

Will post-election period drive the needed renaissance?

Activities in the Nigeria equities market since the January bull run have been largely bumpy, as the dual impact of domestic worries, and the reverberating effect of global concerns continue to weigh on the market. **In our view, without any meaningful positive trigger, investors may see the lukewarm market performance persist even after the general election, come next year.**

Notably, marginally tightened global liquidity conditions, together with the rhetoric of trade protectionism, and the economic crises in Argentina and Turkey drove negative sentiments across emerging and frontier markets (see figure 2).

The domestic market was not spared in the selloffs which was largely induced by external factors. Furthermore, disappointing growth data, together with unimpressive corporate earnings further weakened appetite for naira risk assets. Oil prices may have remained firm, but it would appear that external concerns weigh stronger on sentiments. **To add, MTN's listing, which would have had a bit of a positive impact, was soured by the management-CBN spat.** Even as the unflinching sell-offs made valuations somewhat compelling (see figure 1), investors remain unconvinced.

Certainly, election period is imminent and the polity is gradually heating up. Nonetheless, we believe they are yet to strongly impact market sentiments thus far this year and will remain so over November and December. Undeniably, election-related risk-off sentiments will be stronger from January 2019, **however, we believe that the external events and the domestic macro fundamental issues highlighted above will remain the key drivers of market movement. It is therefore noteworthy that investors reassess the impression that local equities have been held down largely by election risk, thus implying imminent recovery post polls next year.**

To underscore why this matter, we observed the performance of the local market in the last two election years and found that post-election gains were sharp, albeit short-lived. In 2015, the market was thrilled by the news of the victory of the opposition, with the index gaining 14%+ between April and May (see figure 4), before crashing in subsequent months. In the same vein, Nigeria's equities market warmly welcomed the election of President Jonathan in 2011 as NSEASI returned 5.0% (see figure 3) between April and May of that year, and went south thereafter.

Clearly, on both occasions, **the failure of the economic managers to meet market expectations tanked the post-election rallies. We suggest investors take a cue from the experiences when framing investment strategies ahead of next year.**

In our view, barring less hawkish monetary policy rhetoric across developed economies, better global trade talks, and improved economic landscape across emerging economies, most of which are unlikely in the near term, and from which NSEASI will certainly benefit, post-election activities in the local market will follow the historical pattern, and more so, in the absence of market-friendly policy changes/announcements.

Figure 1: Movement in NSEASI P/E vs. Peers (Index of 1)

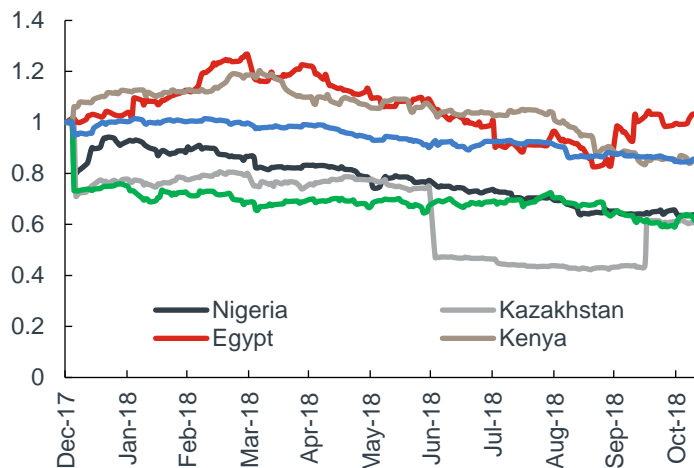
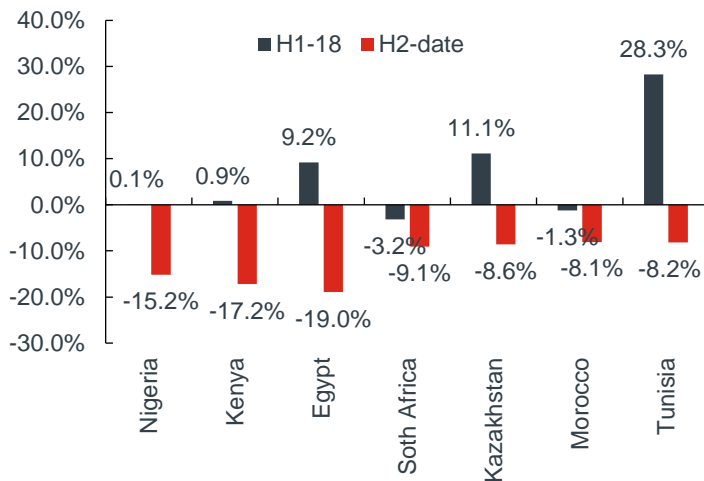


Figure 2: Equity performance across comparable markets



Source: Bloomberg, Cordros Research

Figure 3: 2011 MoM Nigeria equities market return

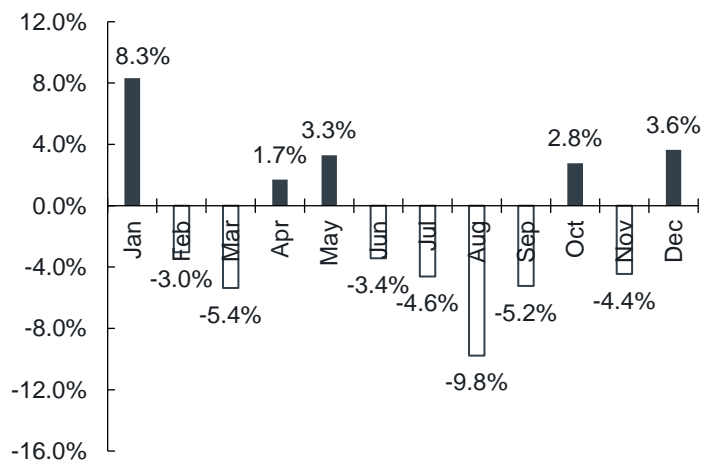
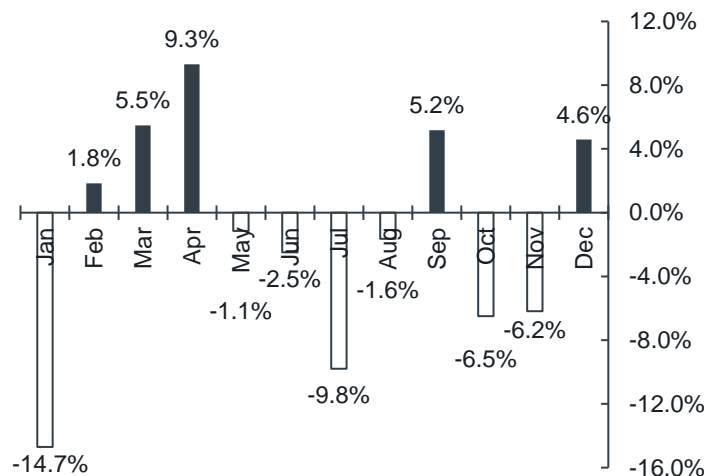


Figure 4: 2015 MoM Nigeria equities market return



Source: NSE, Bloomberg, Cordros Research

Disclosures.

Analyst:

Mustapha Wahab (*mustapha.wahab@cordros.com*)

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