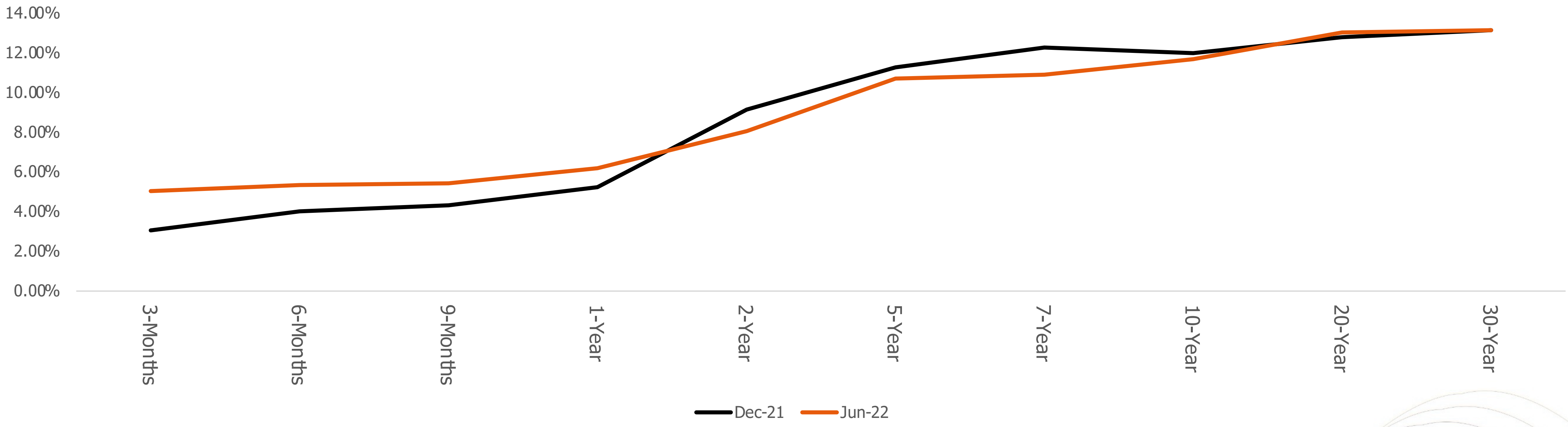
- Across the sub-indices, food inflation rose the fastest, continuing its steady 3-month rise as it expanded 113bps to print at 19.5% y/y in May-2022, from 18.4% in Apr-2022. In tandem, the core inflation sub-index rose 72bps to print at 14.9% in May-22, from 14.2% as of Apr-22.

- Looking ahead, we maintain expectations of upward pressure on inflation for the rest of the year. Food inflationary pressures are expected to remain through H2-2022. For core inflation, we expect the biggest source of concern to remain energy costs.

Source: National Bureau of Statistics, LAM Research

In response to rising inflation the MPC raised rates by 150bps in Q2 and promises to raise rates even more

Fixed Income Yield Curve



Source: FMDQ, LAM research

- The domestic fixed income market witnessed marginal upward pressure as average yield increased by circa 0.28% across the curve.
- We note that the marginal increase in yields was primarily driven by the tight system liquidity witnessed in the second quarter of 2022.
- Nevertheless, we expect a buildup in local currency fixed income yields as a response to higher yields in the international markets. Secondly because we expect increased local issuance as foreign markets dry up

