SAVEST FINANCIAL

2025 Global Capital Market Outlook Report

Animal Spirits

January 2025

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FOREWORD

Despite a tumultuous year, Nigeria had a strong finish to 2024. Oil production has steadily rebounded from the lows of 2023, foreign reserves saw a sustained accretion, amidst rising optimism for some stability in the foreign exchange market. The latest GDP report for Q3 2024 also offers a glimmer of hope that the country may be on the cusp of returning to a path of rapid economic growth. However, challenges remain: Nigeria continues to grapple with fiscal anomalies, rising debt, insecurity, inefficient resource allocation, and significant underinvestment in critical systems and infrastructures.

On the global front, inflation has seen a considerable decline, prompting central banks—especially in developed markets—to shift from a hawkish stance to a more accommodative monetary policy environment. Contemporaneously, economic growth is displaying mixed dynamics across both developed and emerging markets. Weaknesses in China and parts of Europe present significant headwinds in 2025. However, the U.S. economy continues to outperform expectations, driven by robust consumer spending and increased capital investments particularly in Artificial Intelligence (AI).

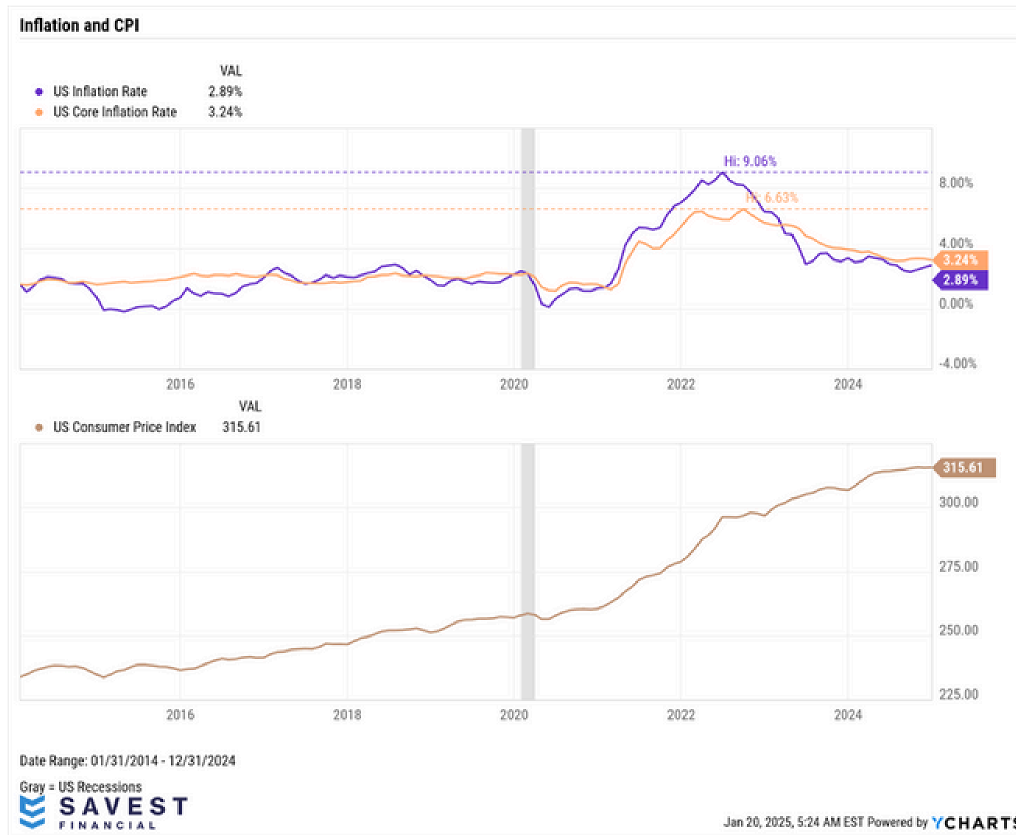
To these, the return of Donald Trump as President-elect of the United States ushers in a new dimension of uncertainty, as promised policy shifts in areas such as immigration, clean energy, regulation, healthcare, geopolitics, and monetary policies could lead to adjustments in the current macroeconomic landscape.

With these developments in mind, investors are likely to feel a degree of apprehension as they consider how these shifts will influence portfolio decisions in the coming years. Sometimes, these apprehensions could evoke emotional, knee-jerk reactions against better logical judgements.

This report aims to help you to cut through the noise and distill how these key global trends really affect capital markets, particularly in light of the significant bullish run we've seen across multiple asset classes. Our primary focus is to guide you in understanding how these macroeconomic factors impact traditional asset classes globally, while also reflecting our commitment to long-term wealth opportunities. Ultimately, we are here to help you build and preserve wealth for generations, even in the face of uncertainty.

Sincerely,
Nathan Nwokoro, CFA
CEO/CIO

US - The Backbone of Global Economies



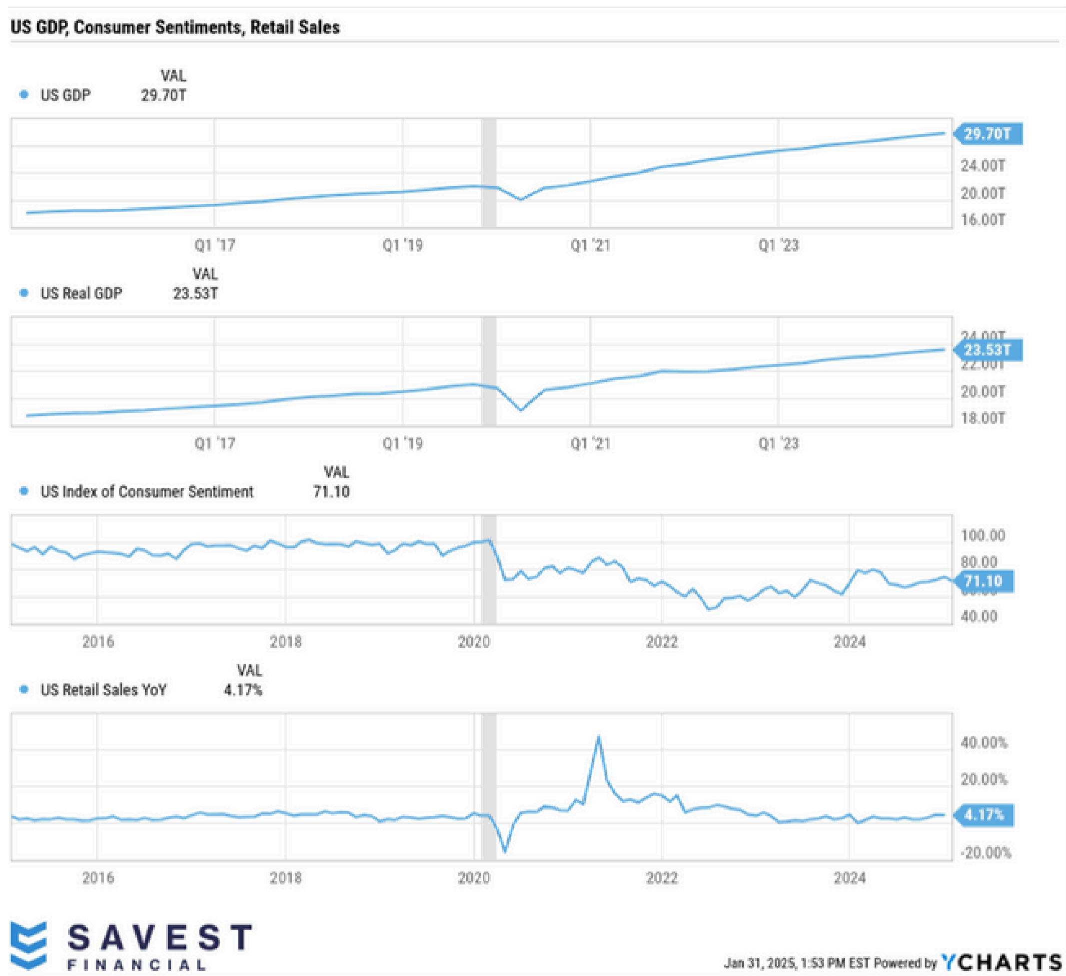
Through the uncertainties of the past couple of years, the resilience of the US economy has been pivotal in sidestepping a global meltdown. In 2025, this strength is even more compelling as a massive capital investment, a healthy job market, strong consumer spending, optimism for lower interest rates, and buoyant corporate earnings growth is setting the US apart as a shining light for global economies. With consumer sentiments rising the most since 2022 on account of a strong faith in the economy, US consumers spending remains the highest globally, touching an all time high of $16.1 trillion in Q3 2024, and an important export market for Europe as well as much of the emerging markets including China.

With the real GDP growth rate at 2.5% in 2024, and expected to moderate to 2.2% in 2025 as per IMF forecast, the US economy is experiencing a growth paradigm disparate with the rest of developing economies. Critical levers of the economy are indicative of an expansionary cycle rather than a contraction as widely forecasted a year ago. Employment, income, wages, corporate profits, demand and supply of goods and services have all trended upwards in the most recent quarters. At the center of these, is being home to the top companies leading the charge in the AI revolution.

On the inflation front, the Fed has seen some success in driving inflation towards its 2.00% target rate - the most recent reading as of December 2024 showing a year over year rise of 2.90%. Notably, the core inflation rate saw a slowdown to 3.2% at the end of the year, stoking expectations for at least two interest rate cuts. However, with consumer strength and prospect of strong policy changes under President Trump, it does appear that inflation may likely remain sticky closer to 3.00% as opposed to the Fed’s 2.00% target

While a Trump presidency may bring increased market uncertainty, the U.S. economy remains flush with liquidity, allowing investors to benefit from higher interest rates that, in turn, could further drive economic growth. Robust consumer spending not only strengthens the domestic economy but also reinforces the U.S.'s role as a stabilizing force for global markets.

