



Navigating Year-End Market Volatility

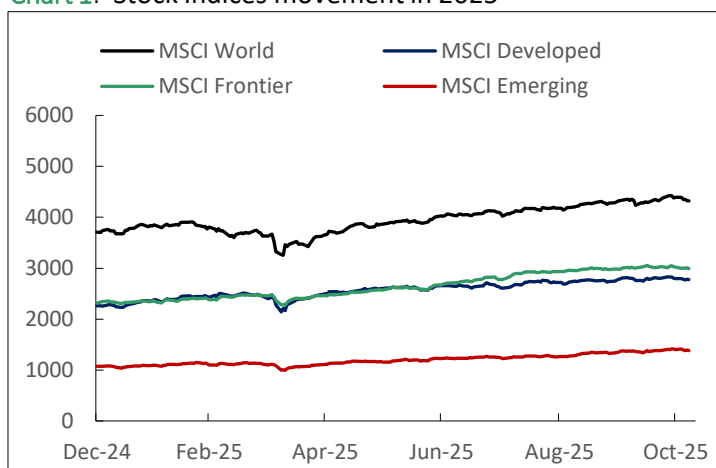
We Remain Cautiously Optimistic on Advanced Markets

Global equities started Q4:2025 on a mixed but constructive momentum, with investors' interest still tilted towards large-cap US tech equity assets. This accounts for much of the global stock indices' gains. Also, significantly high consumer and business expenditure, plus fluctuation in trade tension between the US and other countries, drove stocks higher. Evidently, Q3:2025 corporate earnings were generally better-than-expected, with Technology-related and AI supply-chain companies recording impressive earnings growth and strong cash generation, despite uneven gains across sectors. This firms up our expectation of steadier Earnings per share (EPS) growth in 2026.

In the same vein, global market sentiment has also been broadly influenced by the U.S Federal Reserve's (US Fed) decision to lower its benchmark policy rate by 25bps to 3.75%, marking its second rate cut this year. In our view, the rate cut was primarily influenced by the reduced immigration's impact on the labour market and its subsequent effect on workers supply. Additionally, expectations of a US-China trade war calm supported the investors' sentiment.

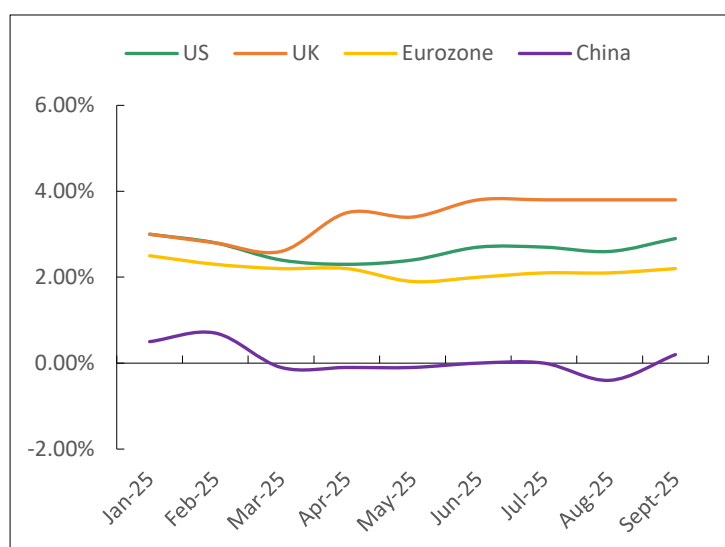
For the rest of the year, we anticipate intermittent swings, as investors reprice stocks in alignment with global macro footprints and geopolitical backdrop. Most central banks are expected to maintain a dovish pivot in the near term, especially if disinflation continues. This creates room for multiple expansions and supports interest-rate-sensitive equities. Lower yields would also imply a higher valuation for stocks. Tariff tensions, sanctions, and geopolitical instigations remain key tailwinds. We believe that trade frictions can lift near-term inflation and disrupt supply chain, which could directly impact appetite for equity assets.

