Dear Esteemed Clients,

Welcome

Access Pensions Limited is a licensed Pension Fund Administrator (PFA), formed from the merger between First Guarantee Pension Limited and Sigma Pensions Limited, and regulated by the National Pension Commission. The Company provides retirement planning, investment management and pension administration services to over 1 million working Nigerians and retirees.

This edition of our newsletter features the review of macroeconomic and financial markets, a snapshot of your fund performance for December 2022 and our outlook for the economic and investment landscape in 2023.

If you have any questions, kindly make enquiries via info@accesspensions.ng or through any of our social media platforms

We would love to hear from you

Thank you

Q4 2022: Macroeconomic and Financial Market Review

December 2022 brought an end to the worst year for global financial markets since the 2008 financial crisis, as inflation forced central banks around the world to raise interest rates and draw curtains on the era of accommodative monetary policy that had underpinned a decade long bull-run across financial assets. Over the month, the MSCI World Index declined by 4.34 percent which saw global equities post a 19.5 percent drop over 2022. Similarly, the aggressive rate hikes drove losses in bonds with the S&P Global Developed Sovereign Bond Index down 2.0 percent over December and 12.7 percent in 2022. On the other hand, after declines over November, oil prices rallied in December following China's easing of some stringent COVID-19 restrictions which spurred bullish sentiment around demand. Brent prices advanced 2.9 percent to close at USD85.91/bbl.

On the domestic front, Nigeria's headline inflation climbed to a seventeen year high of 21.47 percent in November driven by a combination of higher food prices (24.1 percent) and core inflation (17.8 percent). Elsewhere, the National Assembly passed the 2023 budget wherein the FGN looks to spend a record NGN21.8trillion split across recurrent and capital expenditure. The budget plan projects FGN revenues at NGN10.5trillion driven by a benchmark oil price of USD75/bbl and average oil production at 1.69mbpd. The resulting deficit will be funded by a mix of domestic (62 percent), foreign (16 percent) and multilateral borrowings (16 percent). Despite higher oil prices over the month, Nigeria's external reserves continued to decline (down 0.1 percent to USD37.08billion). In the currency markets, the exchange rate at the Investors and Exporters Window depreciated to NGN461/$ (-3.86 percent m/m) while the parallel market recorded a 3.2 percent m/m depreciation to NGN737/$.

Nigerian equities closed December on a strong note with the NGX All Share Index up 7.54 percent over the month which saw 2022 annual return at 19.8 percent and marks the third consecutive year of positive gains on the stock market. In a similar vein, the NGX Pension Index and NGX Lotus Index respectively gained 5.8 percent m/m (YTD: +10.8 percent) and 9.3 percent m/m (YTD: +7.6 percent). On the fixed income side, a liquid surfeit across the financial system drove bullish trends across bonds which saw the S&P FMDQ Bond Index gain 6.1 percent m/m (YTD: +7.8 percent).

December 2022 Investment Returns and Asset Allocation

Given the positive trends across equity and debt markets, our portfolios posited increases across board.

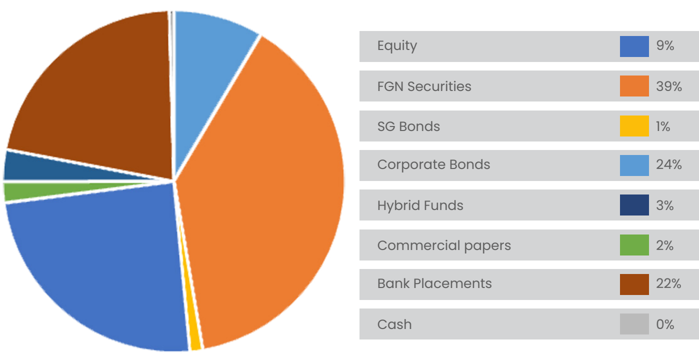
	Unit Price		
RSA Funds	Dec 2021	Dec 2022	YTD
Fund I	1.4911	1.6410	10.05%
Fund II	4.7887	5.2695	10.04%
Fund III	1.4957	1.6682	11.53%
Fund IV	4.3997	4.9149	11.71%
Fund V (MicroPensions)	1.0000	1.0497	4.97%
Fund VI (Active)	1.0555	1.1562	9.54%
Fund VI (Retiree)	1.0539	1.1638	10.43%