Source: FMDQ, LAM Research

Currency pressures persist and is expected to lead to increased USD demand

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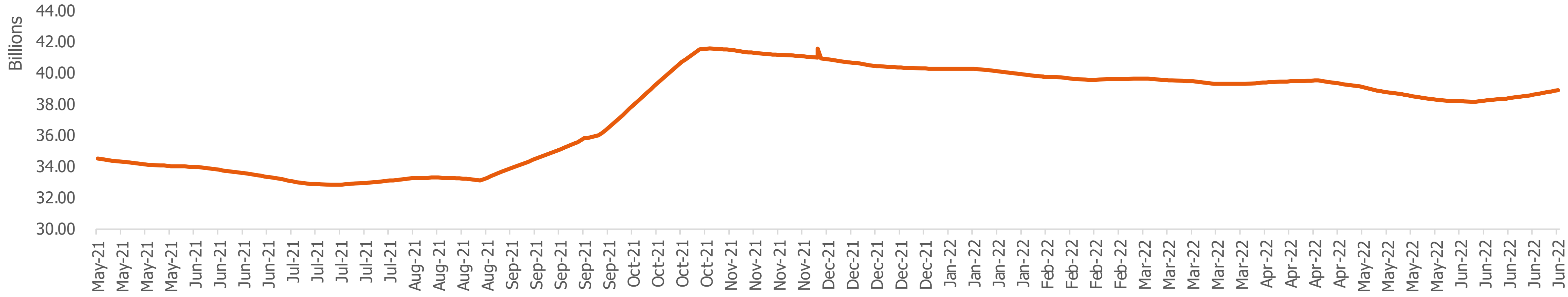
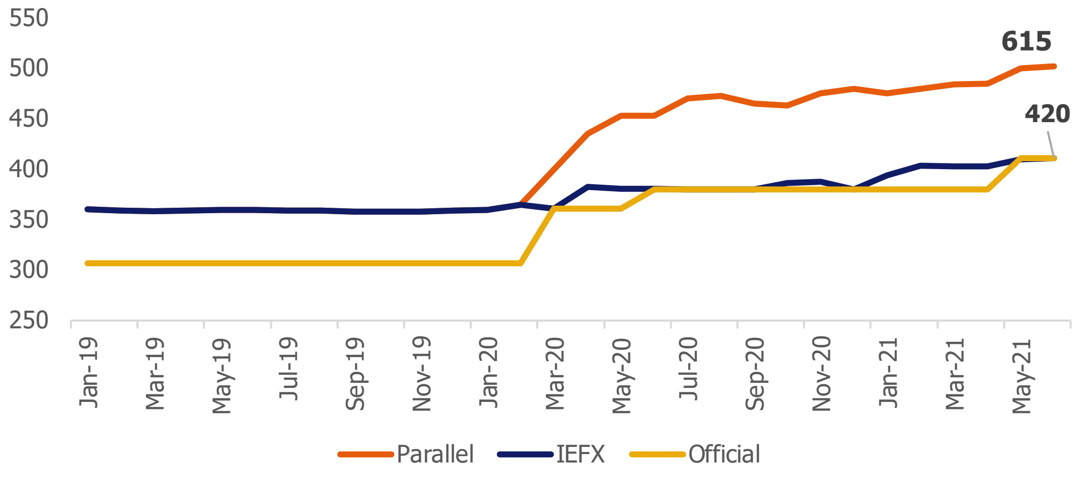
FX Reserve ($)



Source: FMDQ, LAM research

Exchange rate ($/N)

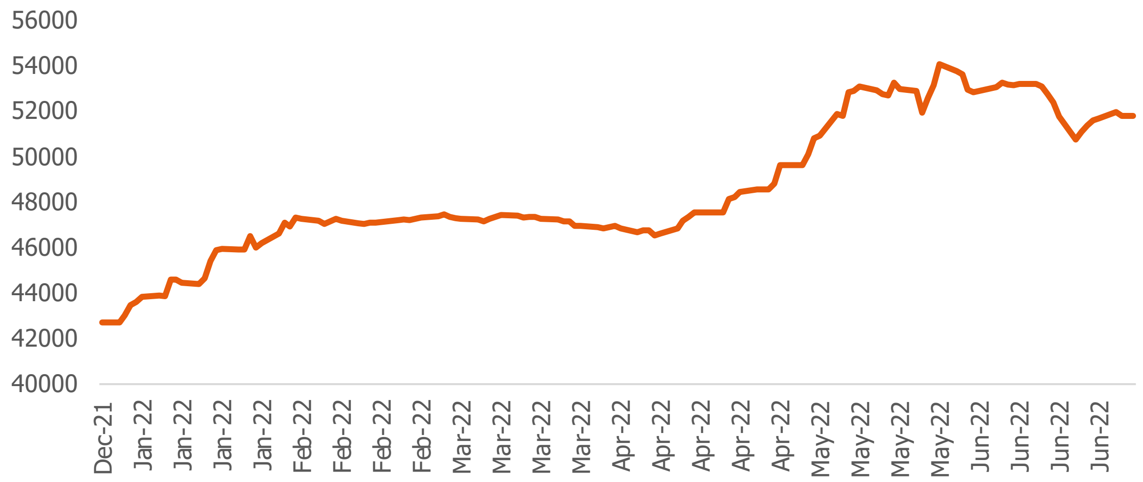


Source: FMDQ, LAM research

- Despite multiple interventions by the Central Bank of Nigeria to defend the Naira, we note that Naira depreciated marginally at the Investors and Exporters (I&E), whilst pressure persisted in the parallel market.
- Furthermore, we also note that the difference between the parallel market and the official window continue to widen during the quarter.