The Trump Effect



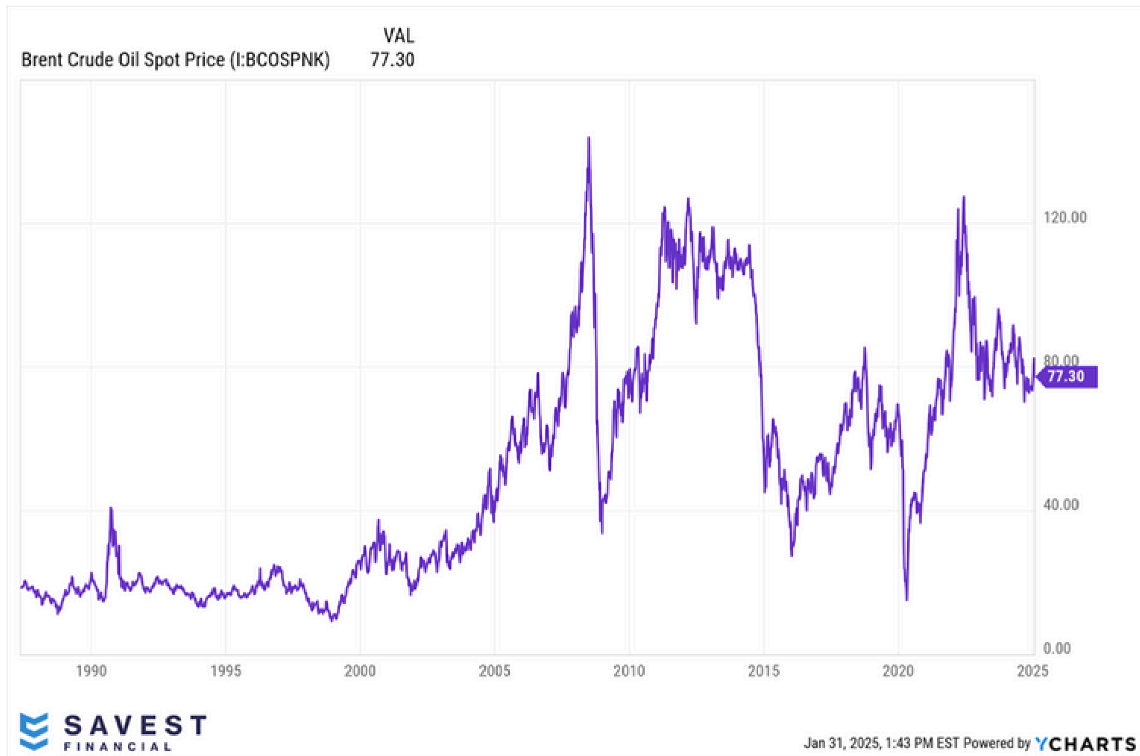
Perhaps the greatest source of apprehension for many investors regarding 2025, is the uncertain outcome of the expected policy shifts under the new Trump's administration. He is seeking stricter immigration laws, domestic tax cuts, higher import tariffs, deregulation, and an "America first" foreign policy. These policies are likely to stimulate economic growth and strengthen the US dollar, especially if history from the first tenure of Trump's presidency offers any indications.

On the flipside, aggressive immigration policies and trade wars could reignite inflationary pressure and a fewer than anticipated rate cuts in 2025. A sticky inflation would mean that interest rates could remain relatively elevated in 2025, unless the new monetary authorities can bring back some magic from his first presidency. An elevated interest rate would put a damper on some of the optimism around a continued bullish run in the stock market that has priced in at least two interest rate cuts in 2025.

The Trump effect is likely to extend beyond the US. Expectation of export tariffs and retaliations could hurt developed and emerging markets like the Eurozone and China, already experiencing fragile growths.

GLOBAL ECONOMIC OUTLOOK

Geopolitics: Redefining the World Order



Financial markets have largely managed to overlook the escalating geopolitical hostilities that have been raging like wildfire. From the crisis in South Korea, the decimation of Iranian proxies by Israel, and the unexpected fall of the Assad regime in Syria, to the lingering conflict in Ukraine, the threat of a Chinese invasion of Taiwan, and the authoritarian regime of Kim Jong-un in North Korea, echoes of geopolitical tension continue to reverberate around the world.

The core substance of these conflicts largely revolves around the pursuit of economic, military, and political dominance by the three main actors: the US, China, and Russia. These conflicts have the potential to reorganize the flow of international trade, with interests shifting from solely economic gains to geopolitical alignment and interests. However, the interconnectedness of China's manufacturing and supply chain efficiency, along with the sprawling consumer market in the United States, means that any direct confrontation between the major powers would be measured and strategic. Instead, their respective allies may find themselves counting their gains and losses at the end of the day. It is a game of thrones that could see these allies undermining one another as events unfold.

So far, geopolitics has had a limited impact on global financial markets, partly because the world's leading companies and markets have been insulated from the theaters of these conflicts. However, the energy sector remains sensitive to geopolitical affairs, especially those in the Middle East. While a broader escalation of the conflict has been contained, and disruptions to Middle Eastern crude shipments by the Houthi rebels have been limited, further sanctions on Iran and Russia have had minimal impact on supply, with OPEC still managing enough supply to worry about a glut.

Adding to this dynamic is Trump's idea of accelerating American crude drilling and reactivating LNG exports. Barring an escalation of conflict across the Middle East, the real concern would be how additional US supply impacts global supply, especially in the context of weaker economic outlooks for major oil consumers like China, and retaliatory tariffs aimed at US oil exports.

In our view, the near-term impact of geopolitics on oil prices is likely to remain muted, similar to the financial markets. Any significant price swings are expected to be downward, driven by factors such as Trump's energy policies and demand constraints from markets like China.

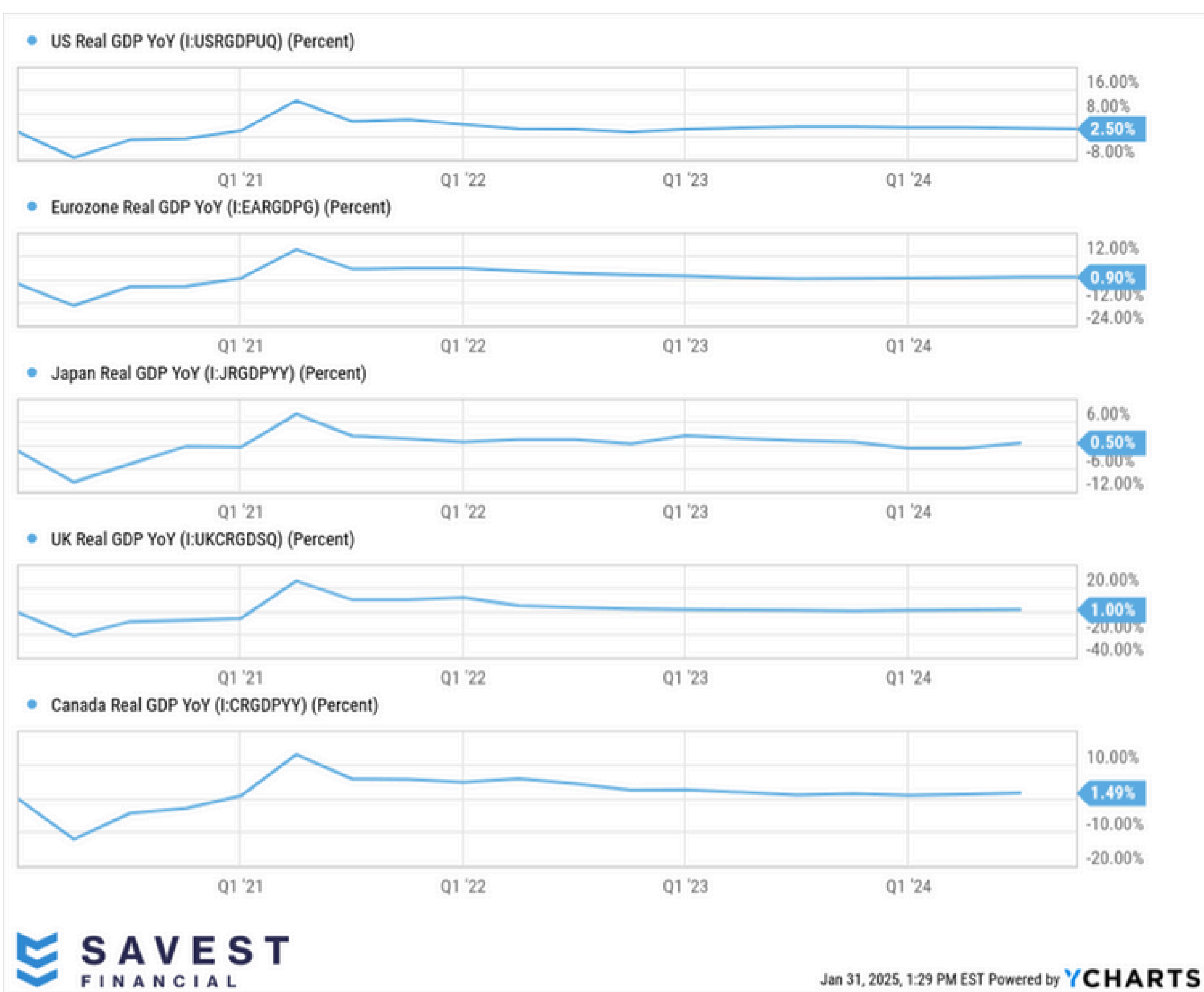
GLOBAL ECONOMIC OUTLOOK

Developed Markets

Despite the fact that inflation rate has declined to the European Central Bank's target of 2.00%, growth has flustered across the zone mainly due to contraction in the manufacturing sector.