Chart 1: Stock Indices movement in 2025



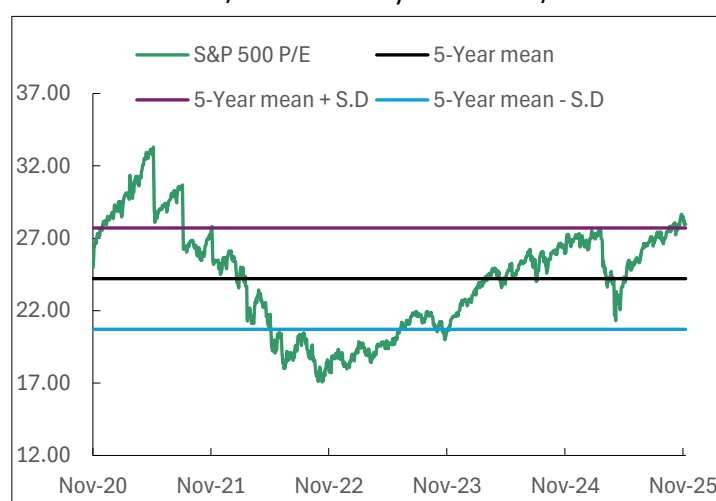
Source: Meristem Research

Chart 2: Inflation movement in Advanced Markets in 2025



Source: Meristem Research

Chart 3: S&P 500 P/E trend vs. 5-year mean P/E



Source: Meristem Research

Investment Strategy- Advanced Markets

From our global markets analysis, Investors are becoming more cautious about cyclical or high-risk stocks. However, there are still good investment opportunities in strong companies with solid balance sheets, low debt, and steady cash flow that can support dividends.

Defensive sectors like communications, utilities, and consumer staples are also likely to perform better in this environment. This could be supported by intentionally moving away from sensitive regions to enhance short-term portfolio resilience. Europe and Japan cyclicals may re-rate if global growth recovers, and may prove an outlet to rotate tactically away from overconcentrated US mega-cap exposure. We also recommend keeping a tactical cash buffer to buy dislocations if a US-led correction spills over.

Asset	Allocation	Rationale
Industrials, Materials, Energy	30–45%	<i>Hold high-quality, cash-generative large caps— preference for resilient revenue streams and high free cash flow.</i>
Large Cap Tech (AI, Cloud, Semiconductors)	15-20%	<i>Core earnings drivers (Apple, Nvidia, Microsoft, Broadcom). AI spending is still robust, but overweight reduced slightly to avoid valuation risk.</i>
Healthcare & Pharma	10-15%	<i>Defensive positioning amid slowing growth; stable cash flows and dividend yields..</i>
Financials (Banks & FinTech)	7%	<i>Net interest margin stabilisation post-rate peak. Upside from loan growth and cost control; maintain modest overweight.</i>
Fixed Income	5-10%	<i>Consider small allocations to high-quality Investment Grade bonds, and short-dated treasuries to dampen volatility.</i>
Cash & Liquidity	3%	<i>Maintain some liquidity for tactical repositioning and opportunistic dislocations. hedge USD exposures using multi-currency ETFs if Fed cuts weaken the dollar.</i>

Region	Allocation	Rationale
US	45%	<i>Overweight (US remains the global equity anchor. EPS recovery expected into 2026. Focus on diversified exposure to quality and large-cap growth)</i>
Eurozone	25%	<i>Overweight (Trading at P/E discounts. Benefiting from ECB easing and a weaker EUR supporting exporters. Tilt to cyclicals and luxury goods)</i>
Japan	20%	<i>Overweight (Structural reforms and corporate governance improvements driving inflows; BoJ's gradual policy normalization, supportive of FX-adjusted returns.)</i>
UK	5%	<i>Neutral</i>
Cash/ Liquidity	5%	<i>Optional tactical reserve.</i>

Mixed Sentiment to Dominate Near-Term Trading

Domestic equity investors have gained NGN27.30trn from the local market in 2025, with the NGX-ASI returning 44.60% ytd (vs. 37.65% in 2024FY) to print at a historic high of 155,496.15pts.