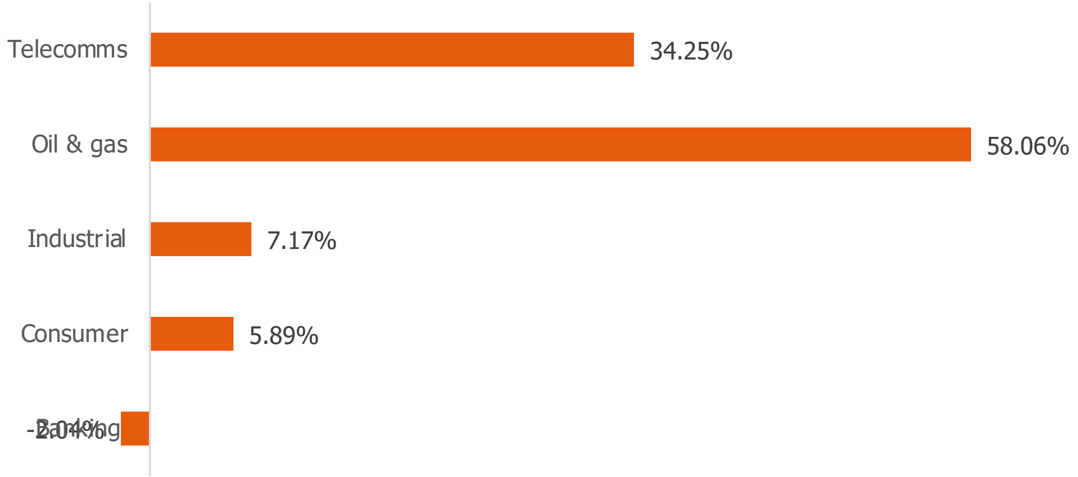
The domestic equities market continued to rally as investors concentrate on dual listed names such as Airtel Africa and Seplat PLC

Nigerian All-Share Index



Source: Bloomberg, LAM research

YTD 2022 Sectorial Performance



Source: Bloomberg, LAM research

- On the domestic capital market, the Nigerian equity market posted positive YTD return in the second quarter,
- The All-share index gained 10.33% in Q2 with a corresponding year to date return of 21.31% as of 30th June 2022. From a sectorial point of view, the top performing sector which was the Oil & Gas Index was up by 58.06% followed by the Telecom Index was up by 34.25% and the Industrial Index (7.17%). On the flip side, banking sector posted negative return of -2.38%.
- In terms of the drivers, we note that positive performance was largely driven by positive reaction to some large cap names like DANGCEM, MTNN, SEPLAT and AIRTEL that hit new all-time highs during the year. .

