

# Global shocks and market opportunities: How to invest in 2026



# Table of Contents

<b>Message from Director</b>	<b>4</b>
<b>Executive Summary</b>	<b>5</b>
<b>Section A: Global Economic Outlook</b>	<b>6</b>
Energy Markets and the Growth Cycle	8
The 2026 Labour Market Adjustment	10
Global Inflation	11
Global Monetary Policy	12
Disinflationary Pressures in China	13
Structural Pivot in Japanese Monetary Policy	13
Measured Stabilization in the Eurozone	15
<b>Section B: Global Equities</b>	<b>17</b>
Markets Do Not Favour Extreme Volatility in Oil	18
US Sector Performance	20
Valuation Arbitrage	21
Tactical Allocation Framework	23
<b>Section C: Commodities Market</b>	<b>24</b>
GOLD: De-dollarisation Drives Acquisition	25
Silver: Unabated Interest Keeps Prices Elevated	30
Oil Market	38
<b>Section D: Global Fixed Income Market Outlook</b>	<b>39</b>
Advanced Economies Fixed Income Market	40
What Next for Investors	43
Oil price stability over volatility	46
SSA Eurobond Rotation	47
<b>Section E: Nigeria Economic Outlook</b>	<b>53</b>
Economic Activity	54
Monetary Policy Outlook	64
External Sector	70
<b>Section F: Nigeria's Financial Markets</b>	<b>76</b>
Local Fixed Income Market	77
Fiscal Pressures Driving Local Borrowing	77
Open Market Operations	79
FGN Bond Market:	80
Relative Performance	82
Market Participation	83
Sector Performance	84
Equity Outlook for 2026	87



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# Message from Director

## Global Uncertainty, Nigerian Opportunity

Dear Valued Client,

We are pleased to share our latest report: “Global Uncertainty, Local Opportunity: Where to Invest in 2026: Strategy, Risks & Opportunities. Key projections: Global growth is forecast to moderate to 3.0% in 2026, pressured by elevated energy prices and tight monetary policy.

Headline inflation is expected to rise, driven by the recent Brent crude surge above US\$100/bbl following Middle East disruptions. Extreme oil volatility historically weighs on GDP, yet we see clear local alpha in Nigeria. Our analysis highlights resilient domestic demand, monetary normalisation, attractive fixed-income yields, and undervalued equities positioning Nigeria as a compelling frontier-market opportunity amid global headwinds.

At VNL Capital Asset Management, our research driven strategies and on-the-ground expertise are designed precisely for this environment. We help clients navigate volatility and capture superior risk-adjusted returns through active allocation in local bonds and equities.

We help clients navigate volatility while capturing the upside of local recovery and reform. Positioning with VNL Capital today means: Access to our proprietary sector and equity outlooks for 2026. Timely tactical allocation recommendations across local fixed income, bonds, and equities. Professional portfolio construction that balances global risk factors with opportunities.

We are confident that clients who act on these insights will be well-positioned for attractive risk-adjusted returns in the year ahead.

I would be delighted to walk you through the full report and discuss tailored positioning recommendations for your portfolio.

It's all about building strong foundations on solid fundamentals.

Built for you. Built to last.

Warm regards,



**DR. Chiedu Ojemaye**  
Executive Director  
(DBA)

# Executive Summary

Global macroeconomic conditions in 2025 were characterised by a gradual easing of inflationary pressures following an extended period of aggressive monetary tightening. However, this disinflationary trend unfolded alongside rising geopolitical tensions, particularly in the Middle East, and renewed trade frictions, reintroducing volatility across financial markets. Against this backdrop, global growth remained resilient but moderated, with underlying conditions increasingly shaped by energy price dynamics, policy divergence, and structural shifts in global production and investment.

In financial markets, this environment triggered a rotation toward defensive and real assets, with commodities, particularly gold, benefiting from heightened uncertainty, sustained central bank accumulation, and currency diversification trends. At the same time, equity market performance became more uneven across regions and sectors, reflecting sensitivity to oil price movements, interest rate expectations, and evolving fiscal conditions. While structural themes such as artificial intelligence continued to support long-term valuations, near-term performance was increasingly driven by macroeconomic shocks and sector-specific fundamentals.

Looking ahead to 2026, the global outlook is expected to remain stable but fragile. Growth is projected to moderate toward 3.0%, reflecting the combined effects of elevated energy prices, tighter financial conditions, and reduced policy support. Inflation, although significantly lower than recent peaks, is likely to remain above target in several economies, supported by renewed supply-side pressures and persistent structural constraints. Consequently, monetary policy is expected to remain cautiously restrictive, with limited scope for aggressive easing amid ongoing inflation risks and softening labour market conditions.

A defining feature of the 2026 outlook is the re-emergence of energy as a central driver of macroeconomic outcomes. Disruptions to global oil supply, particularly through key transit routes like the Strait of Hormuz, have reinforced the historical relationship between energy price volatility and weaker growth, higher inflation, and elevated risk premiums across asset classes. This dynamic introduces a more complex investment environment, where market performance is increasingly shaped by episodic shocks rather than broad-based cyclical expansion.

Within this context, global asset allocation is expected to favour selective positioning over broad market exposure. Commodities, particularly energy and precious metals, are likely to remain supported by structural supply constraints and geopolitical risk factors. In equities, sectoral rotation toward energy, utilities, and other defensives may persist, while valuation dispersion across regions presents opportunities for relative value strategies. In fixed income markets, yields are expected to remain elevated despite moderating inflation, reflecting sustained fiscal pressures, high sovereign issuance, and limited central bank support.

On the domestic front, Nigeria enters 2026 with a cautiously improving macroeconomic backdrop, supported by structural reforms, relative exchange rate stability, and improved external conditions driven by higher oil prices. However, fiscal constraints, revenue underperformance, and liquidity pressures remain key risks to the outlook. Financial market performance is therefore likely to be shaped by a combination of domestic policy dynamics and global liquidity conditions, with fixed income markets continuing to reflect liquidity condition and supply-driven yield dynamics.

Overall, 2026 presents a landscape defined not by broad-based expansion, but by targeted opportunities within a volatile and shock-sensitive environment. Investment success will depend on disciplined asset allocation, active risk management, and the ability to navigate both global macro shocks and domestic structural realities.



## Section A

# Global Economic Outlook



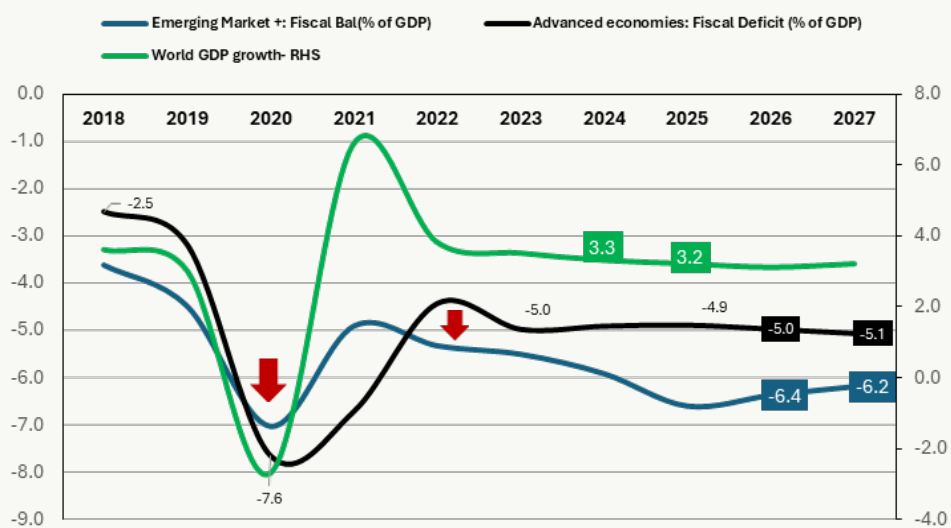
The global economic landscape entering 2026 reflects a phase of cautious stabilisation following the structural disruptions of 2020 and the recovery of 2021. Growth dynamics are increasingly characterised by a delicate balance between technological advancement, evolving monetary policy normalisation, and persistent structural vulnerabilities across regions amid frequent geopolitical tensions.

While the period of exceptionally tight global financial conditions has largely passed, economic activity has moderated but remains resilient, supported by productivity gains from digital transformation and

targeted fiscal interventions.

Notably, fiscal deficit-to-GDP in advanced economies remains slightly below pre-COVID levels, estimated at 4.9% in 2025, while emerging markets have deteriorated marginally by 5bps to 6.4%. One of the key drivers of sustained fiscal pressure across both groups is the intensifying AI race. Estimated public spending in 2025 ranges from over \$3.3 billion by the US government to more than \$50 billion in China, with a CAGR exceeding 16% between 2023 and 2025.

**Figure 1.0: Fiscal expansions are central to economic growth across countries**



Source: The International Monetary Fund (IMF), VNL Capital Research

# Energy Markets and the Growth Cycle: What the Current Crisis Means for Global GDP

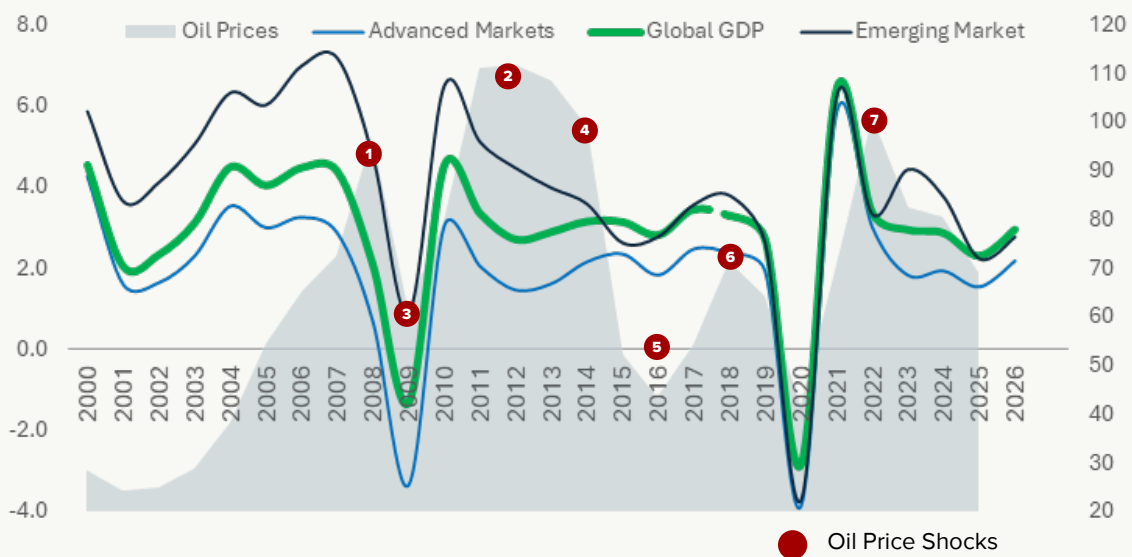
Historical experience underscores a clear relationship between global economic growth and energy price dynamics. Periods of elevated oil prices often introduce immediate volatility into financial markets, as higher energy costs raise production expenses, compress corporate margins, and weaken consumer purchasing power.

For advanced economies, sustained energy price spikes typically translate into inflationary pressures and tighter monetary policy responses. Similarly, energy-importing emerging markets face additional challenges, including currency depreciation, widening current account deficits, and rising fiscal burdens driven by higher import bills. Consequently, shocks in energy prices, regardless of direction, tend to weigh on these economies through weaker overall confidence among both businesses and consumers.

More specifically, the rise of over 50% in oil prices to above \$100 in both 2010/2011 and 2022 preceded slowdowns in economic growth during those periods. This pattern was also evident in 2009 and 2015/2016, when declines in oil prices coincided with sluggish economic activity.

This suggests that periods of relative oil market stability tend to support more predictable economic expansion. Stable energy prices reduce macroeconomic uncertainty, lower risk premiums across capital markets, and encourage long-term investment decisions. Under such conditions, firms can better forecast production costs, supporting stronger corporate earnings, improved equity market performance, and more consistent GDP growth across both commodity-exporting and importing economies.

**Figure 1.1: Extreme Oil Price Volatility Is Bad for Global Growth!**



Source: World Bank, EIA, VNL Capital Research

## Convergence Toward 3.0%

VNL Capital Research believes that global growth will moderate marginally by 2bps to around 3.0% in 2026. This forecast reflects the anticipated impact of elevated energy prices on economic activity, alongside relatively tight monetary policy across major economies. While this view contrasts slightly with the International Monetary Fund (IMF), which does not fully incorporate the downside risks from energy shocks, it is more aligned with the World Bank's position. However, we broadly agree on the long-term structural drivers of growth.

The IMF projects global output growth of 3.3%, reflecting confidence in the resilience of economic activity despite persistent geopolitical and policy uncertainties. Their assessment highlights sustained investment in advanced technologies—particularly artificial intelligence infrastructure and digital capital formation—as well as the continued adaptability of the private sector.

In comparison, the World Bank forecasts global growth of 2.6%, emphasising the gradual withdrawal of temporary supports that strengthened activity in 2025.

These include inventory accumulation and the front-loading of exports ahead of anticipated trade restrictions. As these effects fade, the institution notes that high sovereign debt levels and climate-related disruptions could weigh on medium-term growth dynamics.

Despite these risks, current macroeconomic indicators

continue to support a narrative of global resilience. Labour markets across major advanced economies remain historically tight, services sector activity continues to expand, and global trade volumes have stabilised following earlier supply chain disruptions. Financial systems also remain broadly stable despite the sharp monetary tightening cycle of the past two years.

Taken together with private sector projections, the 3.0% baseline represents a robust baseline outlook. It reflects a global economy that has absorbed the shocks associated with the pandemic, the Russia–Ukraine conflict, and aggressive monetary tightening, while transitioning toward a more moderate but structurally durable growth path.

In emerging markets (EMs), domestic demand has remained relatively firm, while trade dynamics were temporarily supported by the acceleration of export shipments ahead of expected tariff adjustments scheduled for April 2026. This front-loading pushed global merchandise trade volumes to elevated levels. However, the key risk remains how these economies navigate rising energy prices and the associated risk-off sentiment, particularly given their reliance on external capital inflows. EMs are historically more vulnerable to global shocks, as investors tend to reallocate capital toward advanced markets during periods of heightened uncertainty.

As a result, growth moderation is likely to be more pronounced in emerging markets than in advanced economies in 2026.



# The 2026 Labour Market Adjustment: Toward an Ideal State or Under Strain?



The structural shifts that emerged during the pandemic period continue to shape the global labour market in 2026. Technological transformation has become a central factor influencing workforce participation and productivity. Artificial intelligence is estimated to impact close to 40 percent of global employment activities. Rather than triggering widespread job losses, however, these technologies have led to a pronounced skills mismatch across labour markets.

Traditional entry-level roles have declined, while demand for technology-integrated positions has increased. This shift has been reinforced by the restructuring of global supply chains and the growing trend toward regional production networks. Manufacturing employment has expanded in countries positioned as strategic supply chain hubs, such as Mexico and Vietnam, as firms align production with geopolitical considerations and the need for greater resilience.

Global unemployment currently averages around 4.9 percent, although post-pandemic labour market dynamics have diverged across advanced economies. While unemployment declined steadily through 2021

and 2022, recent data point to renewed strains. In both the United States and the United Kingdom, labour markets are beginning to soften, with the UK jobless rate approaching its highest level in a decade (excluding the COVID period), while the US has seen a rise toward 2021 levels.

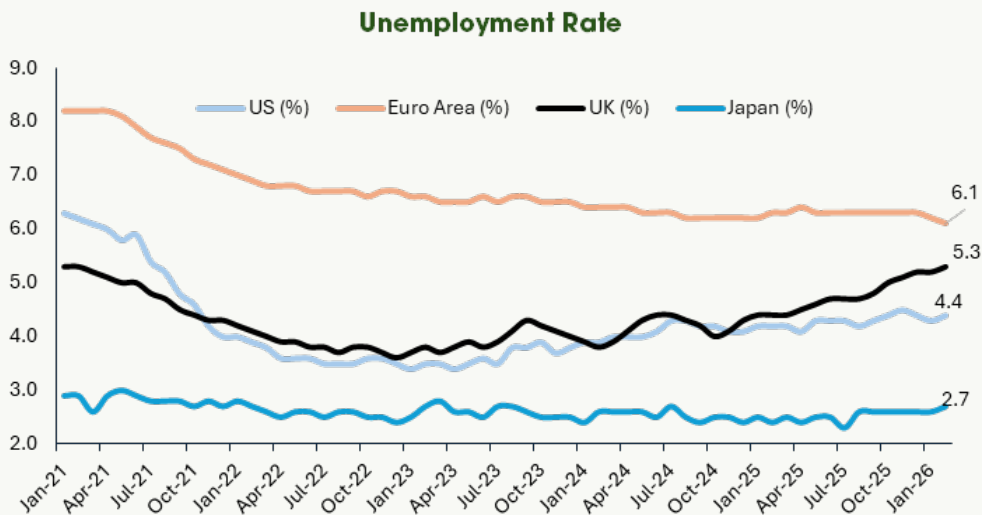
More specifically, structural pressures are becoming evident in the United Kingdom, driven by demographic shifts, technological substitution, and labour localisation policies. In the United States, the manufacturing sector has also shown signs of weakness. Between April and August 2025, approximately 42,000 jobs were lost, with cumulative losses exceeding 100,000 by year-end—marking the first sustained contraction since the post-pandemic recovery.