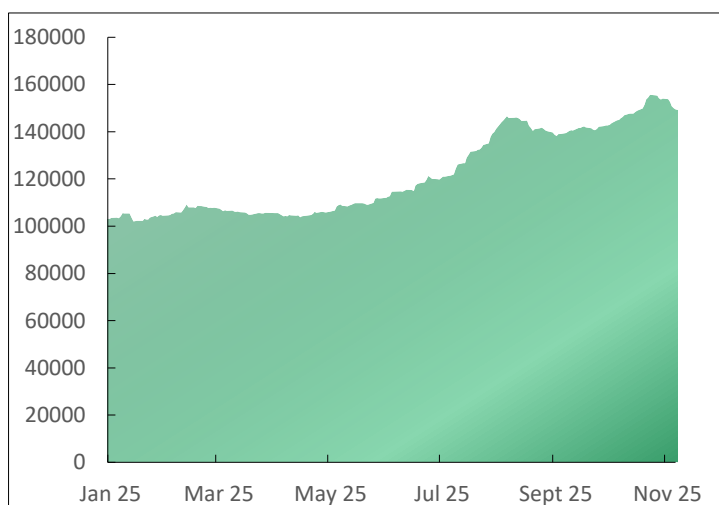
Appetite for stocks this year has largely been influenced by the improving macroeconomic fundamentals- easing inflationary pressure and relatively stable FX market. We believe that this backdrop has also attracted decent foreign inflows into key listed equities across sectors. In the same vein, domestic activity has remained strong, as the appealing risk-adjusted returns on stocks amid an easing monetary policy stance, sustained investors' appetite.

As we had anticipated, a strong recovery in real sector companies due to the favourable macro environment reflected in the broad-based earnings growth in consumer goods, industrial goods, and telecoms tickers. As such, we witnessed a sharp rotation into key names, with upward repricing across board. Meanwhile, sector-specific reforms triggered investors' interest intermittently, particularly in the Banking, Insurance and Energy sectors.

For the remainder of 2025, we anticipate a mixed bias characterising the local bourse as several factors play a crucial role in market behaviour. 9M:2025 earnings result may aid repricing of listed tickers across various sectors, fueled by robust, broad-based earnings growth. This earnings momentum is likely to be further supported by a favourable macroeconomic environment, which could elevate valuations for stocks and sustain investor interest.

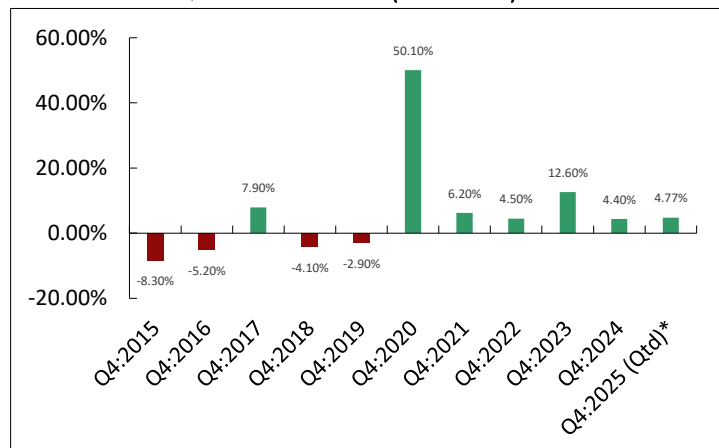
Conversely, notable sell-offs among stocks that have experienced substantial gains will trigger intermittent fund outflows from the market. This trend could adversely affect overall liquidity, creating periods of increased volatility. Moreover, uncertainty surrounding the implementation of the Capital Gains Tax (CGT) poses additional risks. As institutional and foreign investors may face a significantly higher tax burden compared to retail investors, this disparity could lead to near-term sell-offs by these groups, exacerbating market instability.