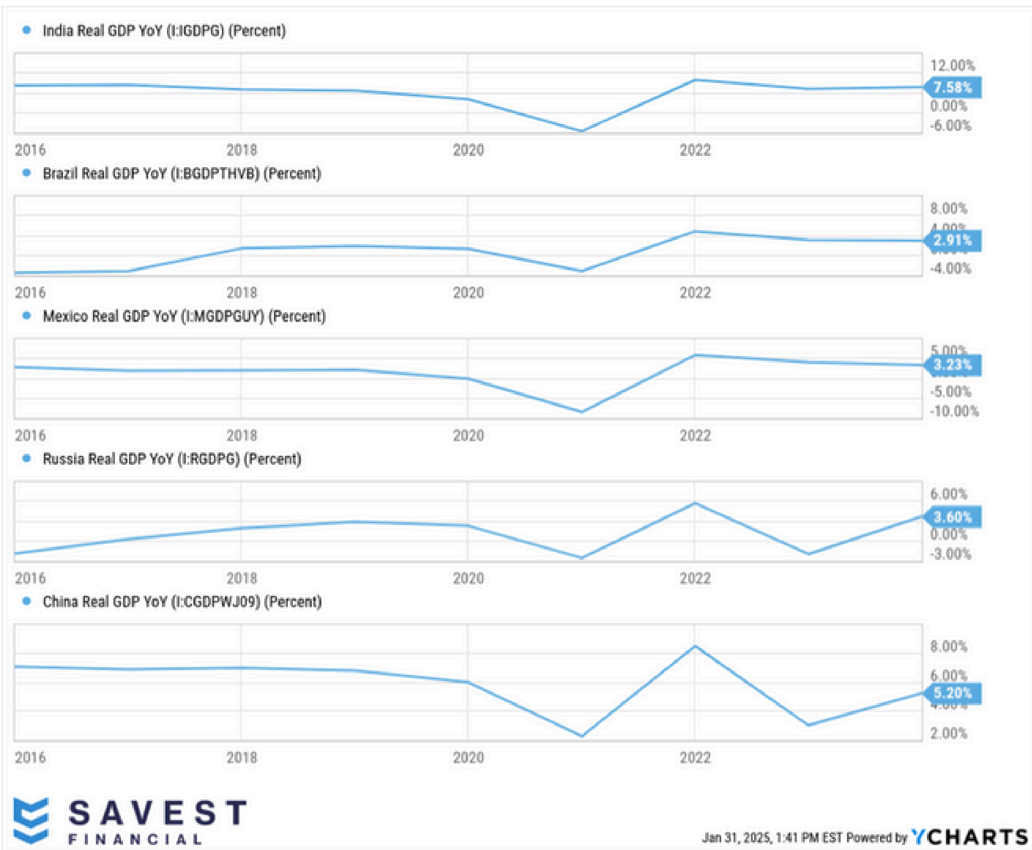
According to Joachim Nagel, President of the Deutsche Bundesbank "the German economy is not only struggling with persistent economic headwinds, but also with structural problems..... This is affecting the industrial sector in particular, as well as its export business and investments". Despite the IMF predicting that growth will improve slightly to 1.3% in 2025, the biggest uncertainty is the risk of increased protectionism. For the United Kingdom, the Labour Party faces a more delicate task of getting the economy to a path of growth following consecutive months of contraction in September and October due to declines in construction and production.

Japan has seen its decade long negative interest rate regime come to an end in response to high inflation, which recently decelerated towards its Bank of Japan's target of 2.00%. The world's fourth largest economy is poised for some tailwinds due to the positive trend of its real wage growth, helping shift focus from its export-orientation to domestic demands in the near term. One central theme for the entire export-oriented developed markets is that it now has to contend with Trump's threats of increased tariffs and to lower trade deficits could further hurt their collective growth in 2025. This is in addition to the uncertainties around demand from China, facing myriads of economic headwinds.



GLOBAL ECONOMIC OUTLOOK

Emerging Markets - Home of **BRICS**



If Trump's threat to impose a 100% tariff on BRICS members and their allies for attempting to move away from the dollar is targeted at a market segment, then it is the emerging market. An added headwind to the disparate growth faced by its members.

China has been a drag on the region owing to its lingering property crisis and deflationary pressures which forced the implementation of economic stimulus in September. Despite its lingering property crisis, China is striving to maintain growth through initiatives like the Belt and Road Initiative and increased domestic consumption. However, potential trade tensions with the U.S. under the new Trump administration could pose challenges. Higher import tariffs and stricter trade policies might impact China's export-driven economy, leading to slower growth less than 4.70% forecasted by IMF in 2025.

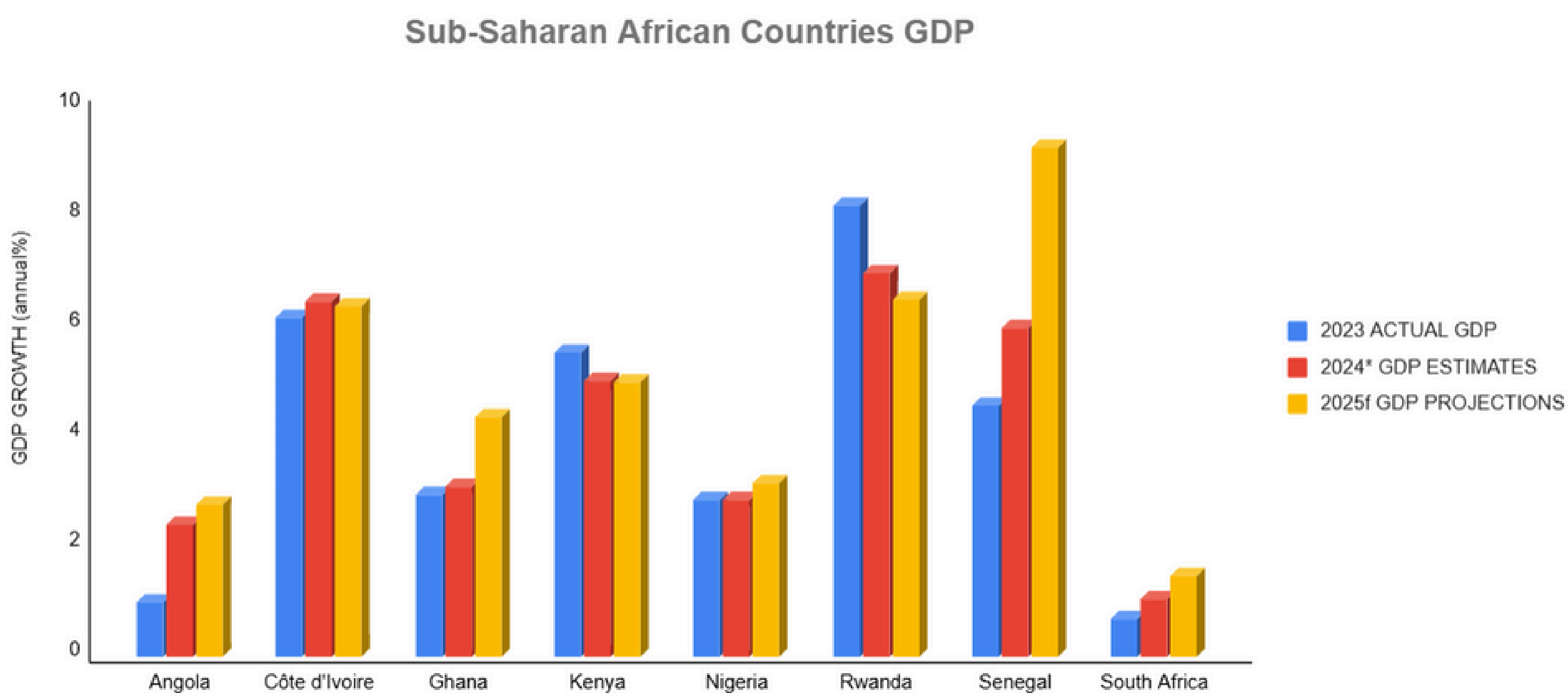
On its part, India is straddled between its fidelity to BRICS (in reality - China) and maintaining diplomatic ties with the U.S. India has been a bright spot among emerging markets with strong economic growth, and a growing middle class. However, the growth is expected to moderate slightly to 6.50% in 2025 according to the IMF as it grapples with high inflation, fiscal deficits and a depreciation of the Rupees. The country is benefiting from various tailwinds, including a robust services sector and prospects of picking the slacks from any fallouts between US and China in the international trade arena.
However, India's reliance on global trade means that any direct confrontation with the U.S. could have ripple effects. Stricter immigration laws and higher tariffs might affect India's IT and manufacturing sectors, potentially slowing down growth.

Brazil is riding a wave of positive economic trends, driven by commodity exports, a dynamic labour force, expanding oil production capacity, strong corporate balance sheets and structural reforms. The country has made significant strides in improving its business environment and attracting foreign investment, and its economy has surprised with a 3.00% GDP expectation for the current year. However, Brazil's economy faces headwinds like U.S. tariffs, a stronger U.S. dollar, weakening local currency, and a higher domestic interest rate. To help reduce inflation and prop the local currency, monetary tightening is expected to persist with rates reaching 12.75% in Q1 2025.

Mexico's economy is closely tied to the U.S., making it particularly sensitive to policy changes under the new Trump administration. Stricter immigration laws and higher import tariffs could disrupt trade and investment flows between the two countries. Mexico's manufacturing sector, which relies heavily on exports to the U.S., might face challenges. However, Mexico's strategic location and trade agreements with other countries could help mitigate some of these impacts.

SUB-SAHARAN AFRICA

Growth Outlook for Africa in 2025: A Mixed Bag



Source IMF, Savest Research 2024

The growth outlook for the African continent is expected to improve in 2025 but remain subdued. Many countries are still grappling with high levels of inflation, elevated borrowing costs, weak purchasing power, and falling currency values. Despite some improvements, inflation remains high across many African countries, forcing central banks to continue monetary tightening at the expense of growth. Ironically, resource-rich countries like Angola, Nigeria, South Africa, and Egypt are likely to underperform relative to the continent.

Underinvestment and inefficiencies have undermined these countries in recent times. On the other hand, less resource-intensive countries like Senegal, Ghana, Côte d'Ivoire, and Kenya are driving the 2025 growth expectations for the continent. Efforts have been made to implement the necessary fiscal reforms to change the narrative for struggling economies.