Despite these developments, the broader macroeconomic environment is gradually cooling. Nominal wage growth has remained relatively firm, averaging about 3.8 percent in the United States and 4.1 percent in the United Kingdom. In several sectors, wage growth has exceeded services inflation, contributing to a moderation in labour market churn

as worker mobility slows and job switching declines in a high-interest rate environment.

Central banks continue to monitor unit labour costs closely. In some sectors, wage growth is beginning to outpace productivity gains, raising concerns about the potential emergence of more persistent inflationary pressures.

**Figure 1.2: Slow Job Growth in the UK and US**



Source: Bloomberg, VNL Capital Research

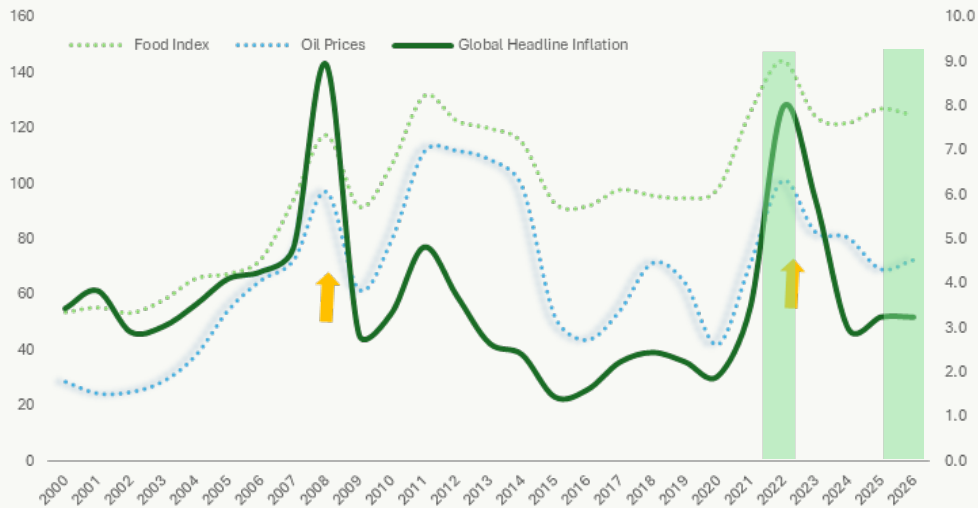
## Global Inflation: From Energy to Core, Is the World Ready for Another 2022?

Inflation has transitioned into a more volatile and structurally complex phase following the rapid disinflation observed in late 2024. Progress toward central bank targets is increasingly being tested by persistent geopolitical risks and renewed commodity price volatility, even as headline inflation continues to decelerate. The narrative has shifted from broad-based price shocks to a more localised tug-of-war between cooling services inflation and a re-emerging inflationary floor driven by trade-related frictions and rising energy costs.

As these structural shifts unfold, rising energy prices pose a significant threat to the disinflation trend seen over several quarters. The recent reversal is largely

driven by the energy shock in March 2026, following heightened geopolitical tensions in the Middle East. Brent crude prices surged above US\$100 per barrel as disruptions along the Strait of Hormuz affected roughly 20 percent of global oil transit. This has pushed energy inflation to as high as 3.5 percent across OECD economies, even as headline inflation in regions such as the United States remains relatively stable at around 2.4 percent, reflecting a lag in price pass-through.

Against this backdrop, global headline inflation is expected to trend higher toward 4% in 2026, increasing the likelihood that monetary authorities maintain a restrictive policy stance for longer.

**Figure 1.3: Extreme Oil Volatility Is Bad for Global Growth!**

Source: FAO, World Bank, ICE, VNL Capital Research

That said, food price increases continue to outpace headline inflation but have generally moderated relative to the energy sector, trending between 3.1 percent and 4.0 percent across major economies. While this points to a gradual easing in the global food price cycle, price levels remain elevated relative to historical averages. This persistent pressure disproportionately affects lower-income households,

where food accounts for a significant share of total expenditure.

The path toward price stability therefore remains vulnerable to supply-side shocks, including trade barriers, renewed energy price volatility, and extreme climate events, all of which could disrupt the current disinflation trajectory.

## Global Monetary Policy: Limited Room for Hawkishness Amid Stagflation Risks

Central banks are currently navigating increasingly diverse domestic economic conditions while attempting to keep inflation within target ranges. Policymakers are required to strike a delicate balance between softening labour markets and the renewed threat of inflationary pressures. In real terms, policy rates remain restrictive relative to pre-2022 levels. Although the United States Federal Reserve has adopted a more dovish stance in recent meetings in response to rising unemployment, real rates still hover around 2 percent, like the United Kingdom.

At this stage, monetary authorities are proceeding cautiously to avoid a repeat of the 2022 policy misstep, when rate hikes were delayed under the assumption that inflation would be largely transitory. Amid persistent global uncertainty, particularly with elevated energy prices, there appears to be limited room for further aggressive tightening if required. This constraint is primarily driven by weakening labour market conditions and less compelling growth momentum across major economies.

## Disinflationary Pressures in China

In 2026, China continues to navigate a challenging economic environment characterised by persistent disinflationary pressures. The inflation trajectory remains relatively subdued, allowing the People's Bank of China to maintain an accommodative stance. Policy rates have been consistently lowered to reduce borrowing costs, support industrial output,

and revive consumer sentiment.

This policy direction, however, comes at the expense of the currency. Authorities appear less concerned about this trade-off, as a weaker currency enhances export competitiveness and supports a stronger current account position.



## Structural Pivot in Japanese Monetary Policy

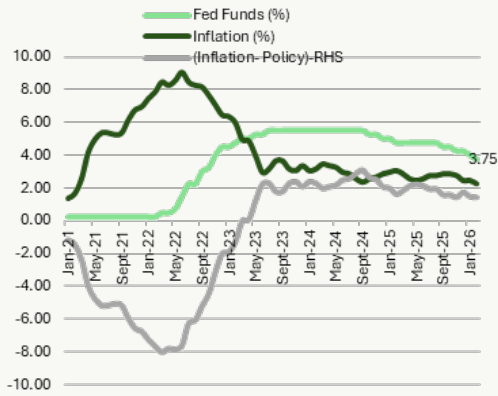
Japan has entered a period of clear monetary divergence, marking the end of its long-standing negative interest rate regime. This transition is supported by consistently robust wage growth, signalling that the economy is gradually moving toward a more sustainable inflationary environment. The Bank of Japan's shift toward cautious rate normalisation represents a structural break from decades of stagnation, providing renewed support for the yen and reshaping global capital flows as investors increasingly reallocate toward domestic Japanese assets.

This measured policy pivot adds a layer of stability to the regional economy and signals to global markets that Japan is transitioning into a more conventional inflationary regime. However, any further surge in inflation could place additional pressure on the Bank of Japan to tighten policy at a faster pace than currently anticipated.

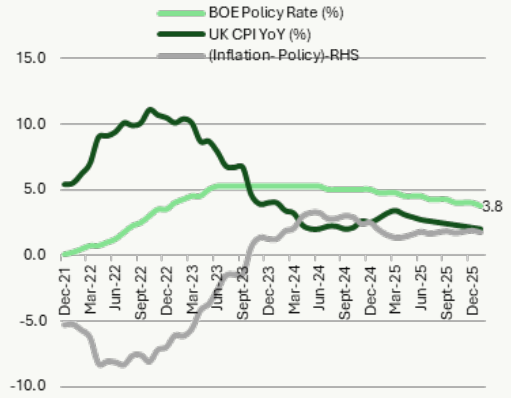


Figure 1.4: Policy Rates are Largely Very Restrictive in Real Terms

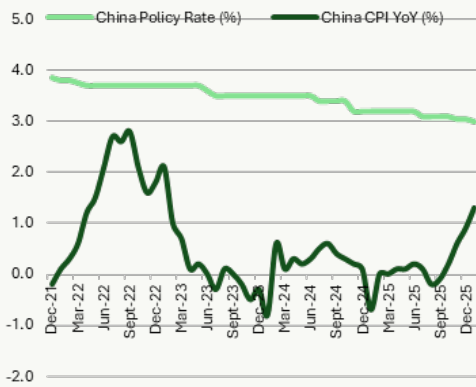
The US



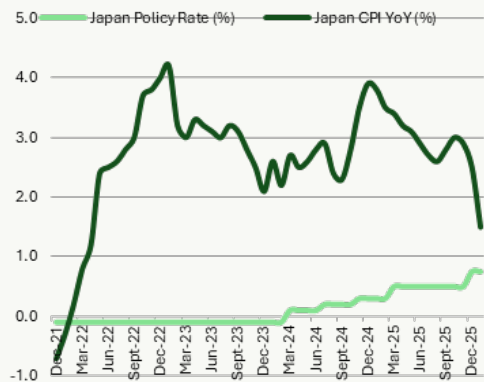
UK



China



Japan



Source: Trading Economics, VNL Capital Research



## Measured Stabilization in the Eurozone



The European Central Bank's (ECB) current approach reflects a notable cooling in regional inflation, which declined to 2.8 percent in January 2026, alongside relatively subdued growth across the bloc. By signalling a pause in its hiking cycle, the ECB aims to balance its price stability mandate with the need to avoid an unintended recession in key industrial economies such as Germany. This cautious, neutral stance has helped stabilise European bond markets, ensuring that inflation expectations remain anchored before any meaningful loosening of financial conditions is considered.

Overall, while the global weighted average policy rate has trended downward since early 2024, this aggregate masks a clear divergence across major economies. The shift toward a more accommodative stance in several regions reflects cooling post-pandemic demand and a deliberate effort to support labour markets showing signs of fatigue. However, this easing cycle faces renewed challenges from a second wave of supply-side shocks, requiring a subset of central banks to maintain a more restrictive policy stance.

For a significant portion of the global economy, the

policy narrative has shifted from aggressive inflation containment toward growth preservation. Central banks such as the Federal Reserve and the Bank of England entered 2026 with a bias toward gradual rate reductions, supported by moderating core services inflation and the need to stabilise employment conditions. In contrast, the People's Bank of China has adopted a more proactive easing stance, cutting rates to counter persistent disinflationary pressures and weakness in the property sector. These policy paths reflect a growing view that systemic risks have shifted from inflation to the possibility of a hard landing following an extended period of tight financial conditions.

Despite this broader easing trend, some economies continue to maintain or even reinforce a hawkish stance. The Reserve Bank of Australia and the ECB have indicated a willingness to keep rates elevated—or raise them further if necessary—in response to renewed inflationary risks. This posture is largely driven by the 2026 oil market shock, which pushed Brent crude above US\$100 per barrel following escalating geopolitical tensions in the Middle East and disruptions in the Strait of Hormuz. For energy-dependent regions, this surge presents an

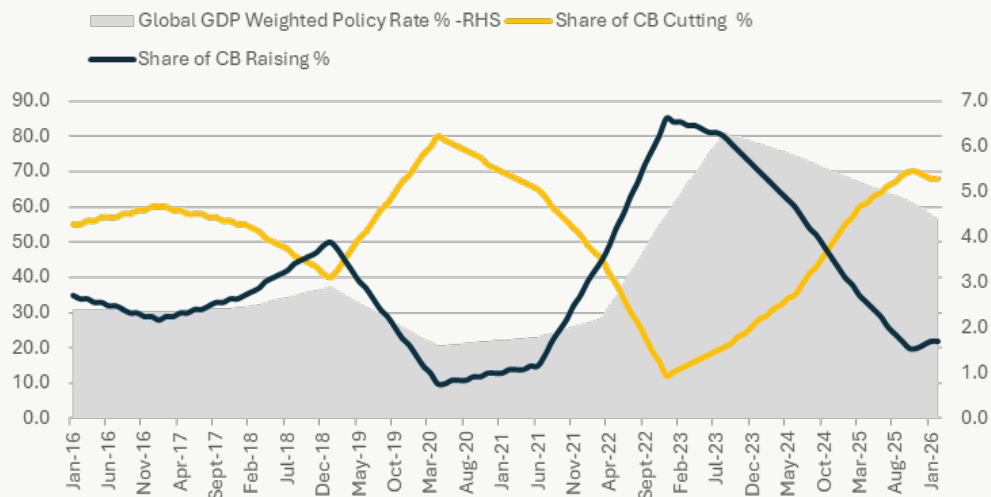
## Global Economic Outlook

immediate inflationary impulse that risks unanchoring expectations just as they were converging toward target levels.

Central banks in these economies therefore face a complex policy trade-off. Tightening to counter energy-driven inflation risks undermining already fragile growth, while easing to support activity could allow a wage–price spiral to emerge. As the global

economy moves through the first half of 2026, it remains at a critical inflection point. Economies with high dependence on energy imports are particularly exposed to this stagflationary dynamic, as the relative price stability achieved in 2025 is increasingly challenged by renewed geopolitical volatility. The observed divergence in policy rates ultimately reflects the uneven transmission of these global shocks across countries.

**Figure 1.5: More Hawks than Hawkish Doves...**



Source: MacroMicro, VNL Capital Research



## Section B

# Global Equities

Markets have always been a theatre of sharp dislocations and powerful recoveries. From the swift COVID-19 shock in 2020 that wiped over 30% off global equities within weeks, only to trigger a V-shaped rebound on unprecedented fiscal and monetary stimulus, to the 2022 Russia–Ukraine conflict that drove oil prices above \$120 per barrel and ignited a global inflation surge.

Fast forward to March 2026, and the market is once again confronting familiar stress dynamics. The escalation of the U.S.–Iran conflict and the effective disruption of flows through the Strait of Hormuz have

triggered a rapid spike in oil prices, rising by 20–30% within days. This has weighed heavily on global equities; reigniting inflation concerns and disrupting supply chains. As seen in prior cycles, resilience is evident. Strong AI-driven capital expenditure and continued fiscal support, particularly in strategic sectors such as technology and defence, are cushioning the downside, much like the stimulus-driven recovery post-2020. While volatility remains elevated, history suggests that such dislocations often present compelling entry points for disciplined investors.



## Markets Do Not Favour Extreme Volatility in Oil

Global equities have experienced significant volatility since the energy shock of 2022, when the Russia–Ukraine conflict intensified risky assets.

The S&P 500 recorded a sharp decline in 2022 amid rapid rate hikes, before rebounding strongly in 2023 on the back of a powerful AI and technology-driven rally. This momentum extended into the following year, supported by expansive fiscal measures,

although gains have moderated somewhat as rising AI capital expenditures coincided with renewed geopolitical tensions.

The Dow Jones has advanced more steadily over the period, underpinned by its exposure to industrial and financial sectors. However, rising oil prices have exerted direct pressure on manufacturing and transportation sectors, tempering performance

during periods of energy spikes. The FTSE 100, in contrast, benefited from elevated energy prices in 2022 and has since delivered consistent gains, further supported by increased defence spending amid Middle East tensions.

The Euro Stoxx 50, on the other hand, experienced a notable decline in 2022 due to the energy crisis but staged a strong recovery in 2023, supported by a more accommodative European Central Bank stance. This was followed by steady gains and a more pronounced uptick, reflecting improving industrial activity and growing integration of AI across key sectors.

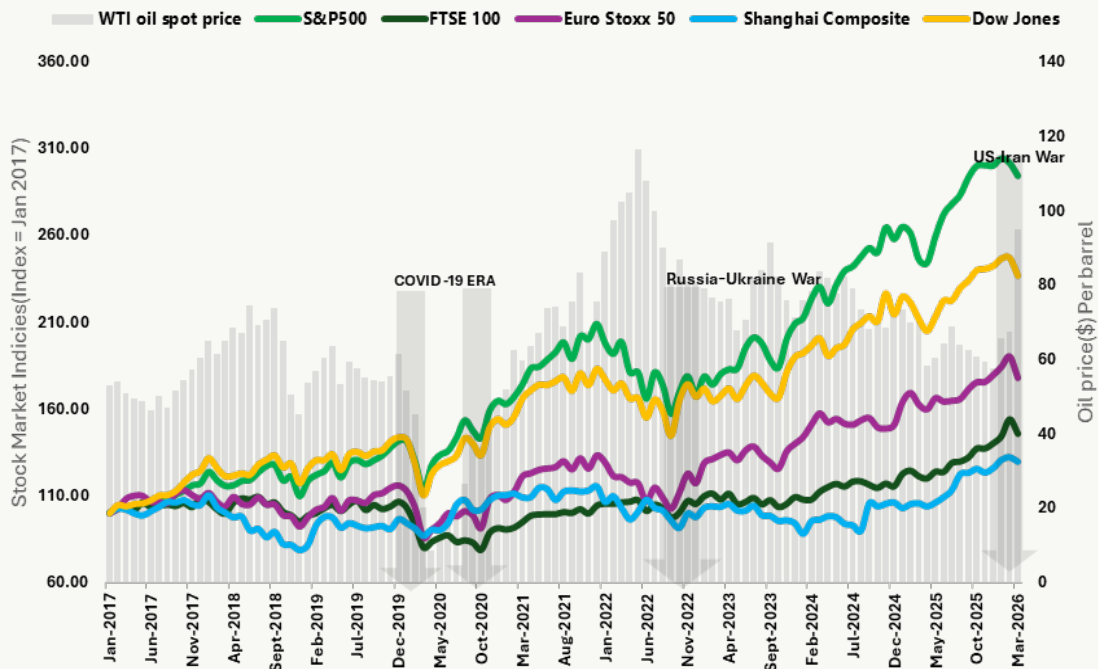
In contrast, the Shanghai Composite has faced more persistent headwinds. The index declined sharply in 2022 amid strict lockdown measures, remained under pressure in 2023 due to a prolonged property

sector downturn, and only partially recovered on the back of policy stimulus and the AI-driven “DeepSeek” momentum, before softening again as trade frictions resurfaced.