Source: Access Pensions research

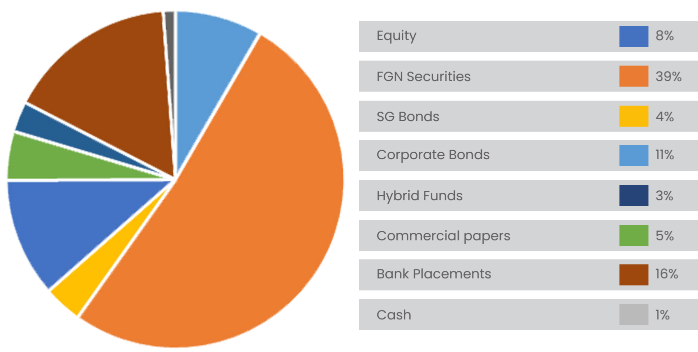
See Below asset allocation across our various RSA Funds at the end of December 2022

See below asset allocation across our various RSA Funds as at the end of December 2022.

FUND I

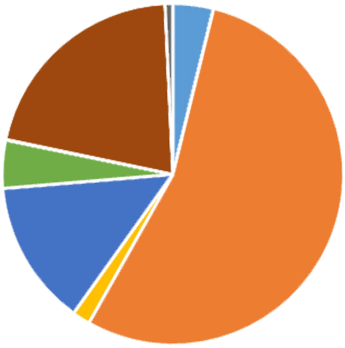


FUND II



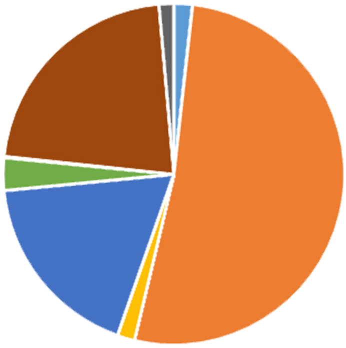
SOURCE: ACCESS PENSIONS

FUND III



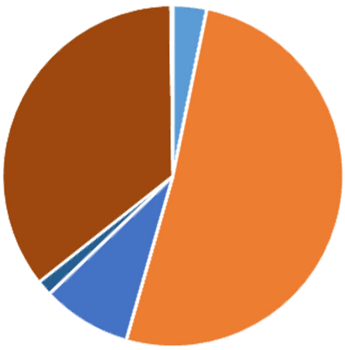
Equity	4%
FGN Securities	54%
SG Bonds	2%
Corporate Bonds	14%
Hybrid Funds	0%
Commercial papers	4%
Bank Placements	21%
Cash	1%

FUND IV



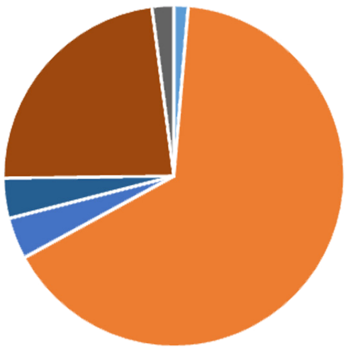
Equity	2%
FGN Securities	52%
SG Bonds	2%
Corporate Bonds	18%
Hybrid Funds	0%
Commercial papers	3%
Bank Placements	22%
Cash	1%

Active Fund VI



Equity	3%
FGN Securities	51%
Corporate Sukuk	9%
Non Interest Mutual Funds	2%
Bank Placements	35%
Cash	0%

Retiree Fund VI



Equity	1%
FGN Securities	66%
Non Interest Mutual Funds	4%
Bank Placements	23%
Cash	2%