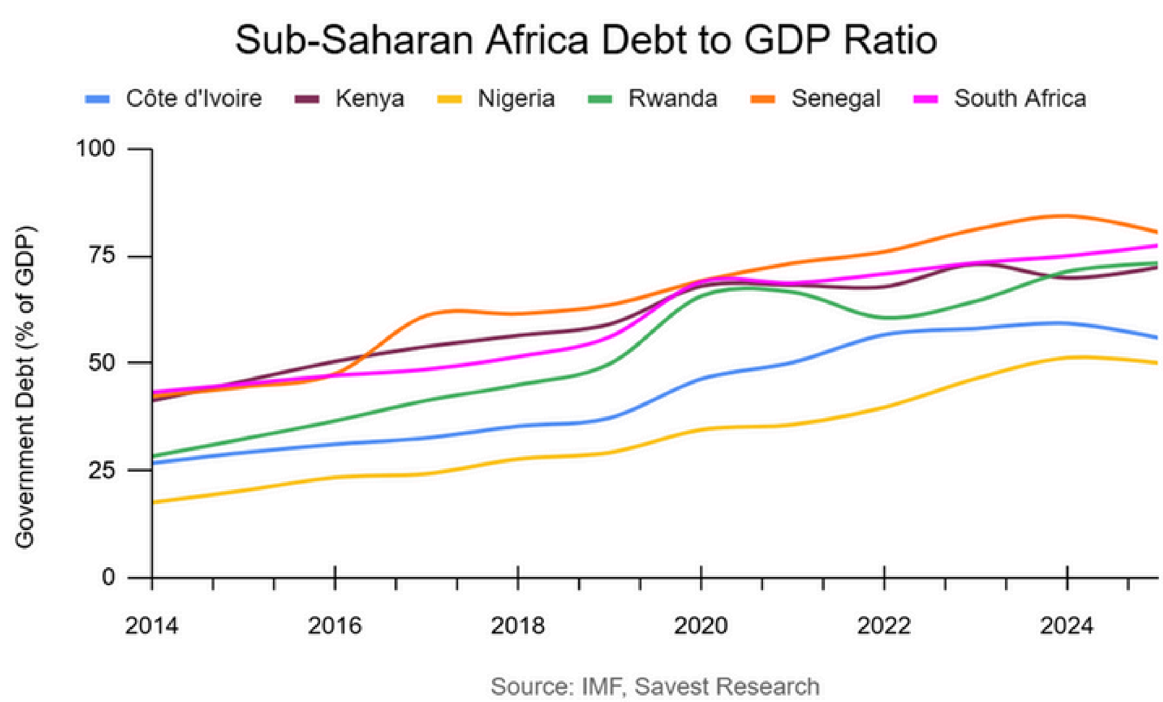
However, some of these reforms have been met with protests and resistance due to the hardships and general suspicion of government intentions.

As the world undergoes geopolitical reorganization, Africa is likely to remain a footnote, as was the case during the previous tenure of Donald Trump. However, the ongoing Chinese inroads and dominance in Africa may force Washington to take steps to counter Chinese influence. International trade may divide along lines of support for the U.S. or China, potentially causing countries like South Africa, Nigeria, and Angola to lean more towards the BRICS corridor. This alignment could have consequences, as China is likely to be more cautious in its foreign investments due to domestic economic challenges and fiscal constraints stemming from the lingering crisis in its construction sector.

Avoiding Another Debt Crisis

The silent question for the debt market is “which country might next seek debt restructuring, following the heels of Ghana, Zambia, and Ethiopia?”

Despite the International Monetary Fund's (IMF) forecast of a decline in the public debt-to-GDP ratio for Sub-Saharan Africa (SSA) from 60.1% in 2023 to 56.8% by 2025, many countries in the region continue to face significant debt sustainability risks. These risks are exacerbated by high borrowing costs, weak economic growth, and depreciating local currencies. Although global interest rates have started to fall, they remain higher than pre-pandemic levels due to persistent inflation and risk factors.

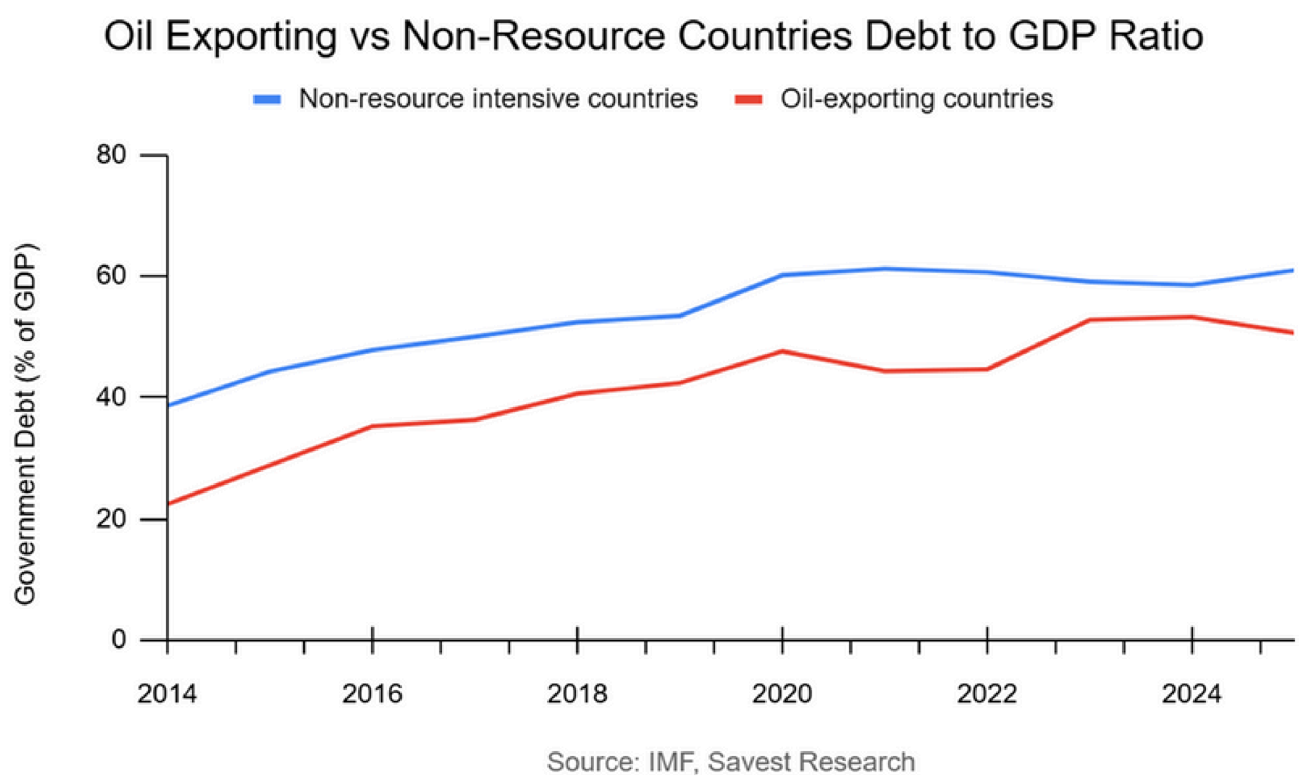


Rising Debt Ratios

Kenya has seen a significant rise in its debt levels much like about 53% of the continent, driven primarily by large-scale infrastructure projects such as the Standard Gauge Railway and the Nairobi Expressway. While these projects are crucial for economic development, they have also substantially increased the country's debt-service costs, which now account for a large portion of its foreign exchange reserves. Kenya's challenge lies in balancing its infrastructure ambitions with prudent fiscal management to avoid a debt crisis, especially following the failure of President Ruto's government to implement proposed reforms, which led to weeks of violent protests.

The debt-to-GDP ratio has been rising across the continent, driven by fiscal deficits and slow economic growth in leading economies like Nigeria, South Africa, Egypt, and Angola. Even high-growth SSA countries are grappling with elevated debt ratios. This scenario underscores the need for effective debt management strategies.

SUB-SAHARAN AFRICA



The Bright Spots

Côte d'Ivoire and Senegal have managed to maintain relatively stable debt profiles, thanks to high economic growth and fiscal reforms. Côte d'Ivoire, the world's top cocoa producer, has benefited from political stability and effective fiscal management. Similarly, Senegal's expanding oil and gas sector is expected to drive rapid growth and help manage its debt more effectively.

Key Trends To Watch in 2025

International Support: Securing international financial support and debt relief initiatives will be crucial for managing debt burdens.

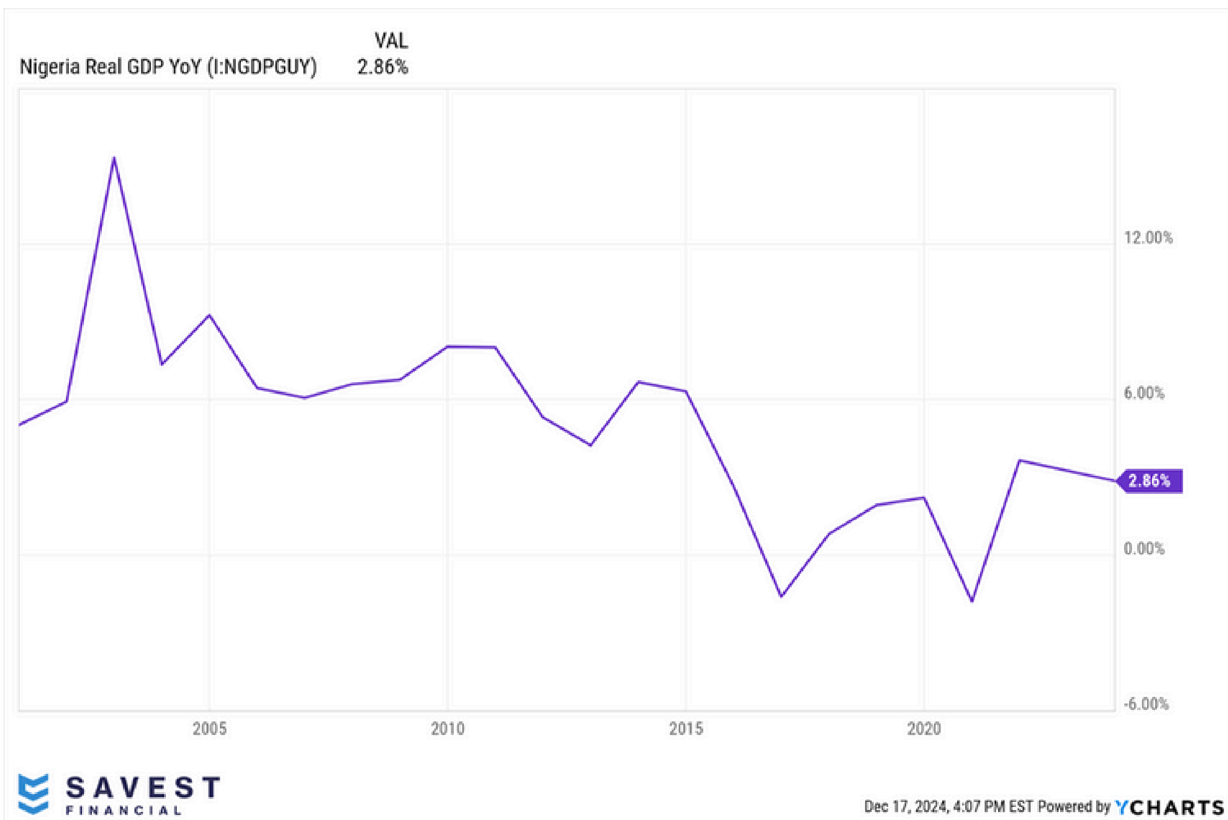
Prudent Fiscal Policies: Implementing effective fiscal policies to enhance revenue generation and control public spending.