China’s ongoing property overhang continues to pose a structural drag, while rising oil prices further strain the economy as a major net importer, raising import costs and weighing on both consumer spending and industrial activity.

Overall, these trends highlight a consistent pattern: the demand shock of 2020 accelerated innovation and technology-led growth, while the supply-driven disruptions from 2022 onward have favoured energy and defence sectors. In the current environment, heightened oil price volatility remains a key constraint on equity market stability, reinforcing the sensitivity of global equities to energy-driven shocks.

Figure 2.1: Equity Market Sensitivity to Oil Price Shocks



Source: Bloomberg, VNL Capital Research

## US Sector Performance: Why Energy May Be the Clear Outperformer in 2026



In the ever-shifting landscape of global markets, where energy shocks have repeatedly reshaped asset performance, the events of 2022 marked a decisive turning point. The surge in oil prices drove a sharp re-rating of the energy sector, while defence-linked exposures benefited from heightened geopolitical tensions. At the same time, rising interest rates weighed heavily on equities, particularly technology, consumer discretionary, and real estate sectors.

Fast forward to March 2026, and similar dynamics are beginning to re-emerge. Escalating tensions in the Middle East are once again supporting energy prices, although equity investors remain relatively less apprehensive for now, largely due to the absence of updated macroeconomic readings, particularly inflation, since the latest energy price surge. On a year-to-date basis, as of March 16, 2026, most sectors have remained in positive territory, except for financials. The weakness in the financial sector reflects concerns around a potential delay in rate cuts, alongside the unintended consequences of rising default risks within credit markets on overall financial stability.

As highlighted in Figure 2.2, sectoral performance across the S&P 500 reinforces these trends. The energy sector continues to stand out as a key

beneficiary during periods of geopolitical stress, as evidenced during the Russia–Ukraine crisis. Utilities offer relative defensiveness, supported by stable cash flows, while real estate remains particularly vulnerable to higher interest rates given its sensitivity to financing conditions.

Taken together, the current macro backdrop suggests that energy could once again emerge as a relative outperformer in 2026, supported by supply-side disruptions stemming from elevated geopolitical risks and structurally tighter commodity markets.

Nonetheless, we do not underestimate the importance of ongoing developments within the information technology and communication services space, where substantial investment in R&D continues to drive value creation in AI and, by extension, sustain positive market sentiment.

The adoption wave is becoming increasingly global. Japan's policy reforms are facilitating AI integration within manufacturing, Europe is deploying stimulus toward grid modernisation to support broader adoption, and China continues to scale aggressively across infrastructure and smart cities, narrowing the gap despite external constraints. Across markets, enterprises are moving beyond pilot phases and deploying AI tools at scale. While the upside remains

compelling, caution is warranted.

From a tactical allocation perspective, however, energy and utilities are likely to remain the most attractive sectors, particularly as investors seek to hedge against the inflationary impact of rising energy prices on portfolio returns.

**Figure 2.2: US Stock Market Performance by Sector**

“Russia–Ukraine Crisis: Déjà Vu?”

Sector	2019	2020	2021	2022	2023	2024	2025	2026YTD
<b>S&amp;P 500 Index</b>	31.5%	18.4%	28.7%	-18.1%	26.3%	25.0%	17.9%	16.7%
<b>Information Technology</b>	50.3%	43.9%	34.5%	-28.2%	57.8%	36.6%	24.0%	27.2%
<b>Energy</b>	11.8%	-33.7%	54.6%	65.7%	-1.3%	5.7%	8.7%	29.1%
<b>Communication Services</b>	32.7%	23.6%	21.6%	-39.9%	55.8%	40.2%	33.6%	33.6%
<b>Industrials</b>	29.4%	11.1%	21.1%	-5.0%	18.1%	17.5%	19.4%	24.3%
<b>Financials</b>	32.1%	-1.7%	35.0%	-10.5%	12.2%	30.6%	15.0%	-0.4%
<b>Utilities</b>	26.4%	0.5%	17.7%	1.6%	-7.1%	23.4%	16.0%	18.1%
<b>Consumer Discretionary</b>	27.9%	33.3%	24.4%	-37.0%	42.4%	30.1%	6.0%	17.9%
<b>Consumer Staples</b>	27.6%	10.8%	18.6%	-0.6%	0.5%	14.9%	3.3%	17.9%
<b>Health Care</b>	20.8%	13.5%	26.1%	-2.0%	2.1%	2.6%	14.6%	0.3%
<b>Materials</b>	24.6%	20.7%	27.3%	-12.3%	12.6%	0.0%	10.5%	11.5%
<b>Real Estate</b>	29.0%	-2.2%	46.2%	-26.1%	12.4%	5.2%	3.2%	0.8%

“Russia–Ukraine Crisis: Déjà Vu?”

Source: Bloomberg, VNL Capital Research

## Valuation Arbitrage: Looking Beyond the US Equity Market

As oil volatility from the escalating Iran conflict ripples through global markets, the divergence in equity valuations across major economies stands out as a key signal for positioning in 2026, separating markets that have rebuilt investor confidence from those still carrying the scars of repeated energy shocks.

Figure 2.3 captures a decade defined by pronounced valuation swings, closely tied to policy cycles and external shocks. From 2017 to early 2020, P/E ratios

across the United States, Euro Area, United Kingdom, China, and Japan moved within a relatively tight range, reflecting synchronised global growth and ultra-accommodative monetary policy.

The narrative shifted materially in 2020. Most markets that initially declined during the pandemic-driven risk-off phase rebounded strongly, supported by massive fiscal stimulus, near-zero interest rates, and aggressive central bank balance sheet expansion.

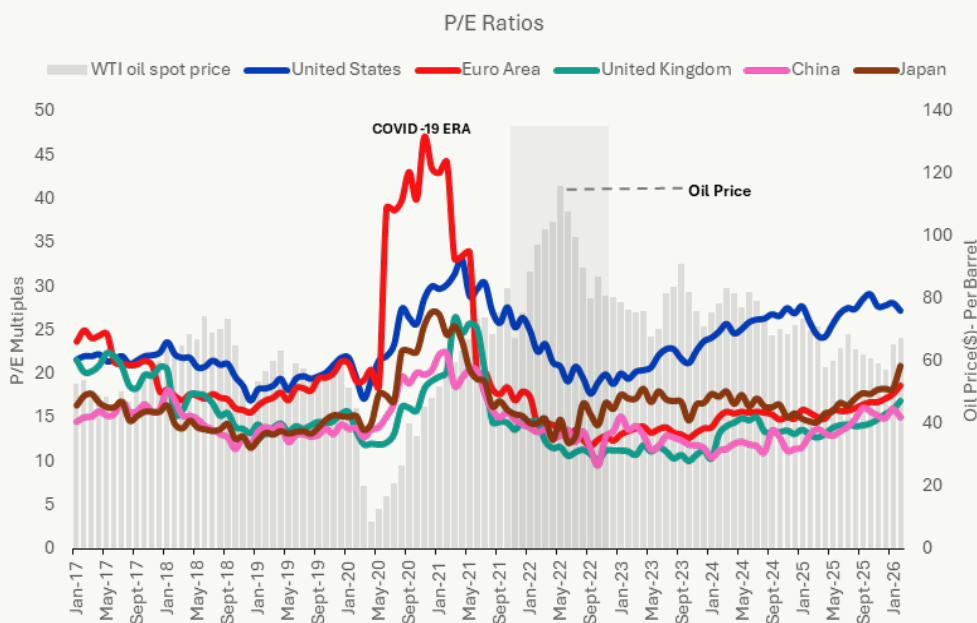
This triggered a broad re-rating between 2020 and 2021, with the Euro Area briefly outperforming on the back of ECB asset purchases and EU recovery programmes. However, more recently, European equities have lagged due to weaker growth dynamics and structural constraints, leaving them relatively more attractively priced compared to the US.

In contrast, the United States proved more resilient, supported by stronger growth and technology sector dominance, while Japan experienced a gradual re-rating as the Bank of Japan exited yield curve control and corporate governance reforms gained traction. These shifts are clearly reflected in relative P/E dynamics.

More specifically, following the 2022 energy shock, aggressive tightening by the Federal Reserve, subsequently matched by the ECB, led to one of the sharpest de-ratings in recent history. Europe was disproportionately affected due to its reliance on Russian gas, which drove inflation higher and necessitated a more restrictive policy response, compressing valuation multiples significantly. The UK followed a similar trajectory amid its own fiscal credibility concerns.

Looking ahead, the trend could begin to reverse. Relative valuations suggest that the US and Japan are now more reasonably priced compared to European and Chinese equities, creating potential opportunities for cross-market allocation as global macro conditions evolve.

**Figure 2.3: Relative Valuations Suggest That The US, China, And Japan Are Well Priced**



Source: Bloomberg, VNL Capital Research

# Tactical Allocation Framework: Positioning for Resilience and Recovery

Against this backdrop, a selective and diversified approach to global equities offers the most compelling risk-adjusted opportunity set for 2026. Energy and utilities remain tactical favourites, continuing the outperformance pattern established during the 2022 shock and reinforced by the current supply-side tightness. These sectors provide natural inflation hedges and stable cash-flow characteristics that cushion broader market volatility.

Complementing this, sustained AI capital expenditure across technology and communication services, now accelerating globally through Japan's manufacturing reforms, Europe's grid modernization initiatives, and China's infrastructure push, underpins long-term growth. While near-term caution is prudent amid elevated oil volatility, the structural adoption wave supports maintaining core exposures.

Regionally, valuation divergences create attractive cross-market opportunities. European equities (Euro

Stoxx 50) and UK equities (FTSE 100) offer relative value after lagging on growth and energy concerns, with defense spending and policy support providing additional tailwinds. Japanese equities benefit from ongoing corporate governance improvements and AI integration, while the U.S. remains a foundational holding for its innovation dominance. Chinese equities warrant selective exposure only for higher-risk-tolerance investors, contingent on further stimulus delivery and property stabilization.

Overall, investors should tilt portfolios toward quality names with robust balance sheets, pricing power, and sector-specific resilience. **History shows that market dislocations of this scale have consistently created attractive long-term buying opportunities. Investors who stay disciplined and avoid knee-jerk, emotion-driven reactions have repeatedly been rewarded with strong multi-year returns following such events.**





## Section C

# Commodities Market

# Gold: Central Banks Drive Accumulation

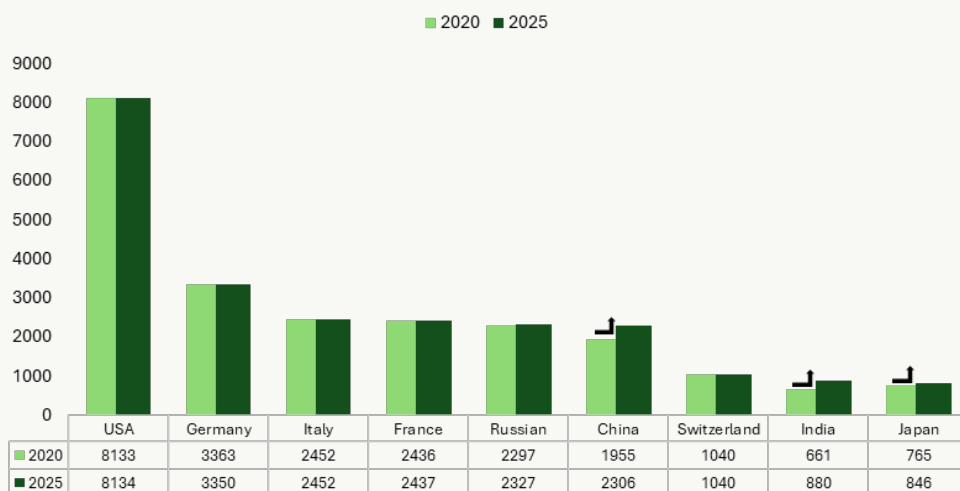


In an era of heightened geopolitical uncertainty and shifting financial alliances, official central bank gold reserves remain concentrated among a select group of nations. While Western holdings have remained largely stable, emerging markets—particularly China and India—have pursued more aggressive accumulation strategies. The United States continues to lead by a wide margin, with Germany, Italy, France, and Russia maintaining their positions among the top holders. Notably, sustained purchases by China and India, alongside Russia’s resilient accumulation

despite external pressures, have added momentum to this trend.

These developments reflect a deliberate shift toward de-dollarisation, enhanced geopolitical risk hedging, and broader reserve diversification. In recent years, emerging economies have collectively increased their gold holdings, gradually diluting the historical dominance of Western nations—although the United States still accounts for a significant share of reported global reserves.

**Figure 3.1: Top Holders of Gold (Tonnes) 2020 vs 2025**



Source: World Gold Council, VNL Capital Research

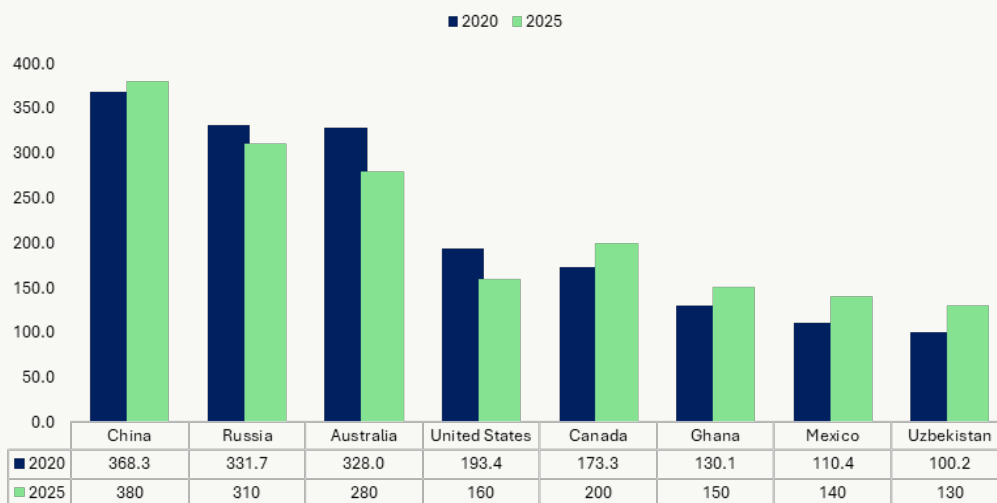
# Major Gold Producers by Country: Mexico Leads Accumulation

As demand for gold rises amid shifting economic and geopolitical conditions, global mine production has recorded only modest growth. Among the top producers shown in Figure 3.2, total output increased marginally, with a CAGR of about 0.17% between 2020 and 2025. Mexico and Uzbekistan recorded the strongest growth over the period, each expanding production at roughly 5% CAGR, while Canada and Ghana posted more moderate increases at about half that pace.

China continues to maintain an upward trajectory in gold production, with output rising by about 11.7 tonnes between 2020 and 2025 to reach approximately 380 tonnes, reinforcing its position as the world’s largest producer. In contrast, traditional heavyweights such as Russia, Australia, and the United States have experienced noticeable declines, highlighting structural constraints and maturity in their mining sectors.



**Figure 3.2: Major Gold Producers by Country (Tonnes)**



Source: World Gold Council, VNL Capital Research

# The Record Gold Trade Rally

The gold futures curve, once a model of quiet stability, has delivered one of the most dramatic reversals in decades.

From 2006 through roughly 2023, the basis (spread) remained largely flat, fluctuating mildly in contango (positive spread). This reflected gold’s classic positive net cost of carry: forgone interest on capital tied up in physical metal, plus modest storage and insurance costs, offset by lease rates earned from lending. In simple terms, the urgency to take physical delivery of gold was low.