Chart 4: NGX-ASI movement in 2025



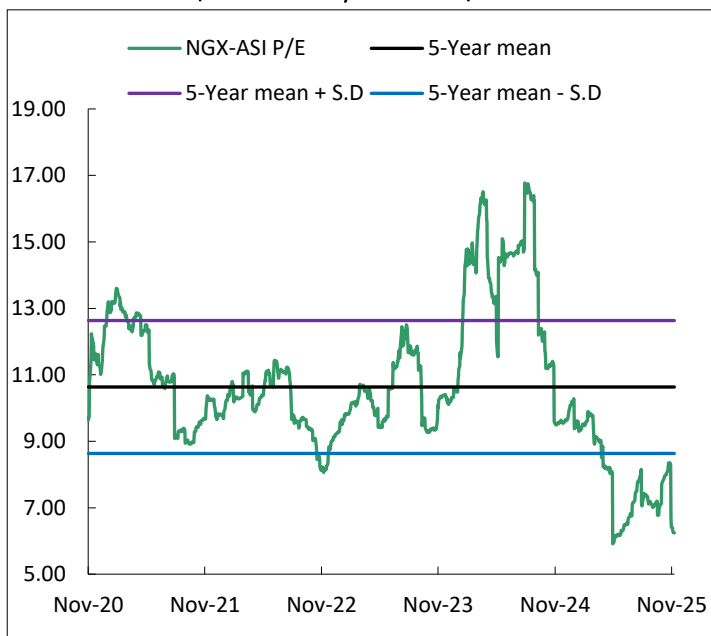
Source: NGX, Meristem Research

Chart 5: Fourth Quarter NGX returns (2015-2025)



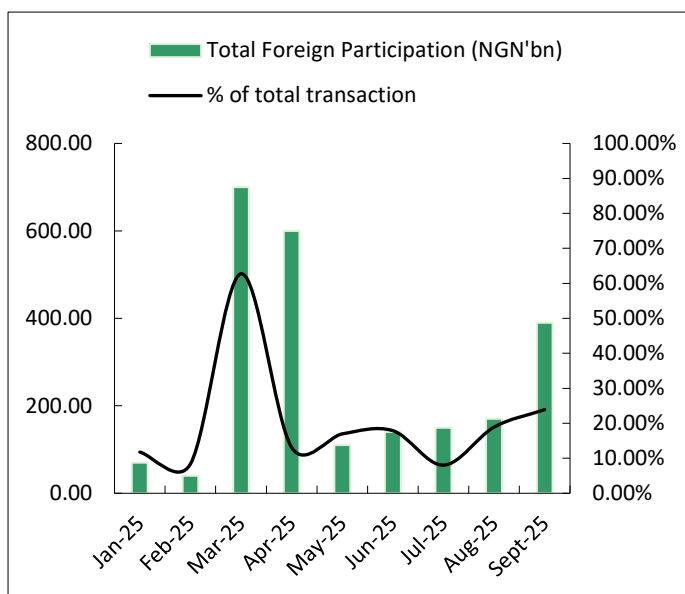
Source: NGX, Meristem Research

Chart 6: NGX-ASI P/E trend vs. 5-year mean P/E



Source: Meristem Research

Chart 7: Foreign Transaction (LHS) and its % of Total Market Transactions (RHS) trend in 2025



Source: NGX, Meristem Research

Investment Strategy- Domestic Market

The Nigerian equities market provided a compelling near-term case, despite intermittent volatility and tepid investor sentiment. This is driven by resilient corporate earnings, sectoral reforms, and attractive valuations relative to frontier and emerging peers. The market trades at a P/E of 6.24x, below its five-year average of 10.23x, suggesting underpricing in the financial services, telecoms, and real sector tickers.