Economic Diversification: Diversifying economies, particularly for oil exporters like Nigeria and Angola, to reduce reliance on volatile commodity prices.

Nigeria - The Long Road to Recovery

The Early Innings

It seems like we have seen this script before. The Nigerian economy has flattered many times only to end up disappointing. Despite the familiar pattern, recent reforms of President Tinubu have created a new sense of cautious optimism. Early signs suggest that fiscal and monetary policy reforms may be bearing fruit. Q3 2024 saw a surprising year-over-year growth of 3.46%, raising hopes that the momentum could continue into 2025. However, the question remains: how long until Nigeria returns to its pre-2015 growth levels?



The economy has been sluggish for so long that its position in the business cycle is unclear. The central bank has raised interest rates to 27.50%, in response to inflation that has reached a 28 years high. The current interest rate environment has hurt several critical sectors of the market like manufacturing, industrial and consumer goods that depend on debt financing. Unfortunately, despite passing the N70,000 minimum wage bill, wages have not kept pace with inflation hurting domestic demand. In addition to high energy costs, Naira depreciation, and rising operational costs, poses significant headwinds.

The economy also sees significant tailwinds going into 2025. Reforms in the oil sector have created some optimism that we could see some improvements in a notoriously inefficient sector, and could bode well for the broader economy. The central bank is also working to curb exchange rates and stabilize prices. A potential pause in the interest rate hike cycle could ease pressure on the private sector and stimulate economic growth.

If the current monetary and fiscal reforms are sustained, we could be 2 years away from a return to the pre-2015 growth level, barring any external shocks. This would see the equities market flourish again.

The Goose That Lays The Golden Egg: Oil Production

Source: tradingeconomics.com | Organization of the Petroleum Exporting Countries

Dwindling oil production has been the achilles heels of the Nigerian economy in the past few years. Oil output rose to 1.49 mb/d as of November 2024, after falling below the 2.2 mb/d target. Organized theft, underinvestment and an aging oil field has hurt the country's major source of foreign exchange. The NNPC's share of oil joint venture agreements has dwindled owing to existing opaque, crude-backed loans. This will continue to constrain the corporation's ability to meet its naira-for-crude swap arrangements with local refiners like Dangote Refinery Limited, and the remittance of significant inflow into the federation's account.

There have been some shake ups in the oil sector, particularly divestments by the International Oil Companies, which has repositioned local players like Oando, Seplat, Aradel and Telema to play more prominent roles in the sector. One can argue that local knowledge put the indigenous company at an advantage in dealing with sabotage. However, the exit of these IOCs may compromise the scale of additional capital investments required to bridge the investment gap in the sector. The resuscitation of local refining capacity led by the 650,000 b/d refinery and the government-owned refineries is a tailwind for the sector, as it could help to save the NNPC from importation of refined products, and conserve some previous foreign exchange for the country. However, there are uncertainties regarding the ability of the NNPC to meet the crude demand from the local refineries.

On this premise, we expect that the Dangote Refinery will continue to import crude to meet its refining capacity in the near term, pending when the NNPC fully meets its crude-backed loan obligations. Similarly underinvestment and ageing oil fields may constrain the crude production from hitting the 2 million b/d target set by the NNPC, even if it manages to minimize theft.

NIGERIA MACROECONOMICS

Is There A Respite For The Naira?

The CBN's latest attempt to stabilize the Naira is the introduction of EFEMS - Electronic FX Matching System, which aims to improve transparency, liquidity and price discovery. Although EFEMS may be treating the symptoms rather than the root cause, the CBN is making efforts to address the underlying issues. Foreign reserve accretion has recently surpassed the $40 billion mark due to gains from official loans and Eurobond issuance. Additionally, if regulators can achieve their target of increasing crude production by 2 mb/d, it could lead to a greater forex supply to meet the country's growing demands.

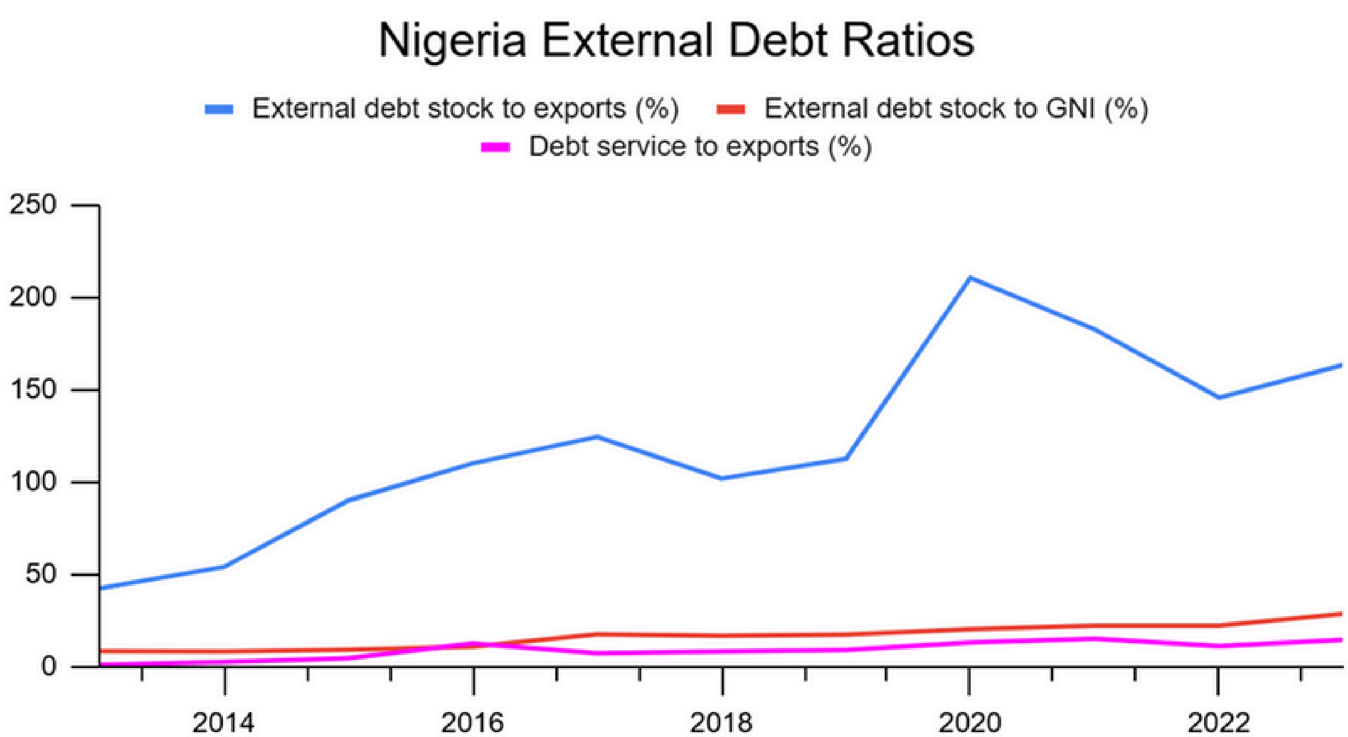
However, foreign portfolio investment is volatile and insufficient, particularly given the expected strengthening of the U.S. dollar. The inability to attract FDI in critical sectors of the economy could mean that a stable Naira remains out of reach.

We predict that the Naira will continue to depreciate in 2025, although at a slower pace, due to suboptimal crude production, fragile oil prices and the unsustainability of the current high level of interest rates.

Source: tradingeconomics.com | Central Bank of Nigeria

NIGERIA MACROECONOMICS

When is Government Debt Too Much?



Source: World Bank, Savest Research

The level of debt has become a theme for many agnostics of debt around the world. The Federal Government has proposed an ambitious N47.9 trillion budget for 2025, with a deficit of N13.08 trillion, yet to be funded by debt. Nigeria's debt stock has reached N134.30 trillion in Q4 2024 and a debt-to-GDP ratio of 51.28%. With the current interest rate environment, about 10.00% for foreign debts and over 20% for local currency debts, the debt stock is expected to increase in the near term. This is coupled with the current fiscal expenditure framework.

More curious is the nation's external debt which is very susceptible to exchange rate risks. According to the DMO, the total external debt stock rose to $49.1 billion as of June 2024 and could reach $50 billion at the end of 2024 as the government has accessed credits from the debt market as well as official lenders. Multilateral and bilateral lenders account for about 64% of the external debt, as opposed to 35% contributed by the more expensive Eurobonds. This mix puts the external debt service cost just above the mid single digit. However, recent Naira's volatility heightens the risk associated with even the current external profile.

EQUITY INVESTMENT OPPORTUNITIES

Domestic Equities: Feeling the Weight of High Interest Rates

The NGX last delivered at least 25%+ returns in successive years in 2007 and 2008 (67.55% and 39.05%, respectively), just before the global financial crisis. Since then, the equities market has been inconsistent despite adding blue-chip companies like Dangote Cement, Airtel, and MTN Nigeria. However, this trend has changed since the end of the Covid pandemic. Since 2021, the market has been on a historic bull run not seen since the early 2000s. Despite the incredible run, the market appears to be fairly valued. With a price-to-earnings (P/E) ratio of 9.39 and relative stability in the FX market, it appears that NGX will continue to garner attention in 2025, with the exception of one challenge: high-interest rates.

As of December 2024, inflation had reached a level not seen in 30 years. In response, the Central Bank of Nigeria implemented a series of interest rate hikes, reaching 27.50% at the last MPC meeting in November 2024. The current yield level could attract some investors to move some gains from the equities market into the fixed-income markets. Additionally, high-interest rates have negatively impacted corporate profits across most sectors, with the exception of banking. Even though the banking sector seems to be the primary beneficiary of the current interest rate environment, credit exposure to vulnerable sectors could negatively impact banks in the long run. Banks with a healthy loan portfolio and top-tier operational efficiency will remain on our radar in 2025.