However, this equilibrium broke in early 2025, as elevated U.S. interest rates following the post-2022 tightening cycle widened contango conditions sharply. By 2026, the curve inverted aggressively into extreme backwardation, with spot prices exceeding

near-term futures. Market participants became willing to pay a significant premium for immediate physical delivery rather than rely on paper futures. For investors, contango typically creates carry opportunities, offering modest returns for holders of physical metal while signalling expectations of sufficient future supply. Backwardation, in contrast, is a clear signal of near-term scarcity and tends to reinforce price momentum, as participants increasingly secure and hold physical gold.

As gold prices correct from recent record highs, we believe this creates additional entry opportunities for long-term investors. At the same time, a normalisation toward contango is likely to re-emerge, providing scope for relative value strategies—particularly positioning in futures while tactically underweighting spot exposure.

**Figure 3.3: Notable Backwardation in 2026**



Source: World Gold Council, VNL Capital Research



# Central Banks: Buying Gold Despite —or Because of a Weaker Dollar

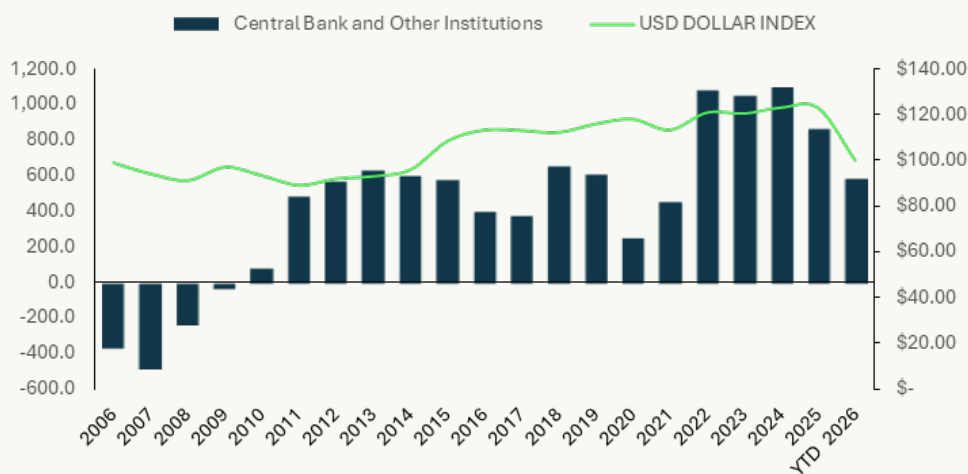
After years of proactive diversification, the shift in 2026 became more pronounced as rising U.S. fiscal deficits, political uncertainty, and a pivot toward rate cuts began to weaken the dollar. Historically, U.S. fiscal deficit-to-GDP averaged about -2.6% between 1950 and 2024. This has now widened significantly, more than double that average as of 2025 when excluding the COVID-induced peak of around -14%, reinforcing concerns around fiscal sustainability. This evolving backdrop is precisely the type of currency risk central banks have been hedging against through increased gold accumulation.

Central banks effectively flipped the script on gold two decades ago. Following a period of net selling between 2006 and 2009, they turned net buyers in 2010 and have remained consistent accumulators since. Purchases accelerated steadily and surged to record levels above 1,000 tonnes annually

between 2021 and 2024, even during a period of dollar strength. Although 2025 recorded a modest moderation to roughly 850 tonnes, momentum has returned strongly in 2026. Within just the first quarter (January–March), central banks have already accumulated approximately 580 tonnes, nearly 70% of the previous year’s total. If this pace is sustained, 2026 is on track to surpass all historical records.

At the same time, the U.S. Dollar Index (DXY) has weakened, extending its decline from 2025 and falling to its lowest level in roughly four years by late January 2026. The index also broke below key technical support levels, reinforcing bearish sentiment. This combination of structural fiscal concerns, currency weakness, and sustained official sector demand continues to underpin the strategic case for gold in global reserve management.

**Figure 3.4: Central Banks Already Accumulated 580 Tonnes in Less Than 3 Months**



Source: Bloomberg, World Gold Council, VNL Capital Research

# More Policy Uncertainty Means More Interest in Gold

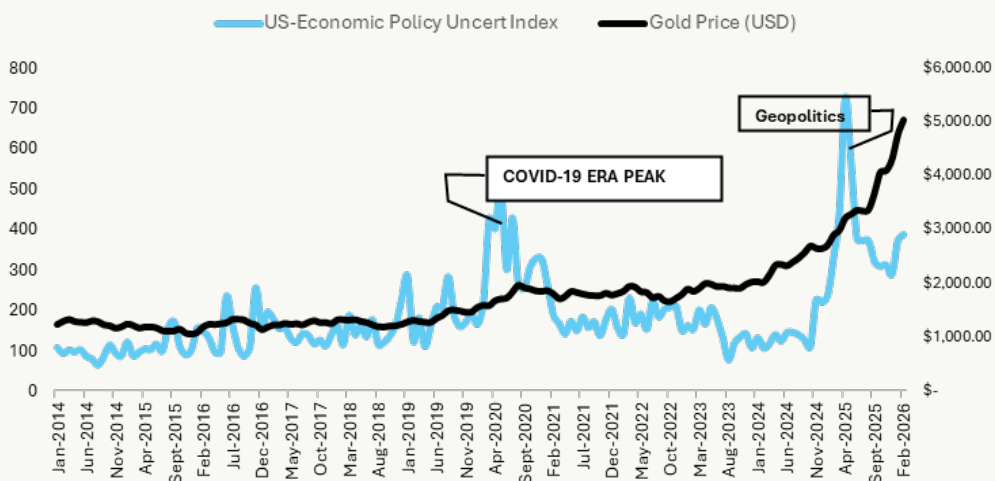
Gold’s structural bull run shows little sign of losing momentum as we move deeper into 2026. A powerful confluence of forces continues to underpin the metal: sustained central bank accumulation, persistent geopolitical risks, particularly tensions in the Middle East, growing concerns around U.S. debt sustainability and an ongoing shift toward broader portfolio diversification.

Interestingly, even as policy uncertainty begins to normalise and trend lower, gold has maintained its upward trajectory. This apparent decoupling reinforces the view that the rally has become increasingly structural, driven less by short-term policy shocks and more by enduring factors such as sovereign accumulation, geopolitical hedging, and global reserve diversification.

Looking more closely, the U.S. Economic Policy Uncertainty Index recorded multiple spikes between 2014 and 2024, modest increases in 2016 and 2019, a sharp pandemic-driven peak in 2020, and a significant surge above 700 in late 2024 before declining sharply through 2025 into early 2026. In contrast, gold prices remained broadly range-bound between \$1,200 and \$1,800 until 2020, before entering a sustained uptrend that accelerated markedly from 2024, reaching record levels close to \$5,000 per ounce by February 2026.

In periods of renewed uncertainty or further geopolitical escalation, additional upside remains plausible. Under a base-case scenario, however, the market is likely to consolidate at these elevated levels, supported by strong underlying structural demand.

**Figure 3.5: Policy Uncertainty Spikes and Gold’s Structural Rally**



Source: Bloomberg, Federal Reserve Bank of St. Louis, VNL Capital Research

# Silver: Unabated Interest Keeps Prices Elevated

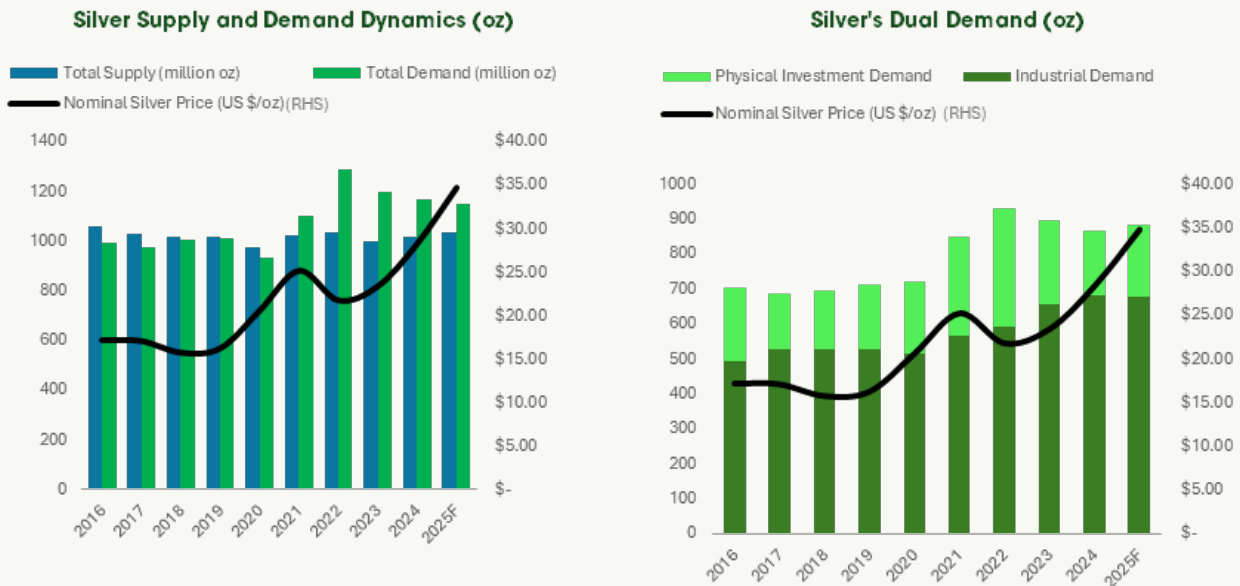
As the global economy accelerates its transition toward a low-carbon future, silver has entered a persistent structural deficit, with demand consistently outpacing supply in recent years. This imbalance continues to provide a strong underlying tailwind for prices. Surging industrial demand, particularly from solar photovoltaics, electric vehicles (EVs), electronics, artificial intelligence infrastructure, and modern power systems, has been the primary driver of this trend.

While silver mine production and recycling activities have recorded modest increases, they

remain insufficient to match the scale of industrial consumption. The supply response has been constrained by long project lead times and limited capacity expansion across key producing regions. As a result, the deficit is expected to persist into 2026, reinforcing upward pressure on prices.

Against this backdrop, silver is likely to remain well supported, as structural demand continues to strengthen on the back of constrained and slow-adjusting supply.

**Figure 3.6: Industrial Demand Continues to Outpace Silver Supply**



Source: Bloomberg, The Silver Institute, VNL Capital Research

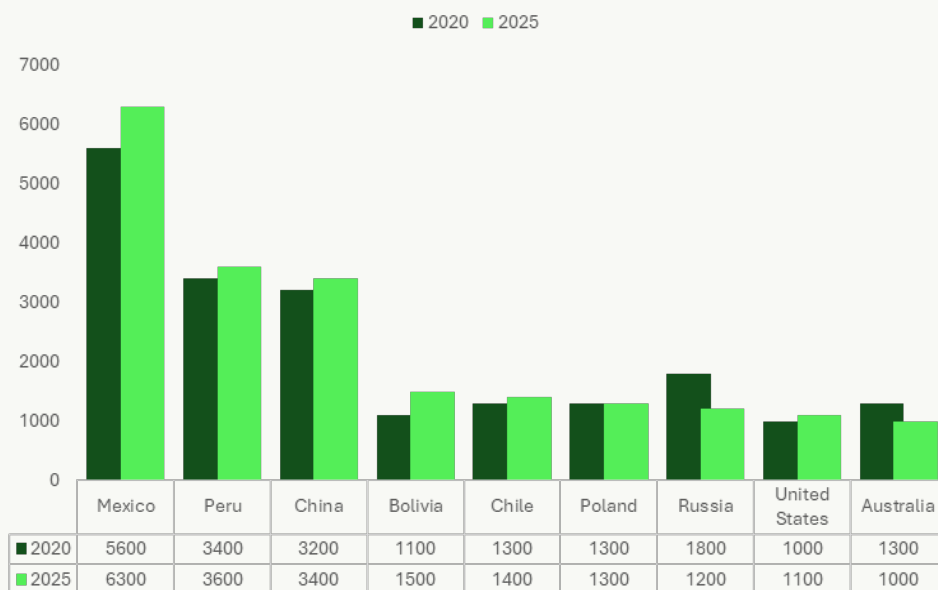


## Structurally Bullish Sentiments for Silver

Despite strong and persistent industrial demand, global silver mine production has expanded at a measured pace, growing by about 0.78% CAGR between 2020 and 2025. Mexico has reclaimed its position as the largest producer in absolute terms (+700 oz), followed by China, Peru, Bolivia, and Chile as key contributors. Notably, Bolivia recorded the fastest production growth, rising by approximately 6.4% CAGR over the period.

The overall increase in output has been largely driven by Mexico's recovery at key operations, alongside targeted expansions and improved recovery rates in countries such as Australia, Bolivia, and the United States. These gains have more than offset production declines in Russia and parts of Australia. Over the longer term, however, primary silver mining continues to trend downward, with a growing share of global supply increasingly dependent on by-product output from base-metal mining activities.

**Figure 3.7: Top Silver Producers by Country (oz)**



Source: Bloomberg, The Silver Institute, VNL Capital Research



# Record High Spread Signals Intense Near-Term Demand

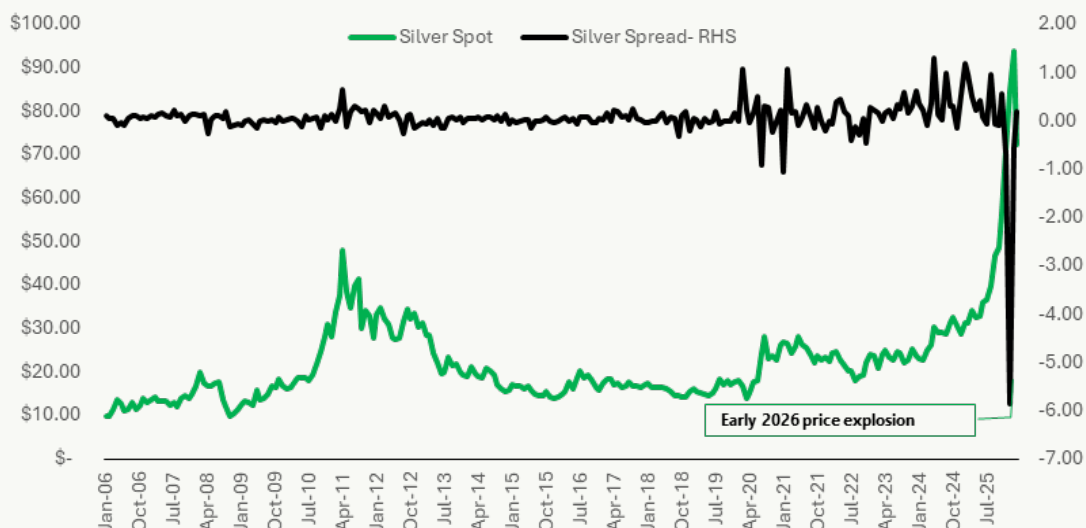
In the fast-moving silver market, the spread between spot and forward prices serves as a more volatile and sensitive indicator of stress than in gold, quickly revealing whether the market is in contango or the more urgent state of backwardation. Silver typically tracks gold’s direction but with amplified price movements. Historically, the market has operated in contango, with futures priced above spot to reflect storage, insurance, and financing costs. However, persistent structural deficits have recently compressed the curve and pushed it into clear backwardation.

As of early 2026, near-term contracts are trading at a premium to longer-dated futures, highlighting

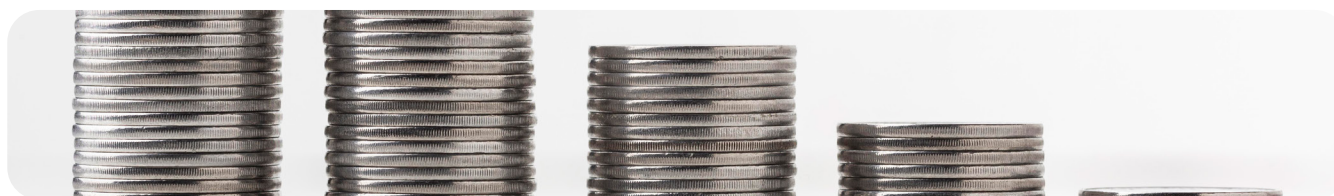
strong immediate demand for physical metal. While contango generally signals expectations of sufficient future supply and supports carry strategies, backwardation sends a stronger signal of near-term scarcity. It incentivises both investors and industrial users to secure physical silver immediately rather than rely on future delivery.

Although such conditions can sometimes precede short-term price corrections, the broader outlook remains bullish. For long-term investors, the underlying fundamentals, anchored on structural demand and constrained supply, continue to point to an upward bias in prices.

**Figure 3.8: Silver’s Trade Rally**



Source: Bloomberg, The Silver Institute, VNL Capital Research



# Overvalued Relative to Gold

Looking ahead into 2026, the outlook for silver remains constructive, supported by persistent structural deficits and strong industrial demand. However, the signal from the gold-to-silver ratio suggests that the case for immediate outperformance may be less compelling. While the ratio has moderated from extreme highs near 100x, it still trades above its long-term more than 60x, indicating that silver is not yet meaningfully cheap relative to gold.