Our forward earnings estimates indicate a projected average EPS growth of 12–14% in 2026FY for the NGX, largely supported by robust banking earnings, insurance recapitalisation tailwinds, and improved margins across select consumer and agro-industrial tickers. Also, dividend yields remain compelling at 8–13% for top-tier banks and 4–7% for other financial services and industrial goods equities, sustaining income-focused positioning.

Meanwhile, downside risks persist, which could emanate from year-end currency pressure, sticky inflation, and policy uncertainty. Given these dynamics and its likely impact on market activities, the immediate focus should be on rebalancing portfolios toward quality, securing liquidity, and keeping some exposure to optional high-growth areas—while maintaining a tactical buffer to respond to corrections.

As such, we recommend balancing high-dividend blue chip stocks with select growth and reform-driven small-to-mid caps, while keeping a liquidity buffer in fixed income.

Tactical Guidance	Allocation	Recommendation
Tilt Toward Quality Financial services tickers	20-30%	<p>Tier-1 banks (GTCO, ZENITHBANK, UBA, WEMABANK) continue to dominate liquidity and profitability metrics.</p> <p>Focus on names with strong capital buffers, FX income diversification, and double-digit dividend yields.</p> <p>Insurance sector (NEM, AIICO, MBENEFIT) presents structural re-rating potential, driven by NIIRA 2025 recapitalisation and improving asset quality.</p>
Stay Defensive in Telecoms, Consumer Staples, and Durable Goods	15-20%	<p>MTNN remains a defensive anchor with predictable cash flows and steady data-driven growth.</p> <p>In consumer staples, tilt to CADBURY, VITAFOAM for margin resilience and pricing power amid weak household demand.</p>
Selective Exposure to Industrials and Cement Players	15-20%	<p>DANGCEM, WAPCO, and BUACEMENT benefit from infrastructure momentum and improved cost efficiency.</p>
Accumulate Agricultural and Agro-Industrial Players	15-20%	<p>Palm oil producers (OKOMUOIL, PRESCO) remain attractive on FX earnings and substitution dynamics.</p> <p>ELLAHLAKES' expansion into integrated agribusiness offers long-term upside despite execution risk.</p>
Maintain Tactical Liquidity and Diversification	5-10%	<p>Hold 8–10% allocation in high-yield T-bills (18–19%) as a volatility hedge.</p> <p>Allocate 5% in USD-denominated Eurobonds to mitigate Naira depreciation risk and preserve optionality for re-entry in Q1 2026.</p>

Investor Profile	Strategy	Key Allocations
Aggressive Growth	Overweight Financial services, Agriculture, and Industrial goods.	GTCO, ZENITHBANK, UBA, PRESCO, WAPCO
Moderate/Balanced	Blend of financial services, telecoms, and consumer staples	MTNN, WEMABANK, GTCO, CUSTODIAN, MBENEFIT, CADBURY
Conservative / Income-focused	Dividend blue-chips + T-bills	MTNN, GTCO, WAPCO, DANGCEM, SEPLAT, 364-day T-bills exposure