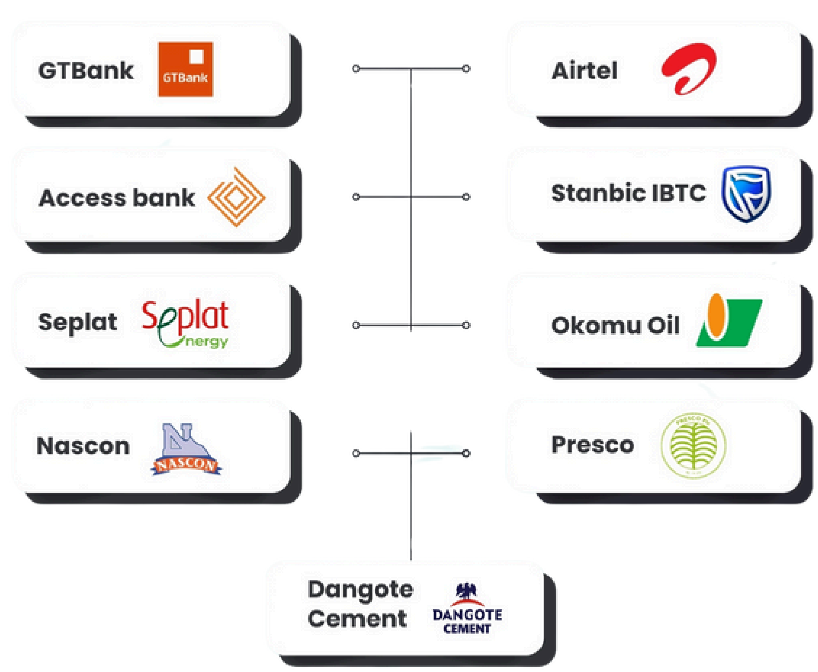
We also see opportunities in the Agriculture and Oil sectors with positive exposure to foreign exchange, strong domestic and offshore demands, and an improved operating environment. Despite the expected volatility in crude oil prices, the increasing divestment by International Oil Companies (IOC) may benefit entrenched local players like Seplat and Aradel, positioning them as crucial players in the sector.

Furthermore, the increasing local refining capacity led by the Dangote Refinery will add a new demand paradigm to the upstream sector. In the downstream sector, TotalEnergies remains a dominant force giving its leadership and operational efficiencies in the sector.

In the telecommunication sector, conditions may improve for MTN Nigeria, with inflation and local currency devaluation expected to moderate in 2025. The approval of a 50% tariff hike for telecom operators by the Nigerian Communication Commission (NCC) would alleviate some of the operating cost burdens borne by operators.

Our core portfolio in the domestic equity market still revolves around the “All Weather 9” because of their inherent resilience and ability to navigate disparate macroeconomic terrains. While these market leaders can navigate the macroeconomic headwinds better than most of their peers, any price pullbacks as we anticipate in 2025, could present an attractive entry point for long-term investors.

ALL WEATHER 9



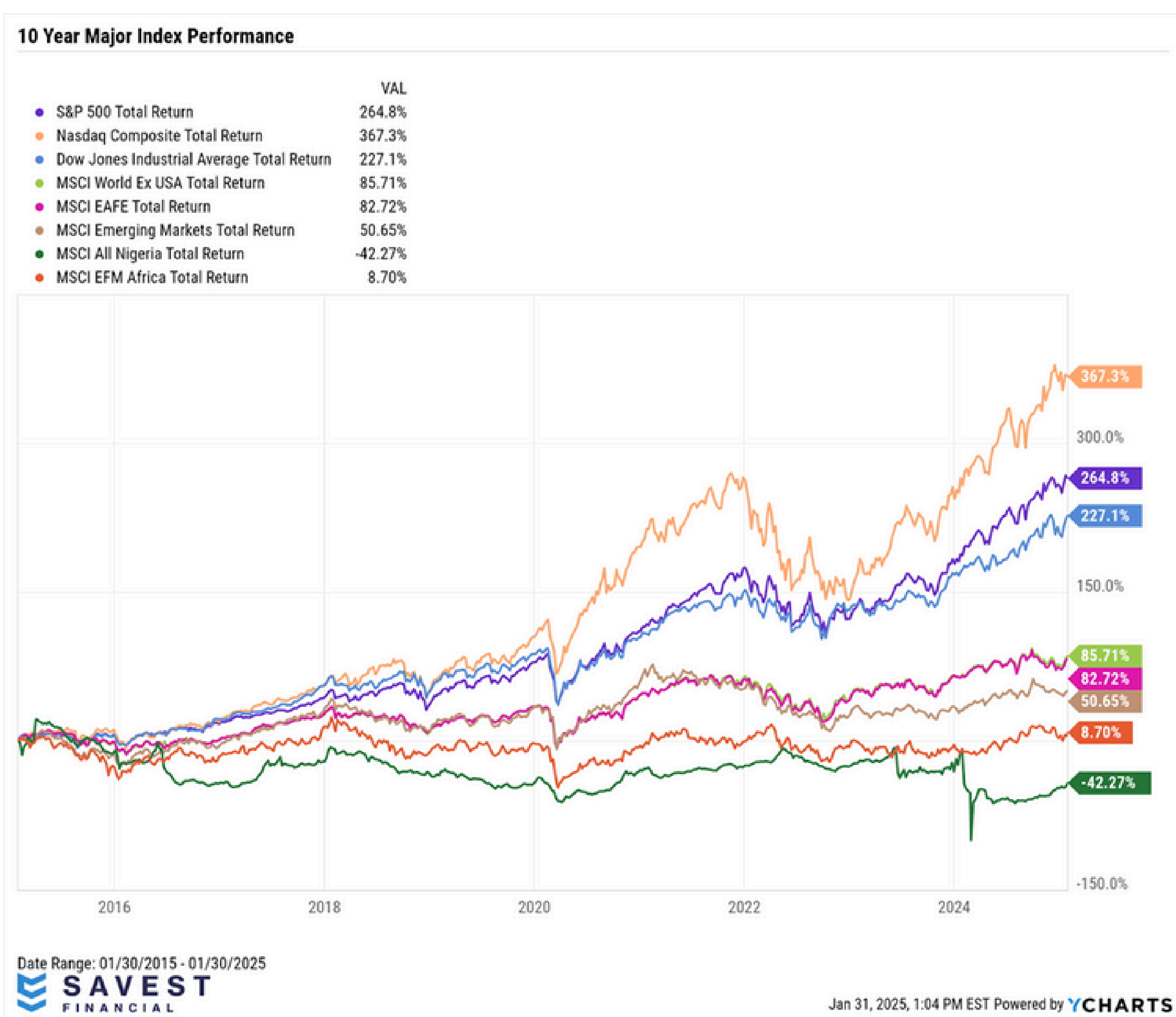
EQUITY INVESTMENT OPPORTUNITIES

S&P 500, The Anchor For Global Equities Porfolios

The S&P 500 is often considered a benchmark for measuring the performance of diverse portfolios globally. This is partly because it offers superior returns compared to any other equity index globally, and because its constituents are the world's largest companies, with stable earnings growth.

Many of the leading companies in the S&P 500 are global leaders in their respective fields, with significant revenue from around the world. This global presence can provide investors with exposure to economic growth in other regions. Companies like Alphabet, Apple, Microsoft, Amazon, Meta, and Netflix account for a significant concentration of the S&P 500 and generate substantial revenue internationally. Investing in these companies offers substantial diversification across multiple jurisdictions.

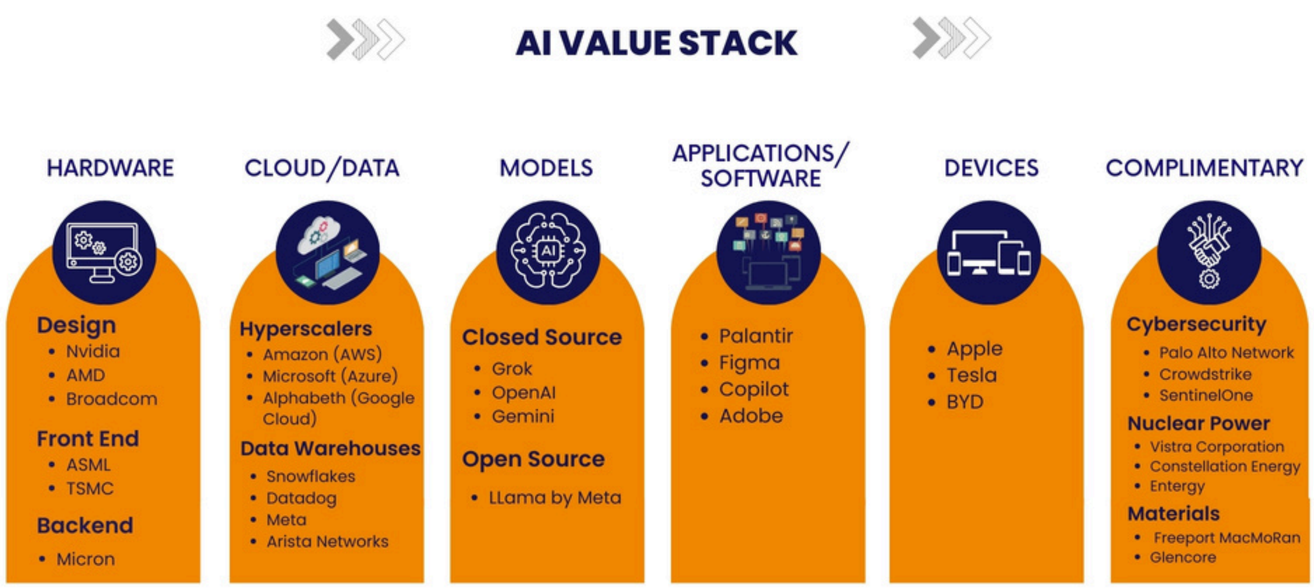
Additionally, the U.S. is home to many innovative companies, particularly in the technology sector. Access to capital, little government interference, and the fact that it is the most liquid capital market in the world make the U.S. market very attractive to global companies. This access to capital can drive growth and offer unique investment opportunities, while the market is less prone to domestic and geopolitical uncertainties.



EQUITY INVESTMENT OPPORTUNITIES

The Next Step for AI: Where We See Opportunities

Undoubtedly, the remarkable run of the S&P 500 has been driven by the technology sector, particularly the "Magnificent 7," fueled by advancements in artificial intelligence (AI). In our half-year report, we highlighted concerns about high market valuations and a concentration of gains among a select few technology stocks. Since the July peak of 5,667 points, the S&P 500 has surged past 6,000, propelled by companies like Nvidia, Palantir, Broadcom, Vistra Corporation, and Constellation Energy, which have reached lofty valuations. Certainly, hyper-scalers cannot sustain cash burn indefinitely, and revenue growth might decelerate for some early winners, such as Nvidia. Although we anticipate a 3-5 year additional growth runway for the foundational semiconductor layer, we foresee an expansion into other layers of the AI ecosystem.