Historically, the most powerful phases of silver outperformance have occurred when the ratio is elevated and beginning to compress. At current levels in the mid-to-high range, the ratio instead

a more neutral positioning, with gold relatively more attractive, particularly in an environment still characterised by macro uncertainty, geopolitical risks, and demand for safe-haven assets.

While silver continues to benefit from its dual role as both a monetary and industrial metal, especially amid the expansion of the green economy, investors should remain cautious taking tactical moves. The ratio's position implies that further compression may be limited in the near term, and any mean reversion could just as easily occur through gold outperforming or silver underperforming.

**Figure 3.9: ...Although, Valuation Is in Favour of Gold**



Source: Bloomberg, VNL Capital Research



# Oil Market : The US Ramps Up Production for Strategic Reasons



Geopolitical tensions and deliberate supply management have kept the global oil production landscape relatively stable in recent years. The United States has maintained its position as the dominant producer, with resilient shale output helping to offset supply restraint from key OPEC+ members. Meanwhile, other major producers such as Saudi Arabia, Russia, and China have recorded declines in output, driven by a mix of export restrictions, coordinated supply management to prevent oversupply, and reduced upstream investment amid the growing shift toward electric vehicles.

In Venezuela, production continues to face structural constraints stemming from prolonged political instability, recurring leadership disputes, international sanctions, and chronic underinvestment in oil infrastructure. These factors have significantly limited the country's ability to respond to higher global prices.

More recently, these underlying supply constraints

have been sharply amplified by escalating tensions in the Middle East. The conflict involving Iran, the United States, and Israel has severely disrupted energy flows, with the Strait of Hormuz, through which roughly one-fifth of global oil supply passes, effectively constrained. This disruption has removed millions of barrels per day from global supply and forced production cuts across major Gulf producers, tightening market conditions significantly.

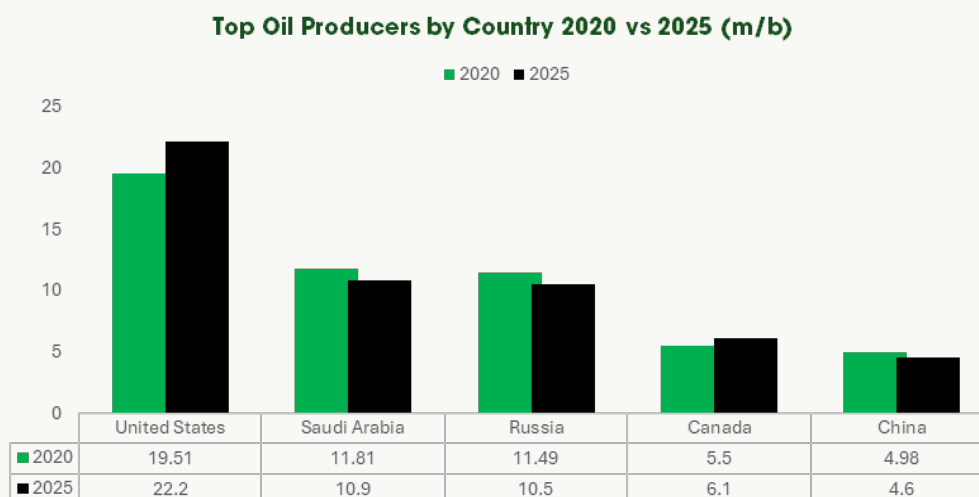
In response, the global oil system is rapidly adapting. Producers such as Saudi Arabia have redirected exports through alternative routes like the East-West pipeline to the Red Sea, while shippers are increasingly rerouting cargoes around Africa or relying on pipeline networks to bypass chokepoints. However, these adjustments come with higher transportation costs and logistical inefficiencies, reinforcing upward pressure on prices.

Against this backdrop, the United States is strategically positioned to benefit. Elevated prices

## Commodities Market

and supply disruptions create incentives for increased shale production, although structural constraints such as capital discipline and limited spare capacity may cap the pace of expansion. Overall, the current environment underscores a shift from surplus expectations to a more fragile and geopolitically sensitive oil market, where supply shocks can have immediate and outsized impacts on global prices.






**Figure 3.10: Global Oil Production Shifts: Major Producers in 2020 vs 2025**



Source: Energy Information Administration (EIA), VNL Capital Research

The most exposed economies to the middle east crisis include Europe and Asia’s major importers, where sharply higher freight and insurance costs have weighed heavily on supply chains; China, Japan and India remain highly vulnerable due to their heavy reliance on Gulf crude.

**Figure 3.11: Japan, India & China are the most dependent on the Middle East of oil imports**

Rank	Economy	Nominal GDP (USD trn)	Share of Global GDP	% of Oil Imports from Middle East
1	Japan 	4.3	3.75%	>90.0%
2	India 	4.1	3.40%	57.5%
3	China 	19.4	16.50%	50.0%
4	United States 	30.6	26.00%	11.0%
5	Germany 	5.0	4.25%	7.5%
			53.90%	

Source: The International Monetary Fund (IMF), VNL Capital Research, Energy Information Administration (EIA)

# Global Oil Market Disruption in Favour of Strategic Suppliers

As the Middle East conflict escalates into one of the most disruptive events in recent energy history, global oil markets are facing acute supply shocks against a backdrop of modest demand growth and resilient non-OPEC production. In the near term, supply has been severely impacted, with global output projected to decline by roughly eight million barrels per day in March 2026. This is largely driven by the effective disruption of flows through the Strait of Hormuz, forcing key Gulf producers to scale back production significantly.

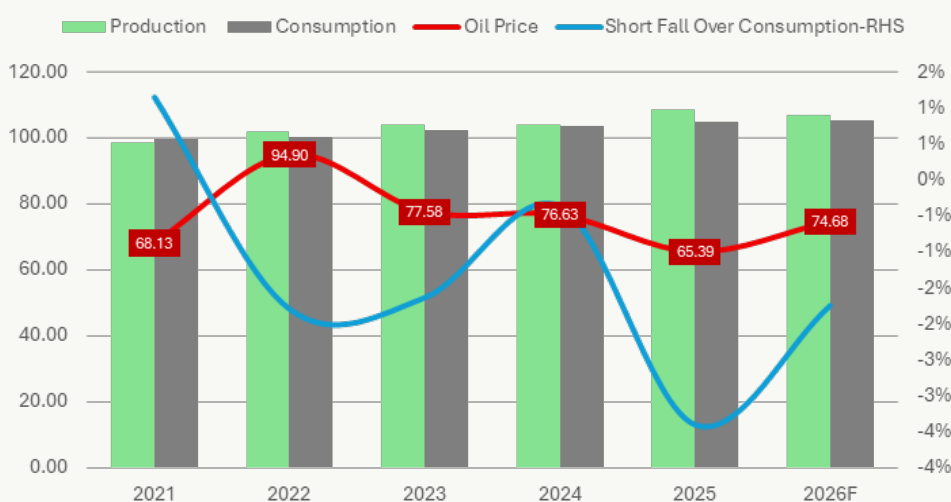
This shock has created one of the largest supply shortfalls in recent history, particularly given the limited alternative routes available for exporters heavily reliant on the Strait of Hormuz. The lack of immediate substitution channels has amplified the severity of the disruption, tightening market

conditions and increasing price volatility.

Prior to the escalation, OPEC had maintained a relatively optimistic demand outlook, projecting global oil demand growth of around 1.4 million barrels per day in 2026, largely driven by non-OECD economies such as China and India, while OECD demand growth was expected to remain subdued at approximately 150,000 barrels per day.

Looking ahead, the trajectory of the oil market in 2026 and beyond will depend critically on the evolution of the conflict. A prolonged disruption is likely to sustain tight supply conditions and elevated prices, benefiting strategic suppliers with spare capacity or alternative export routes, while further intensifying the fragility of global energy markets.

**Figure 3.12: Global Oil Demand and Supply Dynamics (Million bbls per day)**



Source: Energy Information Administration (EIA), VNL Capital Research

# Commodity Risks: Geopolitical Supply Shocks and Secondary Demand Pressures

The March 2026 escalation of the U.S.–Iran conflict and the resulting disruption of Strait of Hormuz flows have re-introduced acute volatility across the commodities complex.

Gold and silver, while structurally supported by central-bank buying and green-energy demand, could experience short-term corrective pressure

if the U.S. dollar rebounds on delayed rate cuts or renewed fiscal tightening. Silver’s industrial tailwind (solar, EVs, AI infrastructure) may moderate if higher energy costs slow global growth. These risks mirror the 2022 Russia–Ukraine shock, yet past cycles confirm that disciplined holders of structurally bullish assets are typically rewarded once supply routes stabilise and safe-haven demand reasserts itself.

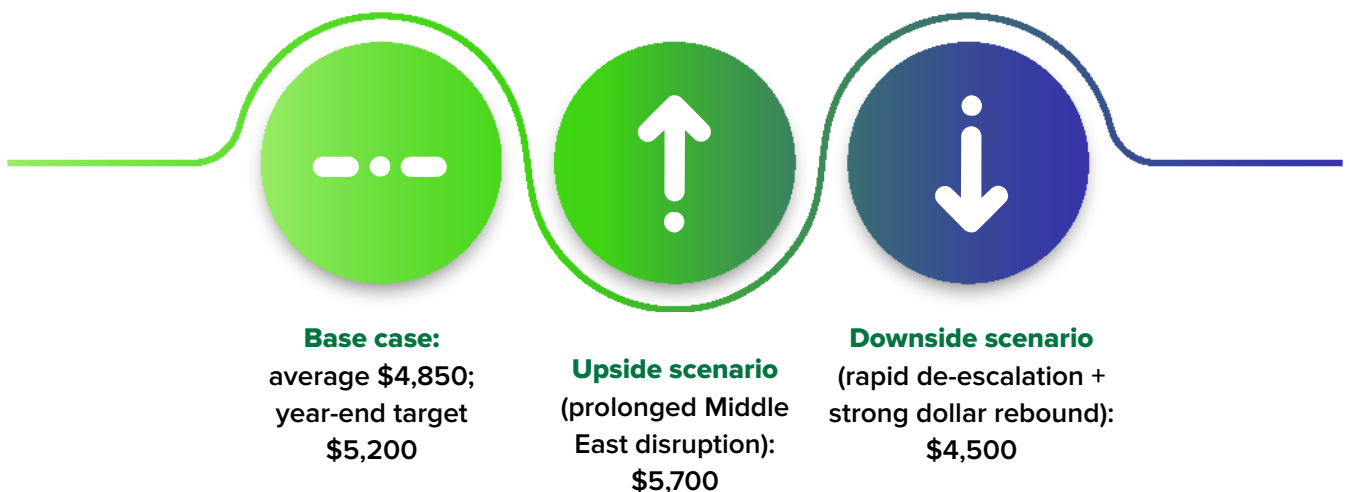


## Commodities Outlook and Tactical Positioning: Gold Price Targets

The structural bull case for gold remains firmly intact, underpinned by record central-bank accumulation (already 580 tonnes in Q1 2026), persistent de-dollarization, and geopolitical hedging.

Despite trading near all-time highs around \$5,000/oz in early 2026, we see limited downside risk and clear scope for further upside. Gold 2026

### Gold Price Targets for 2026:



# What's next in 2026?

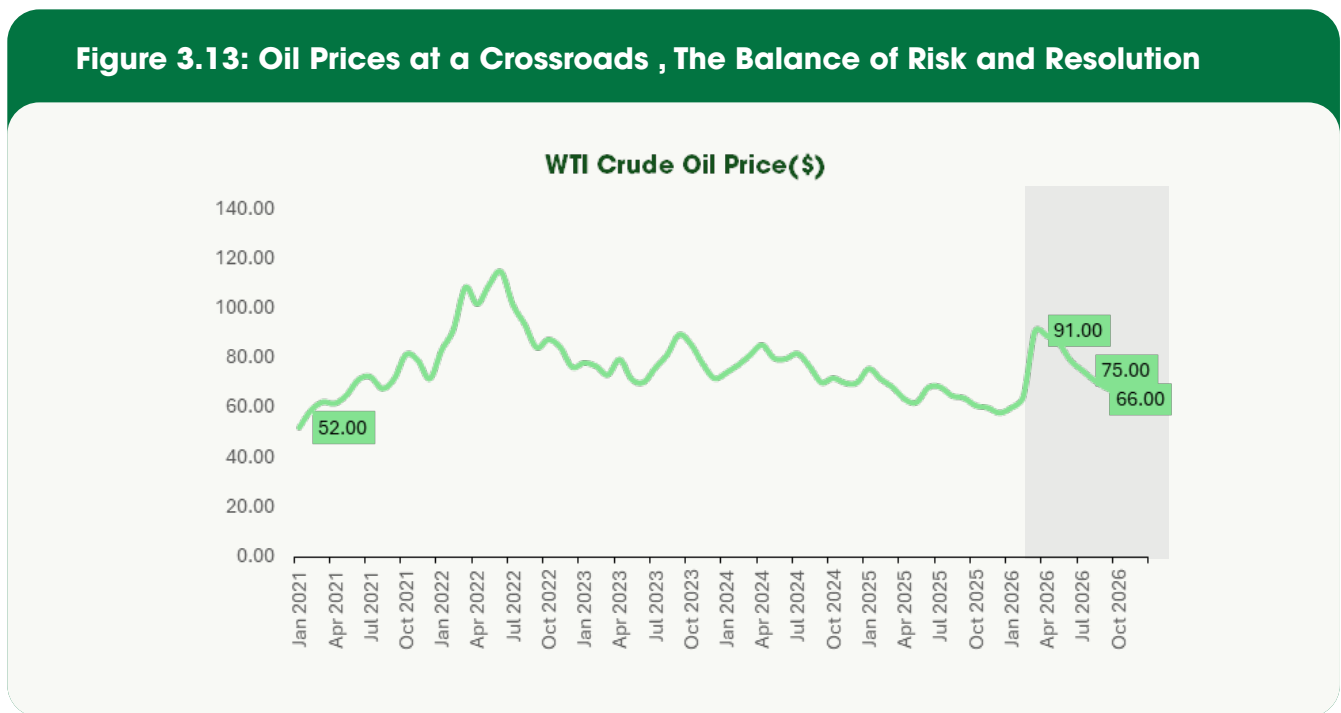
Oil prices have surged by over 80% year-to-date, reaching their highest levels since the Russia–Ukraine conflict in 2022. As the Middle East crisis continues to cast a long shadow over global energy markets, the outlook for oil prices in 2026 hinges critically on the pace of de-escalation and the resilience of alternative supply sources.

In the base-case scenario, Brent crude is expected to average in the upper \$70s by mid-year, before easing further toward \$66 by year-end as supply disruptions gradually unwind and continued growth in non-OPEC+ production helps offset earlier losses. This

assumes partial restoration of flows and improved logistical adjustments across key export routes.

In a downside scenario, characterised by a prolonged disruption of the Strait of Hormuz, prices could remain elevated above \$100 per barrel for an extended period, driven by sustained supply outages and elevated geopolitical risk premiums. Overall, prices are likely to average above \$70 for the year, supported by persistent tensions, even as robust non-OPEC+ supply growth provides an important stabilising buffer.

**Figure 3.13: Oil Prices at a Crossroads , The Balance of Risk and Resolution**



Source: Energy Information Administration (EIA), VNL Capital Research





## Section D

# Global Fixed Income Market Outlook

# Advanced Economies Fixed Income Market

## Navigating Record Debt Levels: Key Insights from 2025's Global Fixed Income Landscape

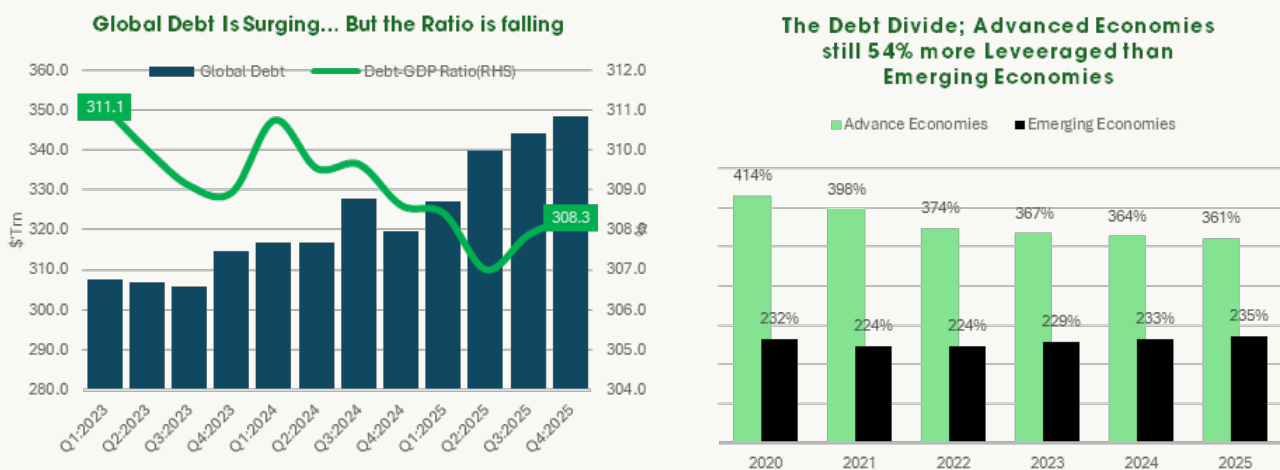
Global debt reached a record \$348 trillion by the end of 2025, rising by \$29 trillion—the fastest pace since the pandemic years. Governments were the primary drivers, borrowing over \$10 trillion to finance persistent fiscal deficits, strengthen defence spending, fund artificial intelligence initiatives, and support infrastructure development. The United States, China, and the euro area accounted for roughly three-quarters of this increase, pushing total sovereign debt to about \$106.7 trillion.