SOURCE: ACCESS PENSIONS

Nigeria 2023 Outlook: A Game of Two Halves for 2023 as Nigeria Reaches Another Political Inflection Point

2022 turned out to be a chastening year for global financial markets as inflation returned with a vengeance leading to a rapid rise in interest rates across the world. In turn, investors long accustomed to ultra-easy monetary policy and supportive liquidity conditions, swiftly turned bearish leading to strong declines in asset prices across global markets. Geopolitics also returned to the forefront following Russia's invasion of Ukraine, which upended the post-cold war peace, and drove bullish trends across commodity prices. In 2023, we believe focus will shift to how central banks respond to potential slowdowns in both inflation and economic growth. A soft-landing on the latter, our base view, suggests an end to the cycle of rate hikes but no reversals or rate cuts, however a hard landing holds out the chance of a dovish turn to monetary policy and a return to easing.

On the home front, Nigeria heads into the 2023 elections to vote a new president and call time on the tenure of President Muhammadu Buhari in another keenly contested political cycle with three front-runners. Whoever emerges as president in the February 2023 polls faces a loaded in-tray, as decisive actions are required on several burning issues: insecurity, petrol subsidies and on the exchange rate system to name a few. From an economic and financial market perspective, we think 2023 is likely to be a tale of two halves with the first half focused on figuring out the identity of Nigeria's next political leadership team and the latter part about figuring out their policy direction over the next four years.
Overall, we believe that the investment landscape in 2023 will be shaped by:

Global central banks pulling the plug on the interest rate tightening cycle over 2023

- Oil prices will likely recede from the conflict-supported levels towards an average around USD70-80/bbl.
- Nigeria's oil production is on track towards 1.5-1.7mbpd, a recovery from the depressed levels (sub 1mbpd) of 2022 as pipeline security improves.
- The change in political leadership post the 2023 elections will provide the leeway for inflationary adjustments to petrol prices and the exchange rate.
- A large fiscal deficit will continue to require higher domestic borrowings but without the option of Ways & Means financing from the CBN.

In what follows, we set out key themes for investors to watch out for over 2023.

Global Outlook: The end of tightening but higher rates are here to stay

Global economic growth looks set to slow for the second year running in 2023, with the International Monetary Fund (IMF) forecasting global GDP growth at 2.7%, down from an estimated 3.2% for 2022. At the heart of this view is the impact of tighter global financial market conditions and inflation on the spending patterns of households and firms in developed economies.

For emerging markets, growth is seen at 3.7% hinged on possible recovery in China where authorities appear set to relax strict COVID-19 lockdown measures. In terms of monetary policy, receding energy prices and large base effects point to slower inflation readings in 2023 which sets the stage for major central banks to apply the brakes on interest rate hikes. However, this does not translate to relaxed financial conditions as rates are now at elevated levels and communication is unlikely to be dovish until inflation across advanced economies recedes towards 2-3% levels. For commodities, the charged geopolitical environment and imposition of Western sanctions on Russian commodity exports supported bullish trends in commodities in 2022 as markets focused on supply dislocations. However, with a weaker economic backdrop, bearish sentiment based on likely softening demand will see commodity prices retrace over 2023. For oil, after clearing USD100/bbl for the first time in seven years, we expect oil prices to recede towards an average between USD70-80/bbl for the year.

Nigeria: Another political inflection point, key economic decisions pending

Nigeria heads to the sixth general election cycle since the return to democratic rule in 1999 and unlike the prior two-way contests, the 2023 polls will likely be a three-way contest between Bola Ahmed Tinubu, the candidate of the ruling All Progressive Congress (APC), former vice president Atiku Abubakar of the main opposition party, the People's Democratic Party (PDP) and Peter Obi of the Labour Party (LP). Unlike in 2015, the winner will likely be facing a much higher oil price environment but will need to tackle a host of issues across insecurity, a growing debt burden, burdensome petrol subsidies and a broken exchange rate system.