Opportunities Across the AI Value Stack

The AI ecosystem consists of several interconnected layers, each playing a crucial role in its development and expansion. At the foundation, semiconductor heavyweight Nvidia, ASML and TSMC provide the processing power necessary for AI systems to function and will continue to feature as important players in the ecosystem. Cloud and data hyper-scalers, including AWS, Microsoft Azure, and Google Cloud, offer the infrastructure needed for AI deployment, though concerns remain about the high costs associated with this segment, and the uncertainty of monetization. AI model development has attracted billions in investment, with companies like OpenAI and Anthropic pioneering innovation with closed source models. With the increasing popularity of open source models and the recent entry of Chinese players like Deepseek, we may see improved efficiency in AI inference. On the application side, AI is being integrated into software, as seen with Microsoft's Copilot and Adobe's creative tools, making AI more practical and accessible to users. AI is also increasingly embedded in consumer devices such as smartphones and autonomous vehicles, where companies like Apple and Tesla are leveraging their vast data resources to enhance products and services.

Beyond these core areas, the AI boom is driving demand for complementary services, particularly in energy and cybersecurity. Hyper-scalers are forming partnerships with nuclear energy providers like Vistra and Constellation Energy to meet their growing power needs, while cybersecurity firms such as Palo Alto Networks and Crowdstrike are well-positioned to benefit from the shift toward AI-driven cloud computing. While semiconductor companies remain vital to AI's evolution, the broader ecosystem—spanning cloud, software, and supporting industries—presents compelling investment opportunities. Microsoft and Amazon, with their strong integration and monetization strategies, are particularly well-positioned to thrive in the AI-driven future.

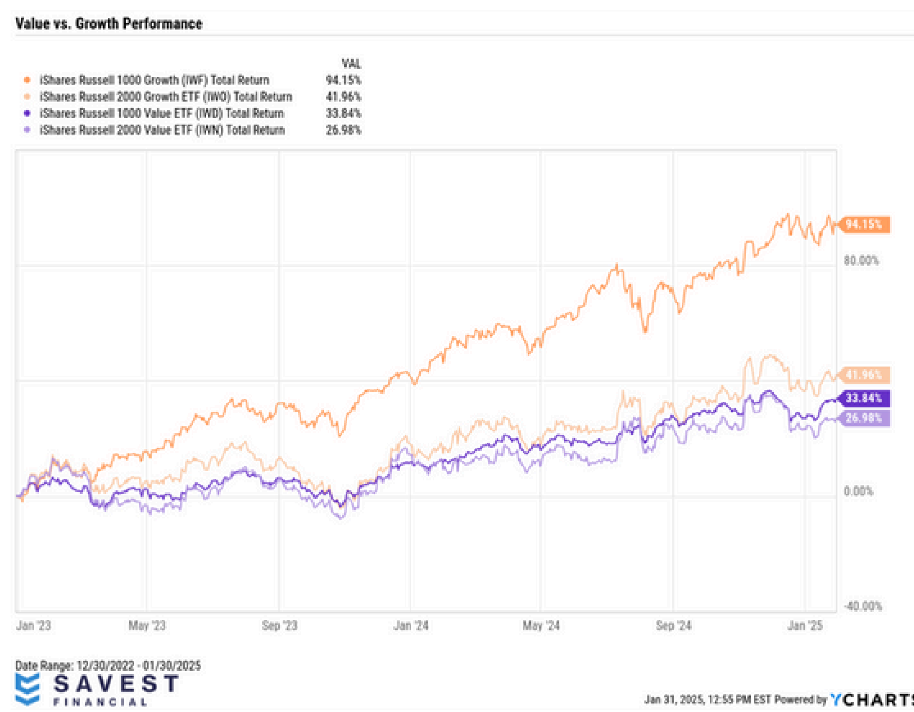
EQUITY INVESTMENT OPPORTUNITIES

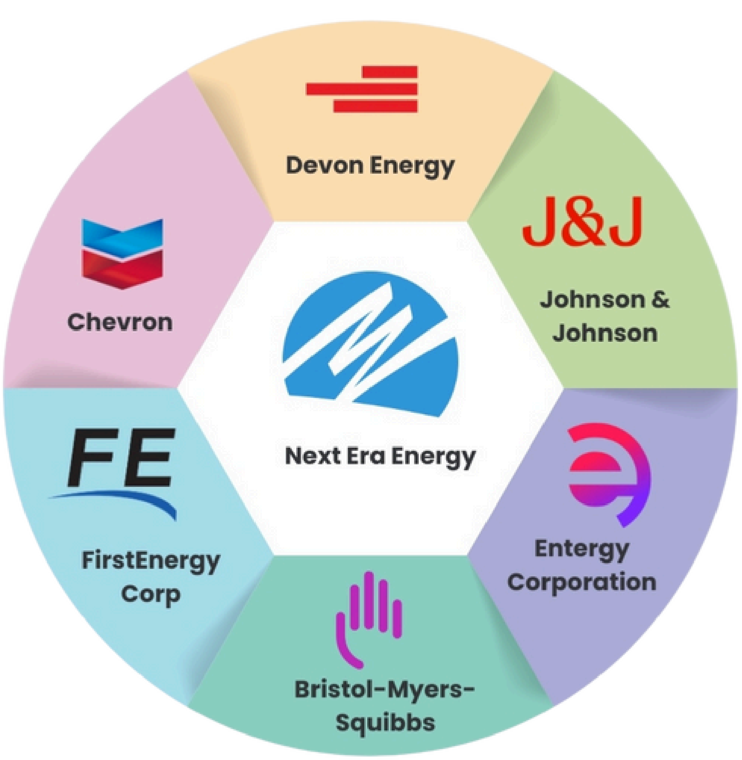
A Year for Fundamentals

Following impressive gains of 26% in 2023 and 25% in 2024, the S&P 500 entered 2025 with a more uncertain outlook. While revenue growth projections remain strong at around 10%, the market's slight premium—trading at 1.04 times fair value—suggests that upside may be more limited. Additionally, increased volatility under the new administration in Washington may call for a more valuation-conscious investment approach. The market's rich valuations are largely concentrated in large-cap growth stocks, particularly within technology. A handful of companies have driven much of the sector's valuation expansion, posing a potential risk should sentiment shift. Notably, industry leaders such as Amazon, Alphabet, and Microsoft have not experienced the same degree of valuation surge as the broader sector, suggesting some dispersion even within tech.

While technology has been the primary driver of market gains, several sectors—energy, healthcare, basic materials, and consumer defensive—have lagged behind since the rally began in 2023. This divergence presents potential opportunities for investors willing to take a more balanced sector allocation approach.

As market volatility rises and valuation risks persist, a diversified, valuation-conscious investment strategy may be key. Investors should consider looking beyond high-flying technology names and identifying opportunities in undervalued sectors with resilient fundamentals. This nuanced approach could help navigate an increasingly uncertain equity landscape in 2025.





Dividend Matters

We consider dividend stocks in a very opportunistic way. It may be tempting to focus excessively on high dividend paying stocks as if they are fixed income securities. In the light of market volatility, focusing only on dividends may even be counter intuitive. We like dividend stocks that can sustain earnings growth and potentially increase their dividend payouts, enhancing shareholder value.

Furthermore, we seek out companies with a consistent history of dividend payments and operations in sectors that have demonstrated strong and reliable performance. These companies represent a dependable investment option, as the inclusion of dividends can significantly increase total returns compared to non-dividend-paying stocks.

FIXED INCOME INVESTMENT OPPORTUNITIES

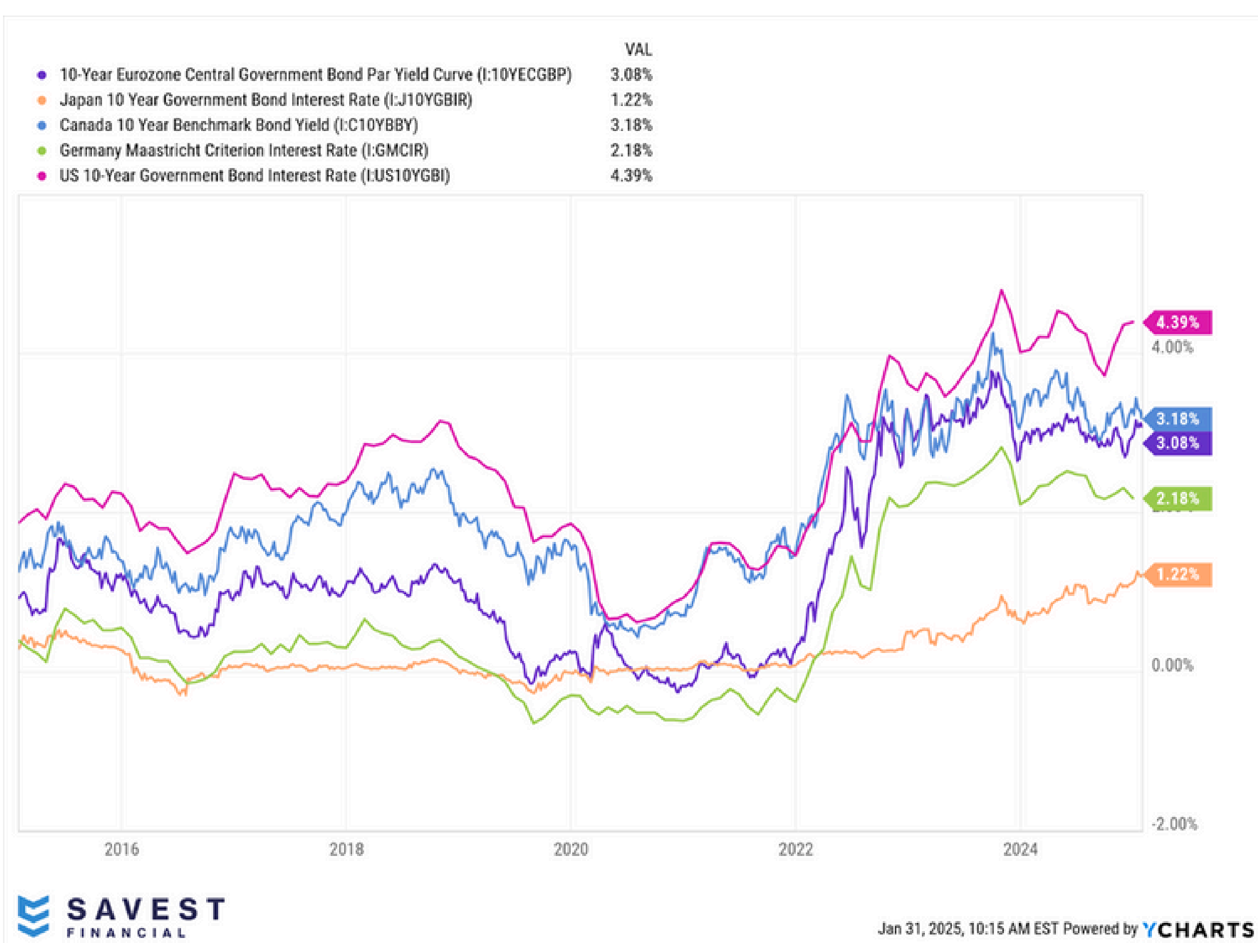
A Plethora of Options

Despite the Federal Reserve implementing three interest rate cuts in 2024, bringing the benchmark rate to 4.25% to 4.50%, U.S. Treasury yields have risen instead of declining. As of January 31, 2025, the 10-year U.S. Treasury yield stands at approximately 4.39%. There are strong indications that inflation is likely to remain sticky, as cost factors find a new equilibrium that may defy monetary policies. Additionally, uncertainties surrounding President Trump's policies on immigration, tax cuts, and tariffs contribute to inflation concerns. As a result, investors demand higher yields as compensation for anticipated inflation risks.