Despite this surge in absolute terms, the global debt-to-GDP ratio declined for the fifth consecutive year, easing slightly to around 308% in 2025 (Figure 4.1).

This improvement was largely driven by advanced economies. However, the headline figure masks a growing divergence. Emerging markets saw their debt ratios rise marginally, reaching a new high above 235% of GDP.

The decline in the global ratio was driven primarily by the private sector, where debt levels have fallen below pre-pandemic peaks, reflecting subdued corporate borrowing amid elevated interest rates and weaker growth prospects. In contrast, public debt continues to trend higher, supported by persistent fiscal deficits averaging around 5% of GDP globally.

**Figure 4.1: Global Solvency is Reversing Again**



Source: Institute of International Finance (IIF), VNL Capital Research

# Debt Stock Share: The US Accounts for More Than One-Third

For the **United States**, the primary driver was the massive fiscal response to the COVID-19 pandemic. Successive stimulus packages, the CARES Act (2020) and the American Rescue Plan (2021), injected trillions of dollars into households, businesses, and state governments. This was followed by continued spending on infrastructure (IIJA 2021), defence, and rising interest costs on an already large debt stock. As a result, U.S. debt continued to expand broadly in line with global trends, while maintaining its dominant share.



**China's** acceleration reflects deliberate domestic policy choices. Authorities provided extensive support to local government financing vehicles, infrastructure, and state-owned enterprises during repeated lockdowns, alongside large-scale interventions to stabilise the property sector following the Evergrande crisis. This drove the most significant increase among major economies, lifting China's share of global government debt from roughly 13% to about 17.5% within five years.



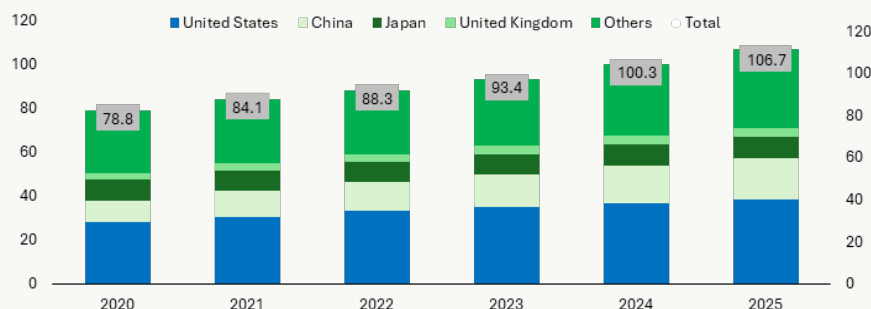
**Japan's** relatively modest increase in debt reflects its long-standing fiscal framework. Persistent deficits to support an ageing population, combined with ultra-low interest rates and strong domestic ownership of government bonds, have allowed borrowing to rise gradually with limited market pressure. As a result, debt levels increased moderately, leaving Japan's global share broadly stable.



**The United Kingdom** followed a typical pandemic and post-pandemic trajectory. Fiscal support through furlough schemes, elevated healthcare spending, and energy subsidies during 2021–2022 drove initial increases, followed by a more restrained fiscal stance amid higher interest rates. While debt has risen steadily over the past five years, the UK continues to represent a relatively small share of global government debt.



Figure 4.2: Contributors to Government Debt(\$Trn)



Source: Institute of International Finance (IIF), VNL Capital Research

## Sticky Prices: Sovereign Yields Ignore Decelerating Inflation

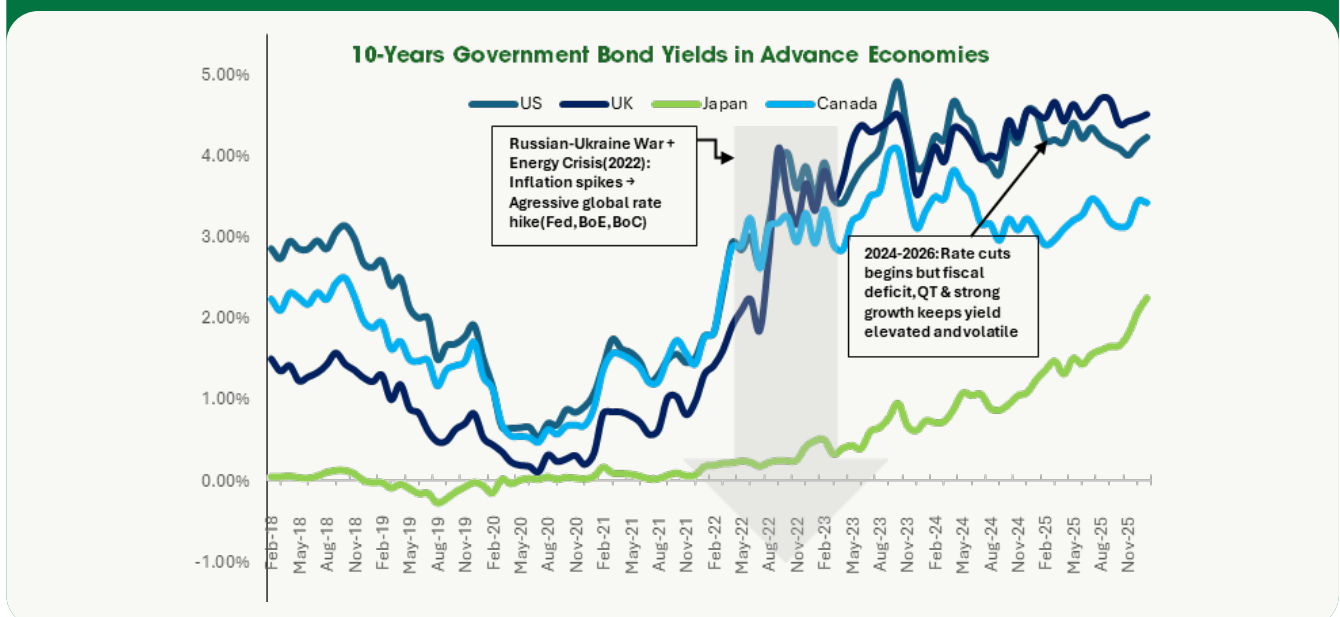
In the current environment, government bond yields in the major advanced economies have remained stubbornly elevated even as headline inflation has cooled considerably from its 2022 peaks. In the United States, the 10-year Treasury yield sits at 4.20% as of mid-March 2026, well above pre-pandemic averages. This stickiness stems primarily from the heavy hand of fiscal dominance: according to the Congressional Budget Office’s latest projections, the federal deficit is expected to reach \$1.9 trillion, or 5.8% of GDP, in fiscal 2026, with debt held by the public climbing from 101% of GDP this year to 120% by 2036. The sheer volume of Treasury supply required to finance these persistent shortfalls has limited the scope for meaningful yield compression despite more moderate inflation readings.

A similar pattern is evident across other advanced economies. In the United Kingdom, 10-year gilt yields have held around 4.65%, supported by public sector net borrowing that the Office for Budget Responsibility projects at 4.3% of GDP for the current fiscal year, with net debt expected to stabilize near 95% of GDP into the early 2030s.

Canada’s 10-year benchmark yield stands at approximately 3.50%, reflecting federal deficits that have recently hovered in the 2.2–2.5% of GDP range and a broader public debt trajectory that continues to edge higher. In both markets, the combination of elevated borrowing requirements and reduced central bank support for government debt markets has reinforced higher real rates and term premium, constrained monetary policy flexibility and kept the yield curve anchored at higher levels than inflation trends alone would suggest.

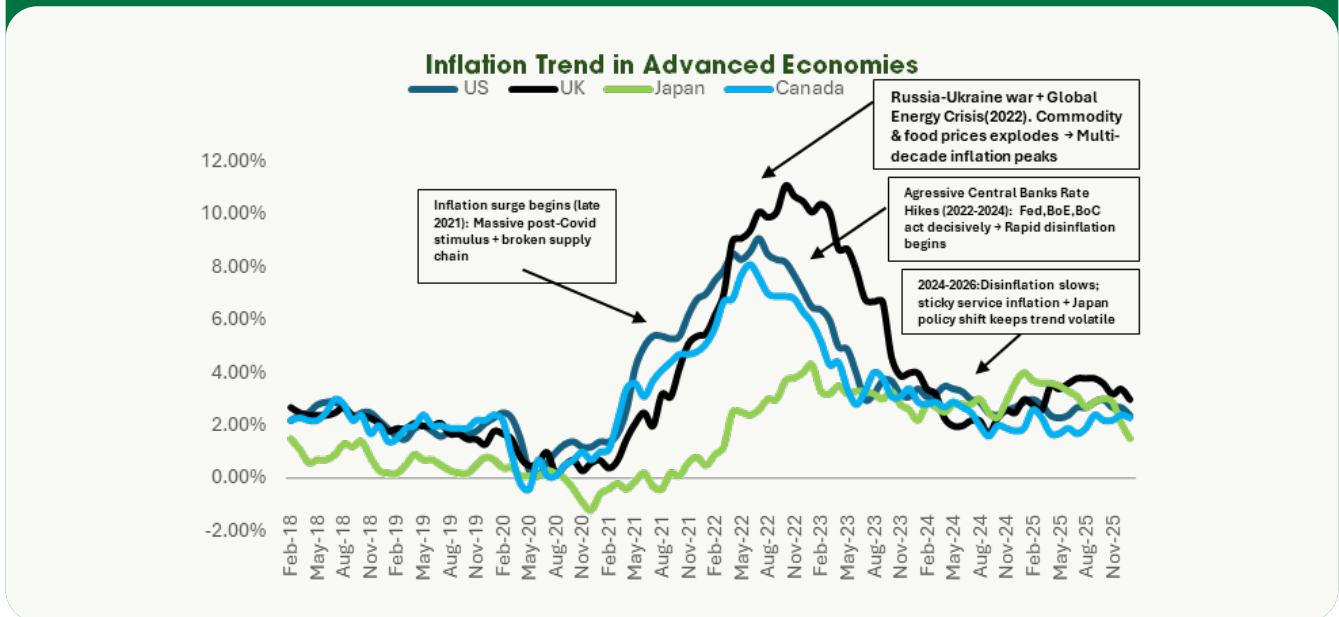
Japan represents a particularly instructive case of this evolving dynamic. Having emerged from decades of yield-curve control, the 10-year JGB yield has risen to around 2.19%, a level once unthinkable, even as general government gross debt remains extraordinarily high at over 230% of GDP. While nominal growth and some fiscal consolidations have allowed the debt ratio to stabilize or modestly decline in recent years, the normalization of monetary policy and sustained issuance pressures are embedding higher yields into the Japanese curve.

Figure 4.3a: Sovereign Yields Are Sticky Despite Disinflation



Source: The International Monetary Fund (IMF), VNL Capital Research

Figure 4.3b: Sovereign Yields Are Sticky Despite Disinflation



Source: The International Monetary Fund (IMF), VNL Capital Research

## What Next for Investors

After the sharp widening in 2022 (driven by inflation shocks and the Russia-Ukraine energy crisis), credit spreads tightened relentlessly from late 2023 through mid-2025. High-Yield Option Adjusted Spread (OAS) fell from peaks above 5.5% to multi-year lows near 2.70%, while Investment-Grade spreads compressed to sub-80bp territory.

This tightening reflects massive institutional demand for credit as they traded at extreme discount. With government bond yields stuck at 4–5% and equities looking expensive in relative terms after the AI-driven rally, investors have poured capital into corporate

bonds for the extra carry. The “soft landing” narrative, aggressive central-bank rate cuts, and resilient corporate earnings all reinforced the view that default risk remains low. Spreads have significantly compressed to levels that price in almost perfect economic conditions.

Yet the late-2025 uptick visible on the chart (HY reaching 3.19% again) signals that the party may be losing steam. The 2025 “Liberation Day” tariff announcements and subsequent equity correction introduced fresh uncertainty, reminding markets that policy shocks can still trigger repricing.



## The Valuation Reality: Stretched and Vulnerable

At current levels, credit spreads offer limited margin of safety. Historical data shows that when HY OAS trades below 3.0% for sustained periods, forward 12-month returns have been modest at best, and negative when any macro shock materializes. The combination of:

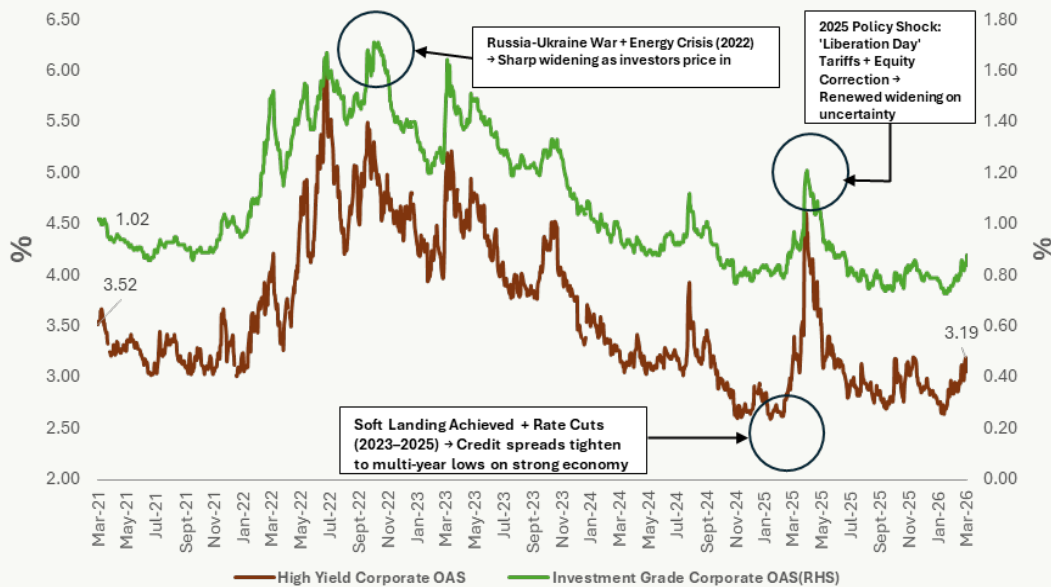
Record-high corporate leverage (enabled by cheap debt in 2020–2021),

Elevated government debt issuance crowding out some private borrowers, and

10-year yields that refuse to fall materially

has left the credit market with stretched valuations and limited upside. New capital entering today is buying at prices that leave very little room for a massive upside.

Figure 4.4: Spread Still New Record Low



Source: Federal Reserve of St. Louis, VNL Capital Research



## What Next for Investors? Two Very Different Playbooks

### 1

#### For Existing Investors Already in the Market

This is a fortunate position of having locked in higher yields earlier. Strategy should now shift from “buy and hold” to active risk management:

- a. Take selective profits on the tightest names (BBB-rated IG and BB-rated HY) where spreads offer <100bp of excess carry versus historical norms.
- b. Rotate into higher-quality, shorter-duration credit to reduce duration risk while yields remain elevated.
- c. Maintain dry powder (10–15% of credit allocation) to deploy on the next 50–100bp widening, which we believe is probable in the next 6–12 months if tariff effects or fiscal concerns intensify.

### 2

#### For New Investors Entering Now

The window of easy returns has largely closed. New capital faces materially lower expected returns and higher downside risk:

- » Expect limited opportunity in the near term. At these spread levels, the risk-reward skews negative unless you have a high conviction on a continued soft-landing scenario with no policy shocks.
- » Wait for a correction. We anticipate a 75–150bp widening in HY OAS sometime in late 2026 or 2027 — triggered either by renewed inflation fears, higher-for-longer fiscal dominance, or a growth slowdown. That is when attractive entry points will reappear.
- » Start small and selective. If you must deploy now, focus exclusively on the highest-quality IG names with strong balance sheets and low refinancing needs over the next 24 months. Avoid chasing yield in the lower-rated segments.

### Bottom Line

The OAS chart is not just a credit story, it is the market’s verdict on a world of high debt, elevated yields, and cooling-but-sticky inflation. Investors have crowded into corporate credit because government bonds no longer deliver enough income and equities look rich. That crowding has driven spreads to extremes, leaving the market vulnerable to any fresh uncertainty.

Existing players should protect gains and prepare for volatility. New players should stay patient for the next attractive entry that will come.