In between the election and transition, we expect economic activities to muddle through the year and see real GDP growth around at 3-3.5% in 2023, flattered by a recovery in oil output from the depressed theft driven levels of 2022 and stabilization in the non-oil sector. Against this backdrop and clarity on the political scene after the elections, we think the CBN could look to improve USD supply within the official segment and tolerate some weakening in the IE window exchange rate towards levels north of NGN500/$. In the face of potential adjustments to petrol prices and persisting Naira weakness, we expect inflation to remain elevated over 2023 (18%-20%) which will likely see the CBN retain a hawkish stance on interest rates over the year.

On fiscal policy, the last budget of the Buhari tenure follows the trend of debt-powered fiscal expansionism with a record expenditure plan set at NGN21trillion. To fund the record outlay, the FGN projects total revenues at NGN9.7trillion split across oil (NGN1.92trillion) and non-oil (NGN8.9trillion) predicated on a benchmark crude price of USD70 per barrel and production levels of 1.69mbpd. Pending a clean break from the petrol subsidies currently funded via the crude-for-refined product swap we think revenues are likely to tail projections, as such financing requirements will remain large in the face of potentially reduced funding from the CBN. The latter point reflects likely conclusion on the planned securitization of Ways & Means debt. Our view on high global interest rates suggests limited recourse to Eurobond markets.

Higher interest rates to persist in 2023, focus on yield

In terms of investment opportunities, we view the combination of inflation remaining sticky at elevated levels (18-20%), the potential for further Naira adjustments and large government borrowing requirements with limited fiscal recourse to CBN financing as suggestive of a high interest rate environment over 2023. After two years of unorthodox monetary policy, we expect the CBN will look to tighten policy to bring down inflation and stabilize the currency by raising the returns for holding Naira. For equity markets, while a smooth transition of power is positive for investment outlook, we expect offshore investor appetite for Nigerian equities to remain weak pending a credible adjustment in the Naira and increased flexibility in the exchange rate system. This leaves equity market outlook, as has been the case over the last three years, dependent on the activities of domestic institutional investors. Here, while the pick-up in interest rates over the last six months will work to soften appetite for the asset class, continued attraction towards bellwether cyclical themes around financial inclusion (read telecoms), interest rates (read financials) and construction (read materials) will support the overall market. As in 2022, we think the USD repatriation trade will continue to support valuations for dual-listed stock while consumer names may continue to struggle under the weight of an inflationary environment.

Key risks: Deterioration in the political environment leading to a failed transition and lower oil prices

Key risks to our 2023 outlook revolve around political risks and commodity prices. On the former, in the event of disorderly conclusion to the general elections resulting in widespread violence, markets could react negatively as investors scamper for safety. Elsewhere, in the event of adramatic collapse in oil prices, we could see a return to the dire economic situation of the 2014-2017 episode. China's recent re-opening also suggests the outside chance of a new variant of the COVID-19 virus emerging, though we think high vaccination rates and increased immunity diminishes the prospect of large-scale lockdowns as occurred in 2020.

Conclusion

In summary, after the bear market gloom of 2022 driven by widespread hikes in interest rates across the world, financial markets will look for signs of the impact of these measures on economic activity. Meanwhile, commodity prices are expected to moderate, with crude markets likely to grapple with excess supply as weak economic growth forecasts for major advanced economies will adversely impact crude consumption. For Nigeria, whichever way the elections pan out, we think focus will quickly shift towards decisions on key economic issues: insecurity, FX policy and petrol subsidies which could bring near term inflation. Given Nigeria's weak fiscal position however, our base case scenario is for a partial adjustment to petrol pump prices in 2023 alongside further weakening of the official exchange rate. In response to the elevated inflation levels, we expect monetary policy to remain tight, which alongside large government borrowings, speaks to a higher interest rate environment.

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