Luckily for the Federal Reserve, the economy outperformed expectations in 2024, with growth of 2.80%, better than the estimated 2.70%. This gives Chairman Powell some latitude to hold off on another rate cut until inflation makes meaningful progress toward its 2.00% target.

“With our policy stance significantly less restrictive, we do not need to be in a hurry to adjust our policy stance," Fed Chairman Jerome Powell said following his first Fed meeting in Trump’s administration.

A host of developed-market central banks, such as those in Canada, the United Kingdom, and the European Central Bank (ECB), have been more aggressive in cutting interest rates to support their fragile economies. However, it is the actions of the U.S. Federal Reserve that matter most in the global debt market. Although President Trump has been highly critical of the current level of interest rates—stating, "I'll demand that interest rates drop immediately. And likewise, they should be dropping all over the world"—his policies and pronouncements are not exactly aligned with this stance. We expect that while uncertainties will persist, yields will likely remain higher.

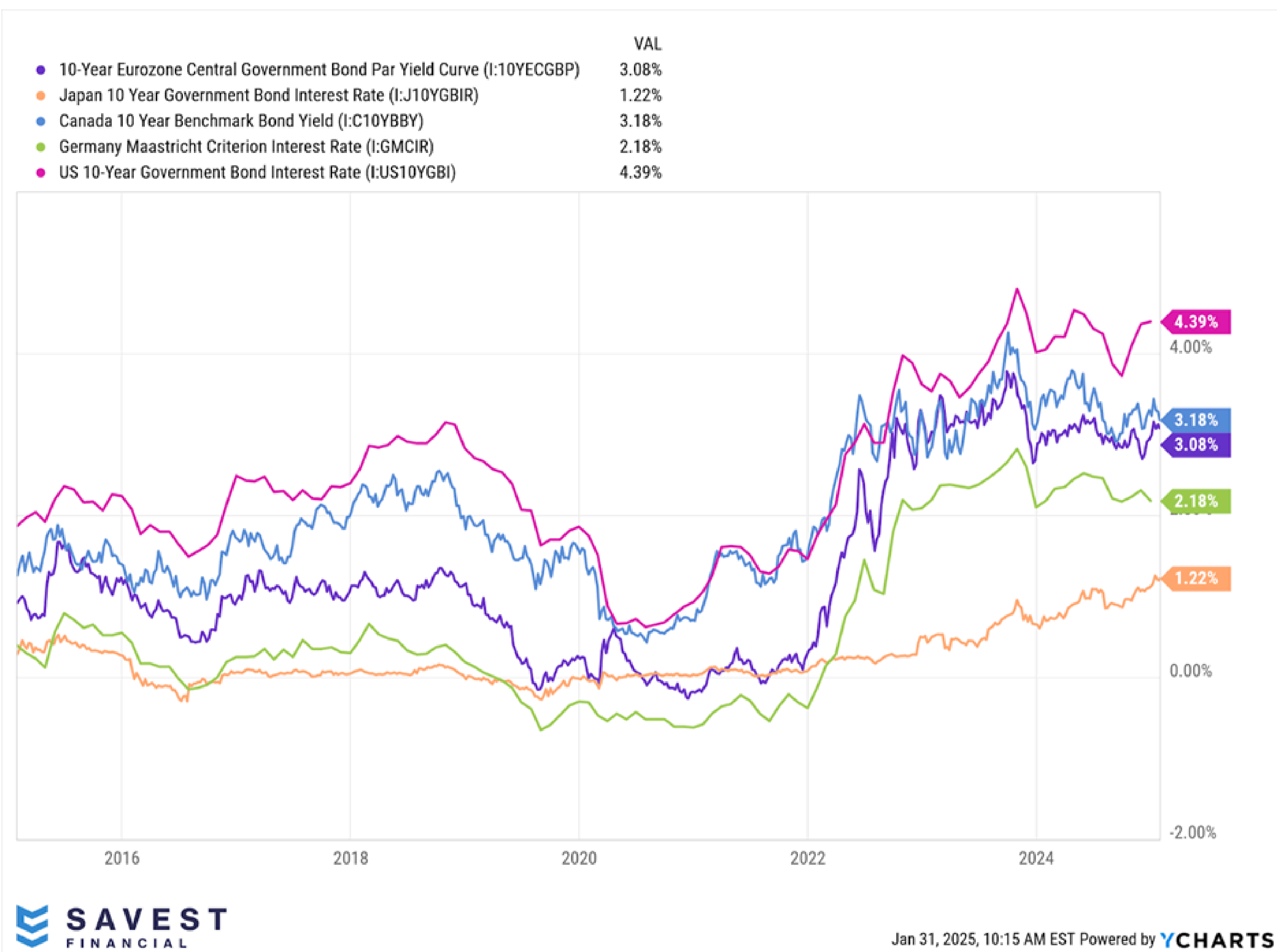


FIXED INCOME INVESTMENT OPPORTUNITIES

Developed Market Bonds: Quality at a Good Price

Inflation and evolving geopolitical dynamics have kept government bond yields across developed markets at levels not seen in the last decade. Without a meaningful cut by the U.S. Federal Reserve, these rates are likely to remain elevated throughout the year. This presents a rare opportunity for global investors, who have traditionally viewed developed-market bonds as safe havens rather than sources of significant yield.

Relatively speaking, developed markets are now better positioned to play a dual role—offering both yield and safety—within global portfolios. However, their strong credit ratings do not entirely eliminate default risks. Even in the U.S., many analysts consider the current level of government debt unsustainable. Investors, therefore, need to diversify across markets to mitigate these risks.



FIXED INCOME INVESTMENT OPPORTUNITIES

Africa Eurobonds: Diversification Across the Continent

Debt sustainability has been the major risk across African Eurobonds. The emergence of Trump and his “America First” foreign policy could further exacerbate the debt stress for countries without sufficient leverage either in the form of a resource or a strategic interest. If his administration cuts funding to international financial institutions like the World Bank and IMF, African nations could struggle to access concessional funding, forcing them to rely more on commercial debt at higher rates. This would worsen debt vulnerabilities for already strained economies.

While some resource-rich nations may still secure favorable financing due to their strategic importance, others could face worsening debt stress, leading to more rating downgrades and restructuring negotiations. Thankfully, a few African countries like Nigeria, Senegal and Ivory Coast have commenced implementing economic reforms to diversify their economies and achieve more sustainable development. In addition, the strategic importance of Egypt and South Africa across geopolitical and economic considerations, leaves them on the menu for many investors. Diversification across issuers (Government and Corporate), careful assessment of fiscal health, and close monitoring of U.S. policy shifts will be crucial in navigating the evolving debt landscape for African Eurobonds market.

SECURITY	YIELD % (31 JAN 2025)
REPUBLIC OF IVORY COAST JUN 2033	7.97%
REPUBLIC OF SENEGAL MAY 2033	9.57%
REPUBLIC OF SOUTH AFRICA APR 2032	6.74%
REPUBLIC OF NIGERIA DEC 2034	9.76%
ARAB REPUBLIC OF EGYPT SEP 2033	9.66%

Source: Bloomberg

FIXED INCOME INVESTMENT OPPORTUNITIES

Domestic Sovereign Debt Market: Yield & Capital Preservation

Inflationary pressures have compelled the Central Bank of Nigeria (CBN) to maintain high interest rates, with bond yields rising in response. Despite prior expectations of easing, persistent inflation has left the CBN with little choice but to sustain a tight monetary stance. As a result, the domestic bond market has become the closest medium for hedging against inflation, offering investors a relatively attractive real return compared to other asset classes.

The foreign exchange market has shown signs of stabilization, with the Naira exhibiting reduced volatility compared to its 2024 levels. This relative stability has lowered the currency risk associated with Naira-denominated assets, making them more viable for portfolio diversification. Given the current yield environment and ongoing government reforms aimed at fiscal consolidation and economic restructuring, Nigerian bonds present an opportunity for investors seeking both income and capital preservation.

We recommend positioning in medium-term maturities, which balance duration risk with attractive yield opportunities. Yields are expected to remain elevated as markets adjust to global macroeconomic developments, particularly the potential ripple effects of Trump's "America First" policies on emerging markets. While uncertainties persist, Nigeria's domestic debt market offers compelling returns in an environment where inflation remains a key driver of monetary policy decisions.

NIGERIA TREASURY BILLS	YIELD % (30 JAN 2025)
6-Mar-2025	21.58%
27-Mar-2025	22.02%
26-Jun-2025	21.52%
11-Sep-2025	23.37%
20-Nov-2025	25.19%
4-Dec-2025	25.15%
25-Dec-2025	25.51%
8-Jan-2026	25.61%
22-Jan-2026	25.88%

Source: Bloomberg

NIGERIA DOMESTIC BONDS	YIELD % (30 JAN 2025)
FGN 12.5000% JAN 2026	21.60%
FGN 19.3000% APR 2029	21.60%
FGN 18.5000% FEB 2031	22.50%
FGN 19.8900% MAY 2033	21.30%
FGN 22.6000% JAN 2035	22.50%
FGN 15.4500% JUN 2038	19.20%
FGN 15.7000% JUN 2053	17.60%

Source: Bloomberg

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