What lies ahead…

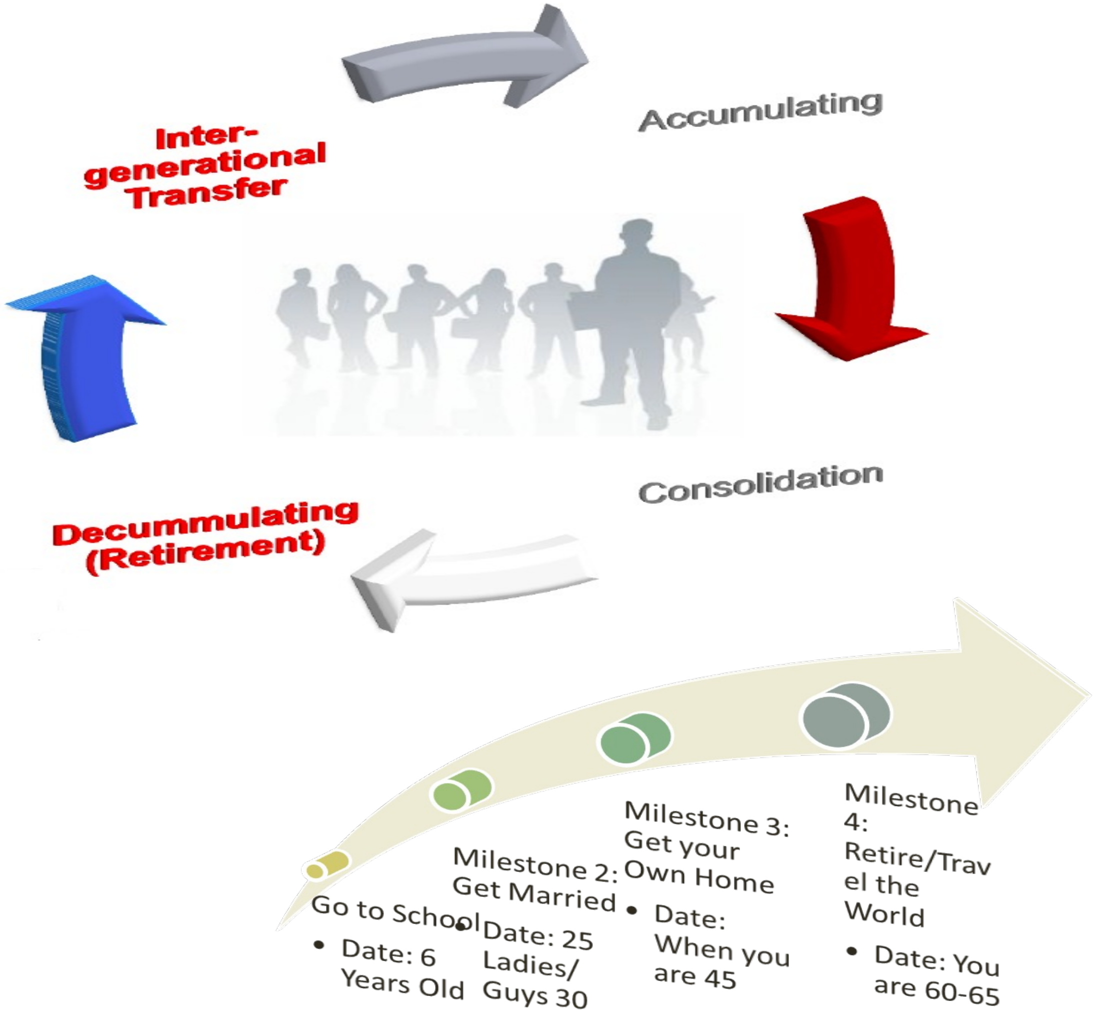
GLOBAL OUTLOOK

- We expect interest rate in the Global economy to increase as central banks try to curb rising inflation. This means that the U.S.FED is likely to remain aggressive in terms of interest decision.
- Hence, we expect Eurobond prices to decline further in Q2’22. Similarly, we remain cautious about the potential for stocks to post decent positive return.
- For oil, we remain somewhat bullish in 2022, as our optimism hinges on improved demand and less severe response to Covid-19 outbreaks. Another contributing factor is the geopolitical tension which expected to sustain elevated oil price during quarter.

DOMESTIC OUTLOOK

- For the domestic market, we expect bond prices to depreciate marginally in Q2’22, following relatively lower system liquidity expected during the quarter. In addition, we expect aggressive local borrowings by the DMO to further contribute to the decline in prices
- On equities, we do not see a major deviation from the current trend in the market. However, we expect the market to be less attractive as yields pick up in the fixed income space.

CONCEPT- THE HUMAN LIFE CYCLE



Individual Needs

- Banking
- Savings
- Investments
- Pensions
- Insurance
- Wills/Trust
- Estate Planning

INVESTMENT

An asset or an item that is purchased with the hope that it will generate income or appreciate in the future. A monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.

Nowadays, there is a wide range of products to choose from. It is important to take time to choose something that is suitable for you..

Take a look at your goals and investment objective, what investments you already have, what you can afford and your risk profile

