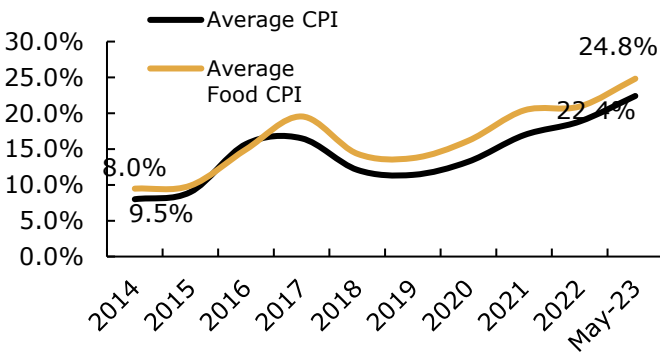


Inflation Sets New Decade High...as Anchoria's Equity Fund Yield Hits 24.3% Delivering Positive Real Return to Investors

Inflation edged higher in May, keeping the Monetary Policy Committee (MPC) on course to pursue an additional rate hike at its next meeting.

The inflation reading yet again hit a near 18-year peak, as the Consumer Price Index (CPI) rose 22.41% in May, up from 22.22% in April. On a monthly basis, consumer prices rose by 1.94% in May, versus 1.90% in April. Expectedly, May's increase was driven by high food costs, though core consumer prices of items such as gas and fuel also accelerated at a fast pace of 0.35% (1.46% to 1.81%) in the month.

Inflationary Trend (2013-May 2023)



The MPC has been on a course to tame inflation with higher interest rates, rapidly raising the benchmark interest rate for more than a year now. However, this policy has not achieved its desired effects, reflected by persistently heightened cost of goods and services, the equities market experiencing a bull run, and fixed income yields well below the inflation rate. Typically, when interest rates rise, stock prices fall, yields on fixed income securities rise, and the economy slows.

Though all indicators point to a slowing economy with GDP settling at 2.31% as of the Q1:2023 (lower than the average growth of 3.2% in the last two years), and lending rates hitting 28.59% as of April, its highest level since December 2022, inflation remains more stubborn than CBN officials expected suggesting that the drivers are more structural than monetary or better put fundamental than money related. Further, it is important to note that monetary policy has limited ability to directly address structural issues causing inflation, instead it can influence aggregate demand and overall economic activity.

Monetary policy appears so tight because the CBN has raised the benchmark interest rate from 11.50% to 18.50%. But it's the real (inflation-adjusted), not nominal interest rate that matters to investors, and that has risen much less because yields have remained disconnected from MPR. Based on the 22.41% increase in consumer prices, the real rate sunk further in the negative territory to -8.40%. Unlike nominal rates, the real rates have remained in the negative since 2019.

But since 2020, investors have changed direction in search of positive real rates in the equity market, this explains why the equities market has consistently delivered positive returns of 50.00%, 6.10%, and 20.00% in 2020, 2021, and 2022, respectively. The NGX-ASI is currently up +15% since the beginning of the year, reflecting resilient corporate performances, and more recently, increased optimism surrounding the Tinubu's administration's pro-market stance and a signal of a step in the right direction.

What Does this Mean?

With Inflation rising quickly, the purchasing power of consumers declines over time. Hence, when consumers earn positive real returns, it means their investment returns are growing at a rate higher than the inflation rate. This allows them to preserve or even increase their purchasing power, enabling them to maintain their standard of living.

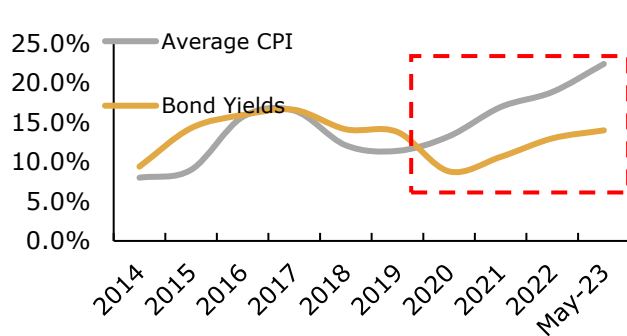
For instance, the NGN100,000 in your bank account is now worth NGN77,590 in real terms, resulting in a loss of NGN22,410 in purchasing power. In terms of what it can buy, the 100,000 is worth NGN77,590 compared to a year ago. However, if you invested in the Anchoria Equity Fund at the start of the year with a yield of 24.32%, your investment would have reached NGN124,320 implying your real return will be positive and purchasing power strengthened.

How Investors Can Position?

Equity Mutual Funds: With inflation set to remain high, given the impact of the subsidy removal on fuel and electricity, it is paramount you invest your savings in high yielding instruments to lower your negative real return or preferably earn positive real return. Investing in the Anchoria Equity Fund with a yield of 24.3%, above inflation rate means that you preserve your purchasing power and earn actual positive returns.

Dollar Denominated Assets: The recent unification of exchange rate windows has brought the naira to a new low of NGN756.00/USD, against NGN465.00/USD previously, indicating a loss in value of 38.5% or NGN291.00. As such, we recommend you have a significant portion of your investment in dollars, as the value of your money in Naira increases when the Naira depreciates. For investors who currently hold positions in dollars, this is a good time to consider investing in the Anchoria Eurobond Linked note due to the high yield on its underlying instruments.

Real Returns (2014-May 2023)



Contact Information

Research@anchoriaam.com
<http://www.anchoriaam.com>

(+234 703 250 7289)