# Emerging Market Bonds: Record tightening spreads in Africa... What next?

## Oil price stability over volatility



African sovereign bonds remain highly sensitive to commodity price movements, inflation expectations, and the direction of U.S. fiscal and monetary policy, as well as geopolitical developments in the Middle East. Bond yields across the region declined notably in 2016–2017, driven by falling inflation, accommodative global monetary conditions, and an aggressive search for yield by investors. However, this trend reversed sharply following the emergence of Donald Trump and expectations of expansionary fiscal policy in the U.S., which pushed yields higher. The U.S. 10-year yield rose to around 3% in 2018 from below 2% just two years earlier, triggering a repricing across global fixed income markets.

Within the Eurobond space, many African economies were already facing fiscal strain between 2014 and 2016 due to the commodity price collapse. This left them vulnerable to capital flow reversals and bond selloffs as global yields rose. Although oil prices recovered gradually between 2017 and 2018, bond performance remained volatile, particularly following the U.S. withdrawal from the Iran nuclear deal in May 2018, which disrupted energy markets and led to a modest decline of about 3% in African bond prices. Notably, while COVID-19 triggered a sharp fall in oil prices, its impact on bond markets was less severe than the sustained sell-off observed during the

2022–2023 Russia–Ukraine crisis.

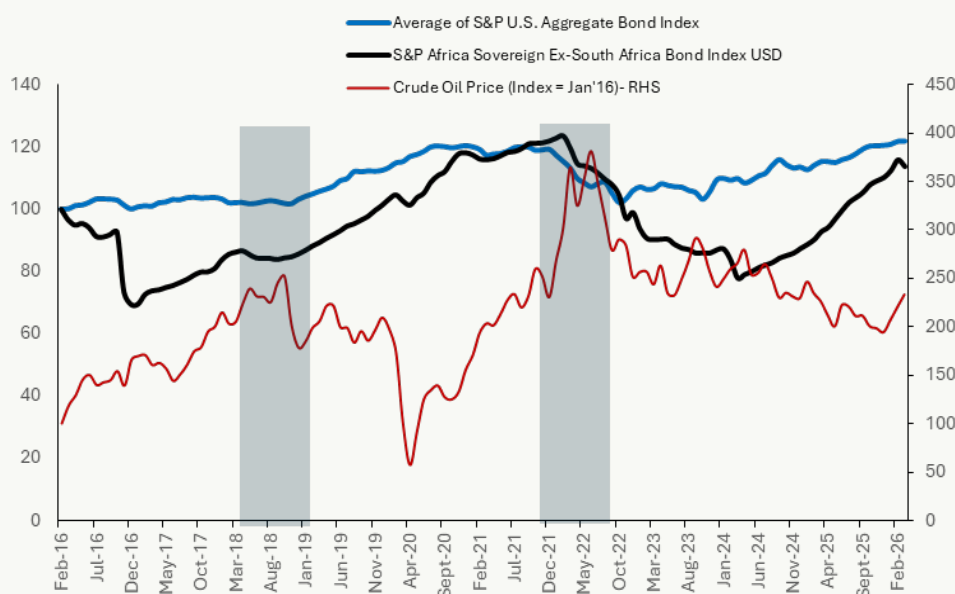
This divergence highlights a key point: the pre-existing fiscal condition of African economies largely determines investor response during periods of global uncertainty. The 2021–2023 drawdown was primarily driven by heightened fiscal vulnerabilities, as many countries expanded deficits significantly between 2020 and 2022 to cushion the economic impact of the pandemic.

The year 2024 marked a turning point for high-yield bond investors. The Africa bond index rebounded by approximately 46% from its trough, supported by easing inflation and growing expectations of a global monetary policy pivot. In addition, several economies implemented reforms aimed at strengthening fiscal discipline and enhancing policy credibility, further restoring investor confidence.

Overall, the evidence is clear: spikes in oil prices that feed into inflation and amplify policy uncertainty tend to be detrimental to high-yield bonds such as African Eurobonds. Stability in oil markets, rather than sharp volatility, remains a more supportive backdrop for bond performance, regardless of the direction of price movements.

**Figure 4.5: Africa Bond Returns Rebounded Strongly in 2024 After the 2021–2023 Drawdown**

### US Bond Index, Africa Bond Index vs Crude Oil Price



Source: Standard & Poor, Fed St. Louis, VNL Capital Research

## SSA Eurobond Rotation: G-Spread Compression as Capital Shifts in Speculative Bonds

Amid limited opportunities in advanced economies, where elevated sovereign debt levels, historically tight credit spreads, and relatively high government bond yields have left long-duration assets less attractive, investor interest in Sub-Saharan Africa (SSA) Eurobonds has increased markedly. This reflects a broader risk-on rotation, as capital seeks improved risk-adjusted returns away from stretched valuations in developed markets.

This shift is clearly evident in SSA Eurobond yield and spread dynamics across key issuers such as Kenya, Egypt, Angola, and Nigeria. Kenya's Eurobond yield declined from 16.2% in July 2022 to 9.8% by January 2026, with spreads over U.S. Treasuries compressing from 13.0% to 5.0%. Egypt recorded an even sharper adjustment, with yields falling from 17.7% in June 2023 to 7.8%, while spreads tightened from 13.8% to 3.6%.

Angola's estimated G-spread narrowed from 10.0% in December 2023 to 4.6%, and Nigeria's spread compressed significantly from 11.7% in November 2022 to 2.4% by January 2026.

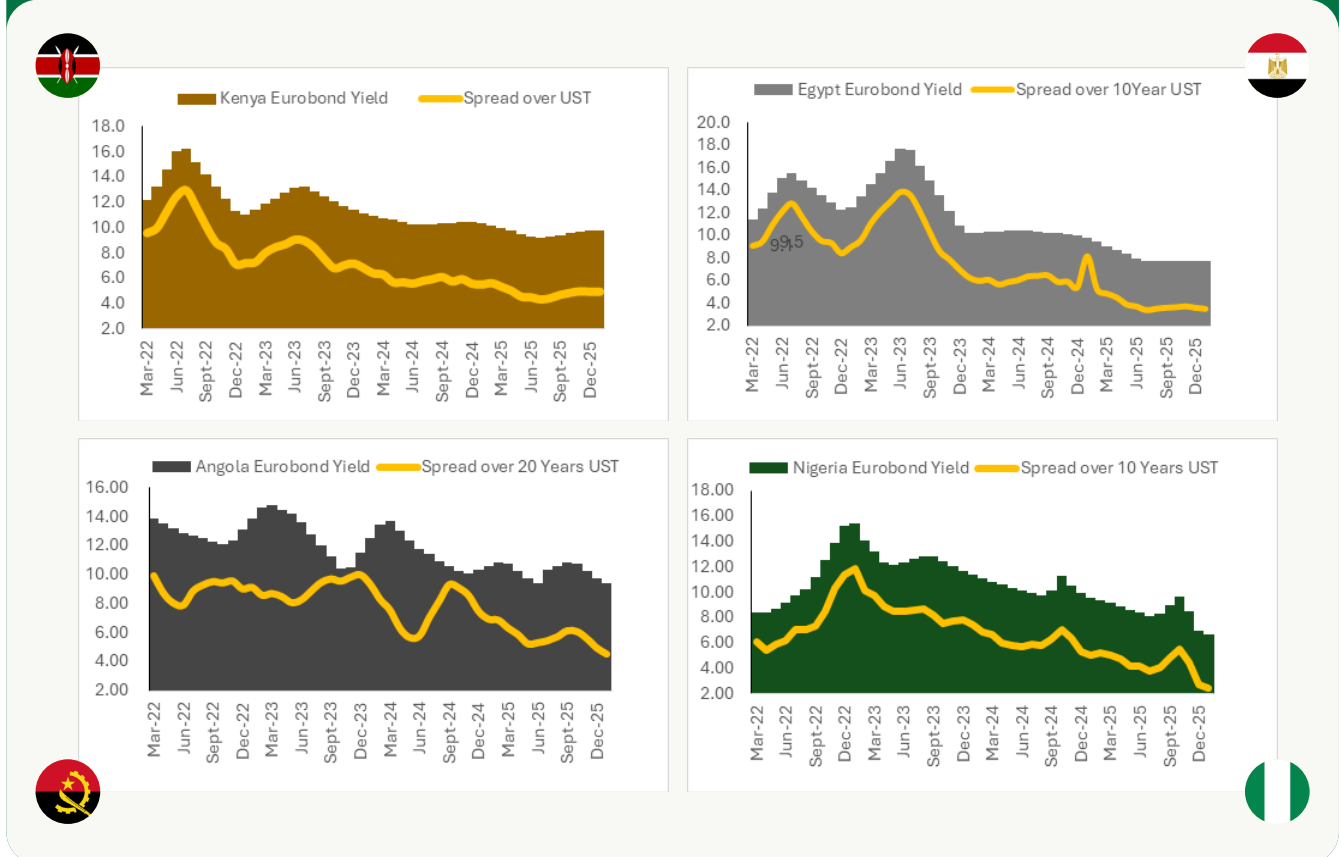
These sustained compressions are closely linked to post-Russia–Ukraine crisis reforms implemented across these economies. Egypt progressed with exchange rate liberalisation and expanded its IMF programme; Nigeria undertook major reforms including fuel subsidy removal and exchange rate unification; while Kenya and Angola advanced fiscal consolidation and strengthened debt management frameworks under IMF-supported programmes.

These policy adjustments have begun to receive formal recognition from rating agencies. Nigeria secured a Moody's upgrade from Caa1 to B3 in 2025,

## Global Fixed Income Market Outlook

while Egypt was upgraded by S&P from B- to B in October 2025. Overall, the compression in spreads reflects both improved macroeconomic fundamentals and renewed investor confidence, reinforcing SSA Eurobonds as an increasingly attractive segment within the global fixed income landscape.

**Figure 4.6: A Major Reversal Is Likely in The Near Term**



Source: CBonds, VNL Capital Research

## Specifics: Macro Convergence Driving SSA Eurobond Re-rating

### Monetary Policy Normalization: From Aggressive Defense to Differentiated Easing

Inflation spikes forced central banks into synchronized tightening between 2022 and mid-2025. Nigeria was the most hawkish, lifting its Monetary Policy Rate to a cycle peak of 27.5% before delivering its first 50bp cut to 26.5% in February 2026. Egypt pushed its overnight deposit rate to 27.25% at the height of the crisis, then began aggressive normalization with multiple 100bp cuts, reaching 19.0–19.5% in February 2026 alongside a reserve-requirement reduction to 16%.

## Global Fixed Income Market Outlook

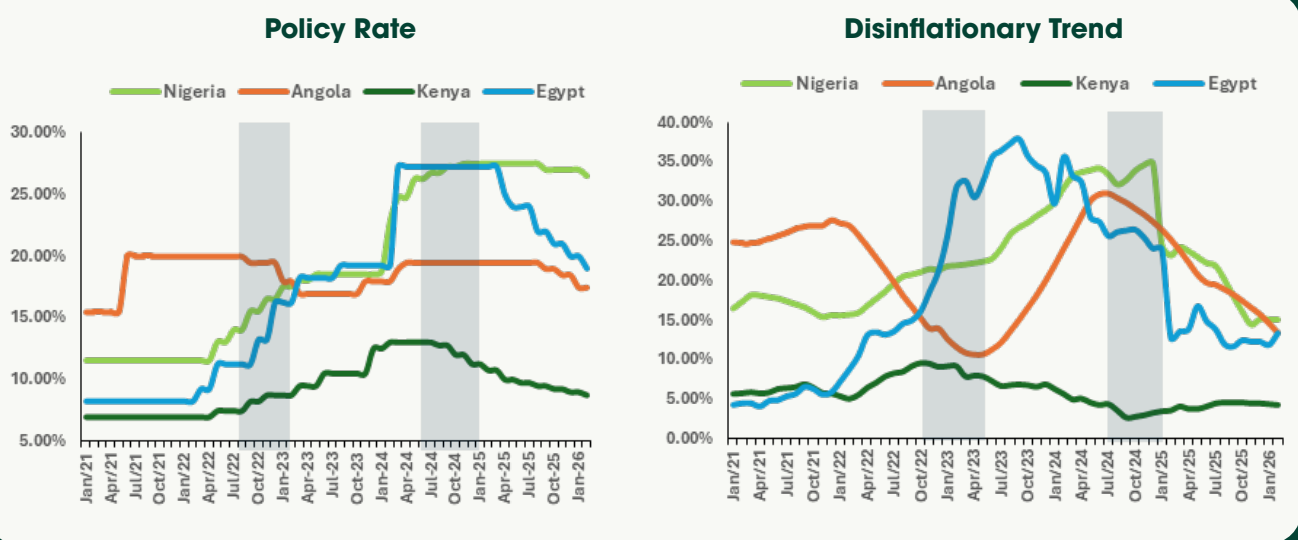
Angola tightened to around 21% before pivoting earlier in 2026, cutting 100bp to 17.5% (held in March) to shift emphasis from currency defense to non-oil credit support. Kenya hiked to a 12-year high near 13.0% but moved earliest and most consistently into easing. Its tenth consecutive cut in February 2026 brought the Central Bank Rate to 8.75%, explicitly to stimulate private-sector lending amid still-elevated global oil prices. This differentiated easing across the region has lowered domestic borrowing costs, supported GDP momentum, and contributed meaningfully to the tightening of sovereign spread observed since late 2023.

### Inflation Convergence: Reforms Turning Crisis Peaks into Credibility Gains

The 2021–2023 period of heavy fiscal stimulus and large deficits during the pandemic and energy crisis triggered severe inflation spikes that exposed fiscal vulnerabilities and triggered the sharpest Eurobond sell-off in a decade. The post-reform turnaround has been remarkable and differentiated. Egypt recorded the highest peak at 38.0% in September 2023 before trending lower toward its 7% target. Nigeria experienced the largest absolute decline, falling from a 28-year high of 34.2% in mid-2024 (driven by subsidy distortions and parallel-market FX premia) to 15.10% by January 2026 following mid-2023 fuel subsidy removal and FX unification.

Angola eased from a 31.1% peak in mid-2024 to 13.35% in February 2026, aided by oil-price stability and IMF-supported supply improvements. Kenya delivered the most impressive relative performance and the fastest anchoring, bringing inflation from a 2023 peak of approximately 9.6% down to 4.3% in February 2026, comfortably on the left of its 5% target, thanks to early fiscal consolidation and shilling stability that eliminated imported pressures. These disinflation gains, rooted in structural reforms rather than temporary factors, have restored monetary policy credibility and directly supported the compression in Eurobond yields and spread.

**Figure 4.7: Nigeria Is Less Willing to Cut Aggressively**



Sources: CBE, CBN, BNA, CBK, VNL capital Research

## Global Fixed Income Market Outlook

### Reserve Rebuilding: Diversified Inflows and Oil Tailwinds Strengthening Buffers

Stronger external positions have emerged as a natural outcome of macroeconomic stabilisation and improving investor confidence. Egypt leads, with net reserves reaching a record \$52.7bn, supported by strong remittance inflows (+40.5% y/y in 2025), a recovery in tourism, and improved Suez Canal revenues following the 2023 liberalisation.

Nigeria's gross reserves have risen above \$50bn, the highest level in over a decade, driven by FX market unification, reduced leakages from the parallel market, lower fuel import demand following subsidy removal, and stronger crude export earnings. Angola's reserves stand at \$15.8bn (around seven months of import cover), while Kenya has rebuilt reserves above \$14.6bn (over six months cover), supported by agricultural exports and renewed portfolio inflows following its IMF programme. The recent escalation in the Middle East and the associated rise in oil prices is already providing an additional boost to export earnings for oil producers such as Nigeria and Angola. This creates further upside for reserve accumulation in the near term. These improved buffers enhance resilience to external shocks and support a gradual compression in Eurobond risk premia, albeit marginally.

### Exchange-Rate Stabilization: Ending Devaluation Cycles and Attracting Fresh Capital

Exchange rate reforms have been central to restoring macroeconomic stability. Nigeria's naira experienced one of the sharpest depreciations among emerging markets, losing over 50% of its value pre-2023 before FX unification eliminated the parallel market premium. Since then, the currency has stabilised and partially recovered to around ₦1,430 per USD, supporting a return of foreign portfolio and direct investment.

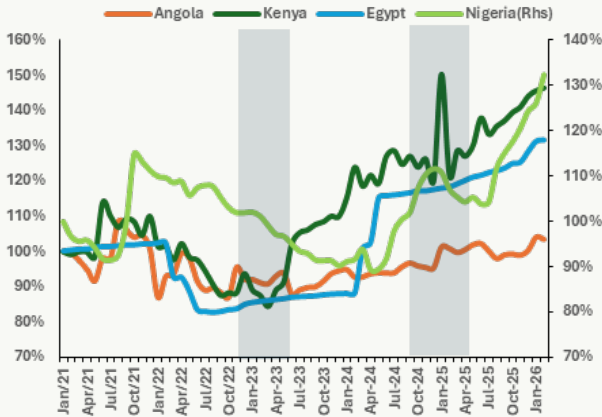
Egypt's pound underwent multiple large devaluations between 2022 and 2024, losing over 60% of its value before transitioning to a more credible flexible regime within a 47- 49 USDEGP range. This shift has helped attract sustained capital inflows, including FDI, remittances, and portfolio investment, with reduced reliance on heavy intervention.