Types of Investment: Real estate, Bonds, Equities, Treasury bills, Land

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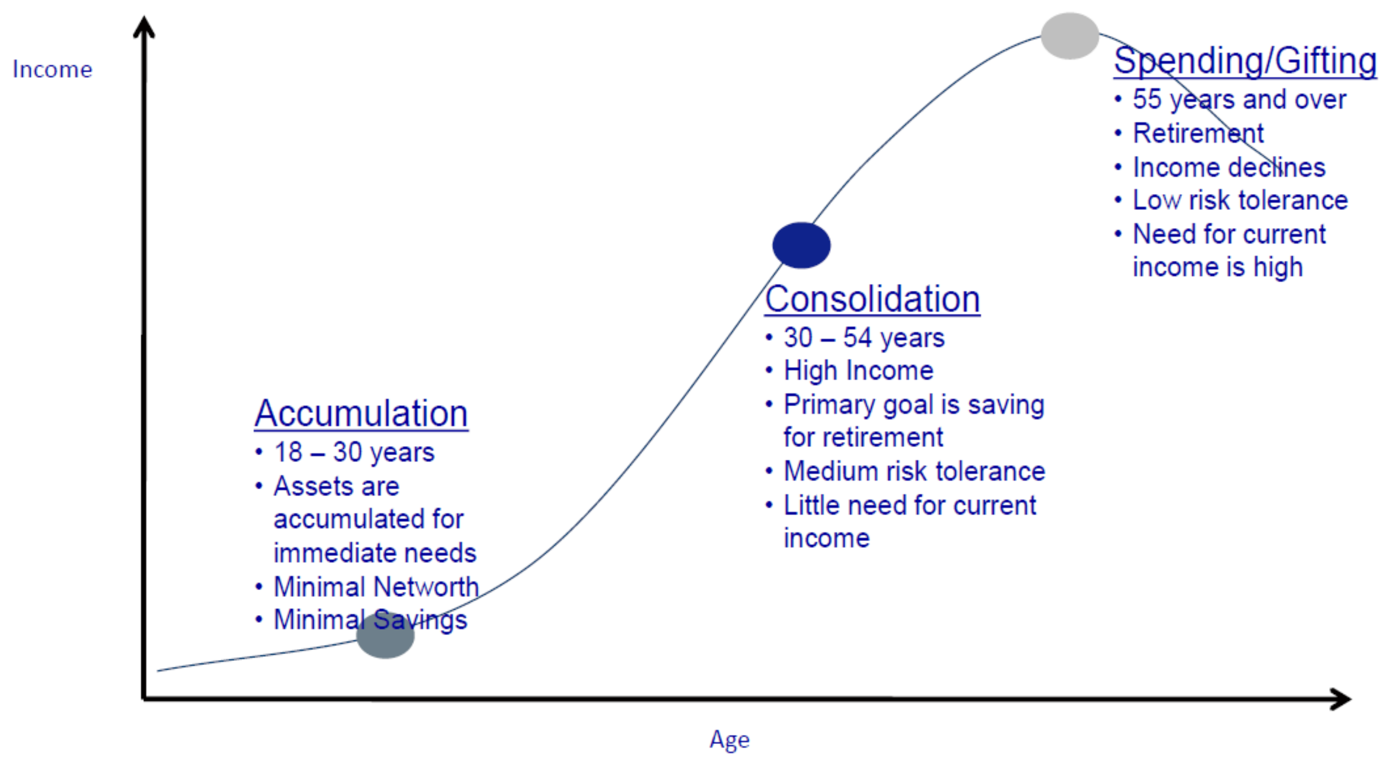
INVESTMENT LIFE CYCLE



Your investment objective is determined by your stage in the investment lifecycle

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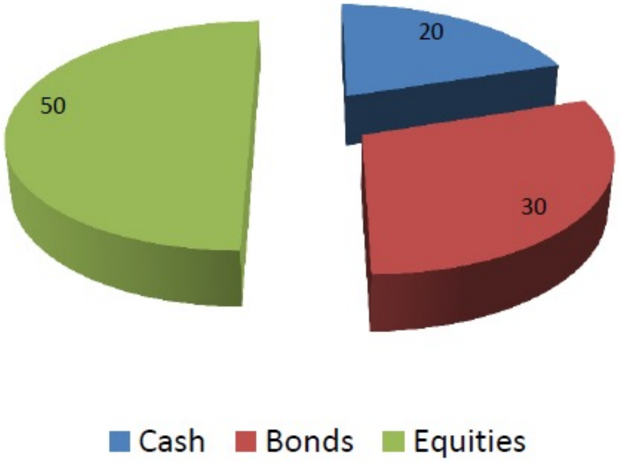
INVESTMENT - PROFILE A

Financial Goals
- Planning for marriage
- Providing for Children's Education
- Planning for retirements