Sector	Allocation	Rationale
Banking	25%	<i>Remains the core driver of NGX liquidity. Tier-1 banks offer attractive dividend yields (10–13%). FX revaluation gains may moderate, but asset quality is solid. Maintain overweight on high-dividend names.</i>
Telecommunications	10%	<i>MTNN and AIRTELAFRI remain key defensive plays with stable cash flow and pricing power. Regulatory pressures easing; data revenue growth supports earnings visibility. Moderate overweight for income stability.</i>
Consumer Goods	10%	<i>NESTLE, DANGSUGAR, and CADBURY show resilience amid rising input costs. Volumes stable; pricing adjustments help margins. Underweight discretionary plays due to weaker consumer demand. Focus on defensive consumer staples.</i>
Insurance	10%	<i>Sector re-rating expected from the NIIRA 2025 recapitalisation. Accumulate adequately capitalised tickers with improving solvency ratios and profitability. Overweight as a medium-term catalyst sector.</i>
Industrial Goods & Conglomerates	7%	<i>DANGCEM, WAPCO, and BUACEMENT benefit from ongoing infrastructure spending and energy efficiency gains. UACN, TRANSCORP, and NAHCO are positioned for expansion, with aviation and hospitality segments recovering.</i>
Agriculture	10%	<i>PRESCO, OKOMUOIL are supported by strong palm oil prices and an import substitution drive. FX earnings provide a natural hedge. Maintain moderate overweight.</i>
Oil & Gas	5%	<i>TOTAL, SEPLAT, ARADEL remain attractive for dividend, but margin risks persist from regulated pricing. Maintain a small tactical allocation.</i>
Healthcare / Pharmaceuticals	5%	<i>FIDSON and MAYBAKER continue to benefit from local manufacturing incentives. Selective exposure recommended; liquidity relatively thin.</i>
Cash / Short-term Instruments	8%	<i>Maintain liquidity buffer in 364-day T-bills to hedge volatility.</i>
Eurobonds / USD Assets	5%	<i>FX diversification; yields around 8–9%. Provides cushion against Naira depreciation risk.</i>

CONTACT INFORMATION

Brokerage and Retail Services

hmanagement@meristemng.com

(+234 905 569 0627)

crmstocbroking@meristemng.com

(+234 808 369 0213)

contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com

(+234 806 022 9889)

davidadu@meristemng.com

(+234 810 940 4836)

Wealth Management

funmilolaadekola-daramola@meristemng.com

customerrelationshipmanagement@meristemng.com; (+234 702 564 0072)

WealthManagement@meristemng.com 0700-MERISTEM

crmwealth@meristemng.com

Registrars

info@meristemregistrars.com

(07080647401)

www.meristemregistrars.com

Trust Services

crmtrustees@meristemng.com

(+234 702 564 0071)

trustees@meristemng.com

Group Business Development

ifeomaanyanwu@meristemng.com

(+234 802 394 2967)

info@meristemng.com

Finance

muboolasuko@meristemfinance.com

(+234 803 324 7996)

matthewawotundun@meristemfinance.com

(+234 802 390 6249)

Client Services

contact@meristemng.com

customerexperience@meristemng.com

(0700 637 47836)

Investment Research

praiseihansekhien@meristemng.com

(+234 817 007 1512)

research@meristemng.com

Analyst(s)

victorygeorge@meristemng.com

(+234 806 572 8653)

modupearinde@meristemng.com

(+234 703 825 5908)

opeyemiadepoju@meristemng.com

(+234 813 126 7243)

Corporate websites:

www.meristemng.com

www.meristemwealth.com

www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research Portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars' businesses which are regulated by the SEC and ICMR.

Copyright 2025 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.

Corporate websites: www.meristemng.com, www.meristemwealth.com, www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: research.meristemng.com

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

Reuters: www.thomsonreuters.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

FactSet: www.factset.com

IMPORTANT INFORMATION: DISCLAIMER

Meristem Securities Limited ("Meristem") equity reports and its attendant recommendations are prepared based on publicly available information and are meant for general information purposes only and it may not be reproduced or distributed to any other person. All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication; **Meristem** can neither guarantee its accuracy nor completeness as they are an expression of our analysts' views and opinions.

Meristem and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e. may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Securities is registered with the Securities and Exchange (SEC) and is also a member of The Nigerian Exchange Group (The NGX). Meristem Securities' registered office is at 20A Gerrard Ikoyi, Lagos, Nigeria. Website: www.meristemng.com; Email: research@meristemng.com. © **Meristem Securities Limited 2025**.