Asset Allocation: Balanced
- Cash – 20%
- Bonds – 30%
- Equities – 50%



Age: 25-50 years

INVESTMENT - PROFILE B

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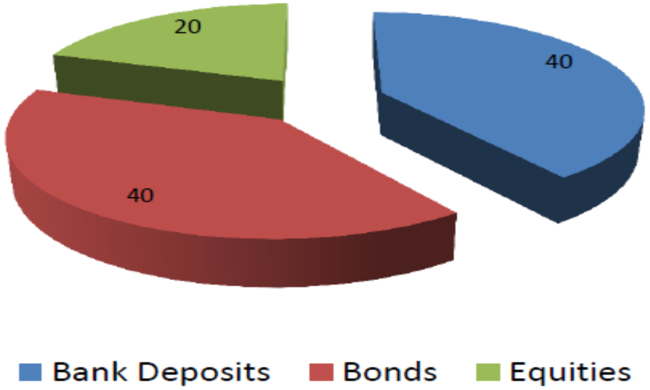
Financial Goals

- Provision for Higher life expectancy
- Provision for Medical Emergencies
- Planning for Financial Independence

Asset Allocation: Balanced

- Equities – 20%
- Deposits – 40%
- Bonds – 40%



Age: 50 years and above

INVESTMENT PRINCIPLE

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Assume you invest N40,000 every month for 30 years at 10% return p.a, the future return on your investment should be…………………………..

	5 Years			10 Years		
IR	**5%**	**10%**	**15%**	**5%**	**10%**	**15%**
5,000	340,030	387,185	442,873	776,411	1,024,225	1,376,085
10,000	680,061	774,371	885,745	1,552,823	2,048,450	2,752,171
15,000	1,020,091	1,161,556	1,328,618	2,329,234	3,072,675	4,128,256
20,000	1,360,122	1,548,741	1,771,490	3,105,646	4,096,900	5,504,341
25,000	1,700,152	1,935,927	2,214,363	3,882,057	5,121,124	6,880,426
30,000	2,040,182	2,323,112	2,657,235	4,658,468	6,145,349	8,256,512
40,000	2,720,243	3,097,483	3,542,980	6,211,291	8,193,799	11,008,682

	15 Years			30 Years		
IR	**5%**	**10%**	**15%**	**5%**	**10%**	**15%**
5,000	1,336,445	2,072,352	3,342,534	4,161,293	11,302,440	34,616,398
10,000	2,672,889	4,144,703	6,685,068	8,322,586	22,604,879	69,232,796
15,000	4,009,334	6,217,055	10,027,601	12,483,880	33,907,319	103,849,194
20,000	5,345,779	8,289,407	13,370,135	16,645,173	45,209,758	138,465,592
25,000	6,682,224	10,361,759	16,712,669	20,806,466	56,512,198	173,081,990
30,000	8,018,668	12,434,110	20,055,203	24,967,759	67,814,638	207,698,388
40,000	10,691,558	16,578,814	26,740,270	33,290,345	**90,419,517**	276,931,184

Investing the same amount at 0% over the same period will amount to **₦14,400,000**

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Minimising Your Risk Through Insurance

Insurance on the simplest note refers to the transfer of certain risk from one party (policy holder) to another (insurer) in exchange for a predetermined payment (premium). It’s a risk hedging technique used to shift the risk burden in case of unwanted occurrences.

Why do I need insurance?

- ✓ Protects in cases of loss and also reshapes our response to risk and losses.
- ✓ Ensure economic growth as it provides enormous investment funds
- ✓ Gives policy holder a relative peace of mind that insured entity cannot be lost forever in case of uncertainties

Types of insurance?

- ✓ Life insurance e.g. untimely death
- ✓ Health insurance e.g. medical bills
- ✓ General insurance e.g. property
- ✓ Debt insurance e.g. mortgages

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Estate Planning Recommendations

- Write a will
- Establish a Trust
- Make an Inter vivos gift
- Make a charitable bequest

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WHO NEEDS A WILL?

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If you own anything and have a concern for what will happen to it when you are gone, you need a will!

- ❖ A husband needs a will to protect his wife and family.
- ❖ A wife needs a will to protect her family, especially because there is a statistical tendency for wives to survive their husbands!
- ❖ A single person needs a will to protect loved ones and to stipulate how he or she wants to ultimately distribute his or her property.
- ❖ Any person without relatives needs a will to protect against his or her estate going entirely to the State.
- ❖ Even if you have a Living Trust, you need a will for backup protection. A Trust cannot provide for the disposition of properties which are not legally owned by the Trust.

It is especially important for a Christian to have a will. As God's stewards, we are required to be faithful in using and passing on what we have according to God's purposes

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