Angola's kwanza has stabilised under its IMF-supported framework, while Kenya's shilling has remained the most resilient among peers, holding near 129 per USD. This stability reflects diversified export earnings and prudent policy management.

Overall, exchange rate stabilisation has helped curb imported inflation, preserve reserves, and create room for monetary easing without triggering renewed depreciation pressures. It has also supported a recovery in capital inflows and contributed to the broader compression in Eurobond yields and spreads.

Figure 4.8: Monetary Policy Reforms Support FX Stability

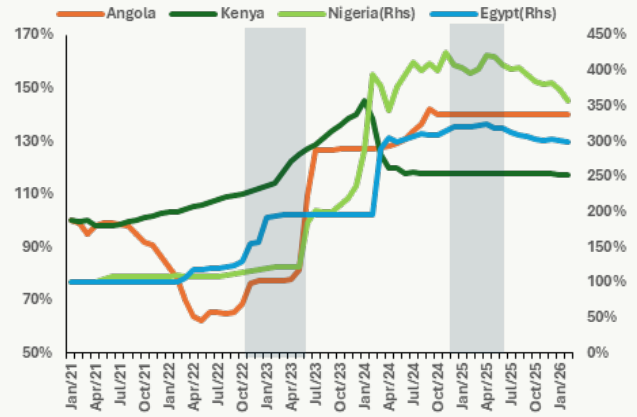
Foreign Reserves Have Risen Sharply Since 2024



Reserves are indexed to Jan'2021=100

Sources: CBE, CBN, BNA, CBK, VNL Capital Research

Nigeria Tops FX Appreciation Post-Reforms



Exchange rates are indexed to Jan'2021=100

Sources: CBE, CBN, BNA, CBK, VNL Capital Research



# Eurobond Outlook for 2026: Widening Spread Risks Dominate, Favour Short Duration

We expect Nigerian Eurobonds to deliver double-digit total returns in our base case, supported by an estimated 100bps yield compression over 2026. This outlook is underpinned by improved external buffers, a continued disinflation trend, and sustained reform credibility.

However, the scope for further yield compression is now limited, with risks increasingly skewed toward a widening across the curve, both in sovereign and corporate papers. With crude trading above \$95 per barrel amid heightened Middle East tensions, inflationary pressures are likely to persist, reinforcing a “higher-for-longer” interest rate environment and driving renewed risk-off sentiment.

Historically, energy shocks have triggered sharp

repricing. In 2022, yields rose by over 400bps. In the current cycle, we assume a more moderate widening of around 300bps, reflecting Nigeria’s relatively stronger external position compared to that period.

Given this asymmetric risk profile, we favour positioning in the short-to-medium segment of the curve, where investors can capture attractive returns with better downside protection. The long end, in contrast, should be approached tactically, with entry points considered only upon a clear reversal in yields. Overall, Nigerian Eurobonds present a selective opportunity within global fixed income in 2026, provided reform momentum is sustained and external buffers remain supportive.

**Figure 4.9: A short-to-medium duration strategy offers the best risk-adjusted play for Nigeria’s Eurobonds in 2026**

Maturity	Coupon	Price	Modified Duration	YTM Change: Probability		Reward-Risk Ratio	Expected Total Return (%)
				Base Case: (-1%):40%	Oil Price Shock Case: (+3%): 60%		
6.50 NOV-28-2028	6.5%	100.9	2.4	8.8	-0.76	11.7	3.1
6.125 SEP-28-2028	6.1%	100.0	2.2	8.3	-0.50	16.6	3.0
8.375 MAR-24-2029	8.4%	106.1	2.6	10.5	0.12	89.8	4.3
7.143 FEB-23-2030	7.1%	102.0	3.4	10.4	-3.24	3.2	2.2
8.747 JAN-21-2031	8.7%	107.5	3.9	12.0	-3.61	3.3	2.6
7.875 16-FEB-2032	7.9%	103.5	4.7	12.3	-6.47	1.9	1.1
7.375 SEP-28-2033	7.4%	100.2	5.5	12.9	-9.11	1.4	-0.3
7.696 FEB-23-2038	7.7%	98.8	7.6	15.4	-15.01	1.0	-2.8
7.625 NOV-28-2047	7.6%	94.0	9.9	18.0	-21.61	0.8	-5.8
9.248 JAN-21-2049	9.2%	108.7	9.8	18.3	-20.94	0.9	-5.3
8.25 SEP-28-2051	8.3%	98.3	10.1	18.5	-21.9	0.9	-5.7

Sources: FMDQ, VNL Capital Research



## Section E

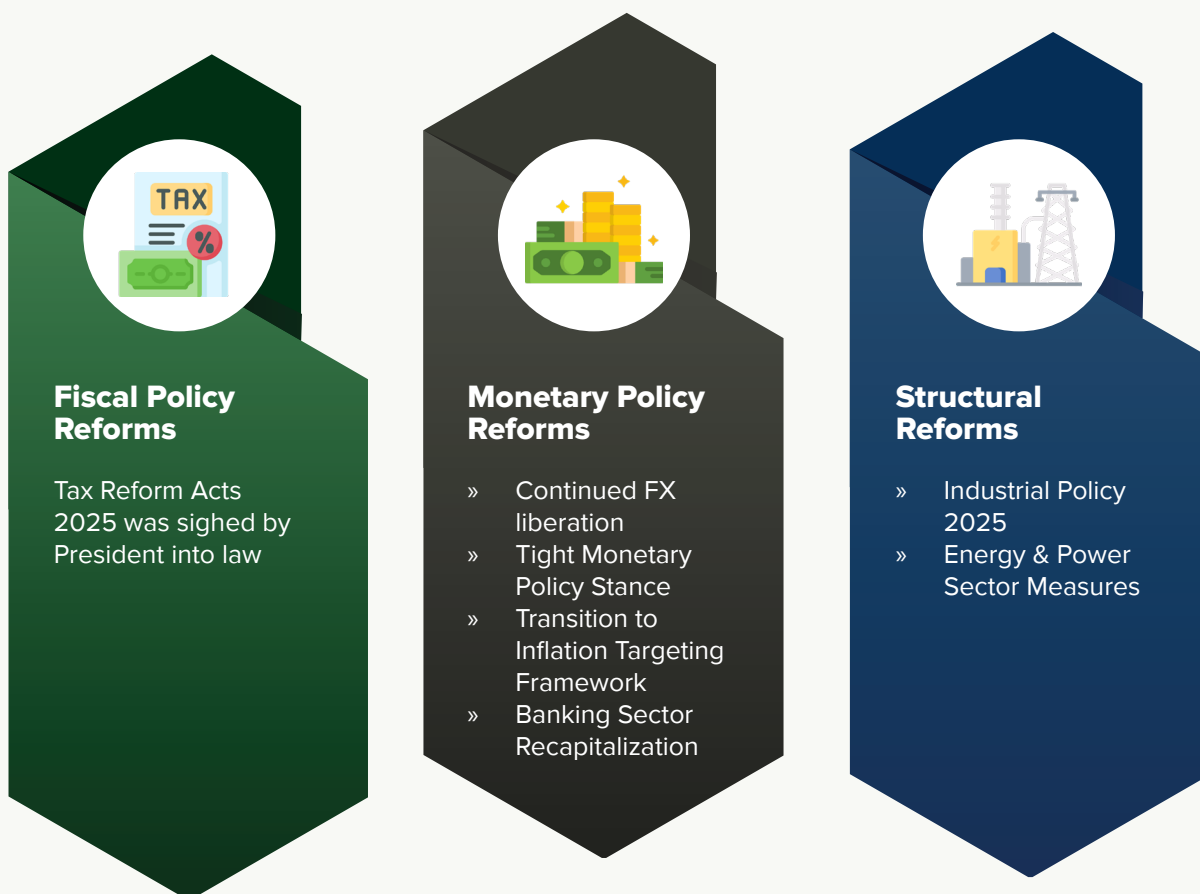
# Nigeria Economic Outlook

## Economic Activity

Nigeria’s policymakers, across both monetary and fiscal fronts, continued an aggressive wave of reforms in 2025 aimed at addressing longstanding structural weaknesses. These efforts focused on improving fiscal sustainability, strengthening the financial system against shocks, taming elevated inflation, and ensuring that key macro indicators such as CPI and GDP more accurately reflect underlying economic conditions.

On the financial side, the ongoing bank recapitalisation exercise is aimed at enhancing system resilience and supporting credit expansion. At the same time, tax reforms are designed to broaden the revenue base, improve compliance, and reduce dependence on oil revenues, albeit with some short-term adjustment pressures on businesses.

Figure 5.1: Major Reforms in 2025



Source: Government authorities, VNL capital Research

Looking ahead, these reforms are expected to support macro stability, deepen financial markets, and strengthen fiscal sustainability, provided implementation remains consistent and inclusive.

## Business Confidence: A Key Driver of Growth

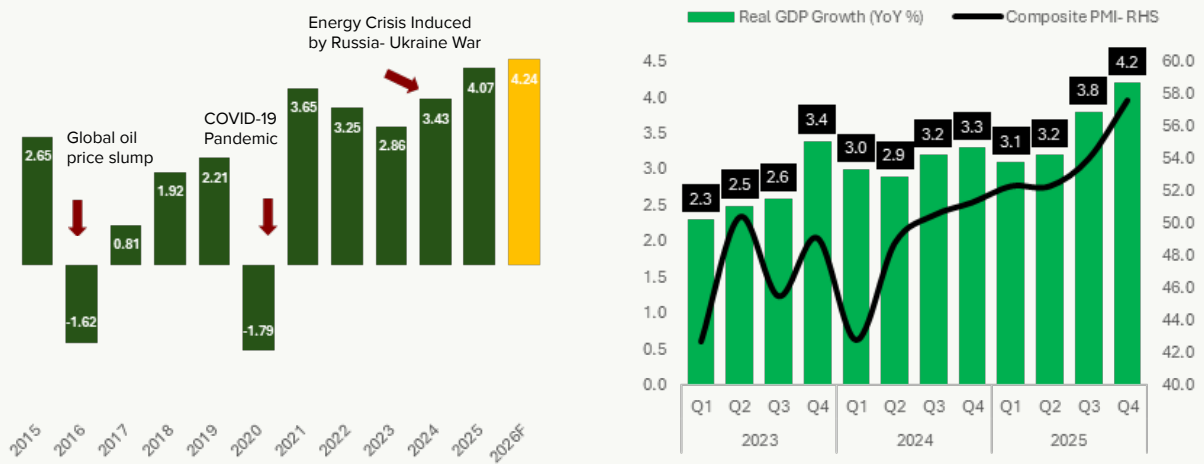
Business confidence has remained resilient, with the Purchasing Managers' Index (PMI) consistently above the 50-point threshold, signalling expansion. The PMI averaged around 52–53 early in the year and rose to a peak of 57.6 by December 2025. This reflects sustained momentum in new orders, improving demand, and modest employment gains, despite elevated input costs and persistent inflation.

Although PMI remains below pre-COVID highs of around 60, consistent readings above 50 through 2025 and into early 2026 suggest that growth momentum will likely be sustained into Q1 2026. Consumer confidence also supports this view. After

turning positive in September 2025, sentiment has continued to improve, reinforcing the broader macro recovery.

Against this backdrop of stabilisation and ongoing reforms, we expect GDP growth of 4.24% in 2026. However, downside risks remain, particularly from energy price shocks. As seen in 2022, rising energy costs and tighter policy led to a slowdown. While the economy is more resilient this time, a similar shock could reduce growth by about 1.1%, especially if the CBN maintains a restrictive stance to manage inflation and potential capital flow reversals.

Figure 5.2: GDP Growth Surges Strongly Post 2023 Policy Reforms



Source: National Bureau of Statistics, VNL capital Research



## Non-Oil Sector as the Primary Growth Lever

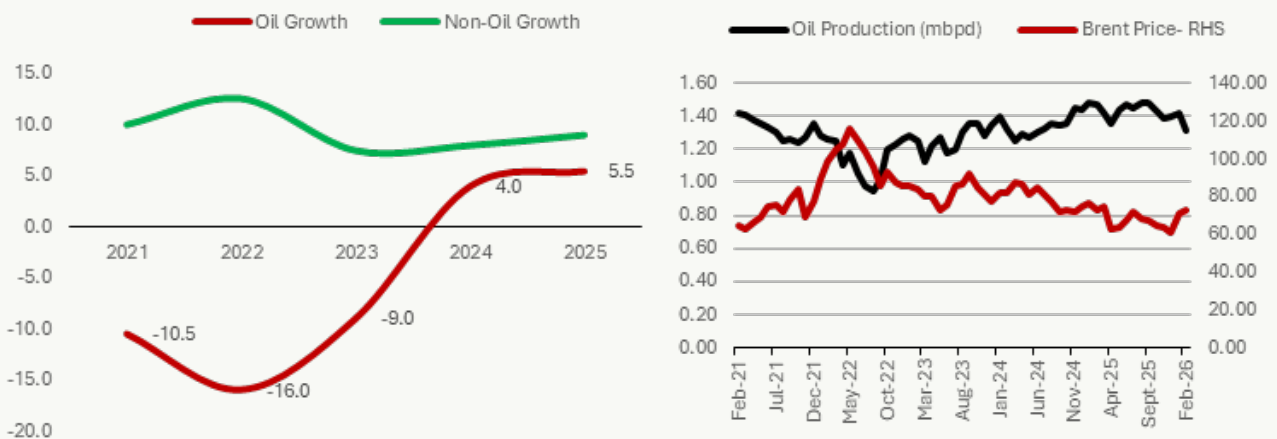
The structure of economic growth remains heavily skewed toward the non-oil sector, despite some improvement in oil production in 2025. While the oil sector returned to growth following the 2024 recovery, output remains below optimal levels. This reflects persistent challenges, including underinvestment, security issues in the Niger Delta, and ongoing regulatory and policy uncertainties.

In terms of GDP contribution, the oil sector accounts for just about 4.1% of real output, yet it continues to dominate foreign exchange earnings and fiscal

revenues, underscoring its macro-critical importance. In contrast, the non-oil sector contributes over 95% of total economic activity and remains the key driver of growth.

Although rising oil prices should, in theory, incentivise higher production, the historical pattern shows otherwise. Periods of elevated crude prices have often coincided with weak output, limiting the positive impact on overall growth. Current trends suggest a similar pattern may persist, with production already showing signs of decline.

**Figure 5.3: Non-Oil Sector Remains Supportive Despite Moderation**



Source: OPEC, Bloomberg, VNL Capital Research



# Sectoral Growth: Broad-Based Expansion Supporting GDP

Growth in 2025 has become more broad-based across the economy. Unlike the pre-2024 period, when at least one major sector typically contracted, expansion is now evident across key sectors. The strongest performers were transportation and financial services, both recording double-digit growth of around 15% in 2025.



**Financial services** have maintained strong momentum, accelerating to 15.03% growth in 2025. This reflects ongoing bank recapitalisation, which has strengthened balance sheets and supported credit expansion. Elevated interest rates and increased transaction volumes have boosted profitability, while digital platforms continue to drive financial inclusion. The sector remains critical to growth by improving access to credit, attracting investment, and supporting activity across the broader economy.



**Transportation sector** has also recorded significant gains, expanding by about 14.08% in 2025. Growth has been driven by continued investment in infrastructure, particularly roads, rail, and logistics networks, alongside improved consumer confidence relative to 2024.



**Arts and entertainment** continue to emerge as a key growth segment, supported by global demand for Nigerian creative content across film, music, and digital platforms. The sector grew by 9.63% in 2025, generating employment, attracting foreign earnings, and strengthening Nigeria's cultural influence, while diversifying the economy beyond traditional sectors.



Figure 5.4: Annual Sectoral Performance

GDP SECTOR PERFORMANCE (YoY %)					
Sectors	2021	2022	2023	2024	2025
1 Agriculture	2.13	1.88	1.13	1.69	0.07
2 Mining And Quarrying	- 7.79	- 18.16	- 2.84	5.24	2.97
3 Manufacturing	3.35	2.45	1.40	1.20	1.69
4 Construction	3.09	4.54	3.57	4.16	6.21
5 Trade	8.62	5.13	1.66	1.97	1.78
6 Accommodation and Food Services	- 0.45	4.22	3.46	3.72	2.65
7 Transportation and Storage	16.25	15.20	- 30.17	7.92	14.08
8 Information and Communication	6.55	9.76	7.91	5.57	7.40
9 Arts, Entertainment and Recreation	1.72	4.29	4.28	8.83	9.63
10 Financial and Insurance	10.07	16.36	26.53	2.95	15.03
11 Real Estate	2.26	3.95	1.68	6.59	4.61
12 Professional, Scientific and Technical Services	0.05	2.28	2.43	5.55	2.53
13 Administrative & Support Services	2.57	3.16	0.62	21.07	2.92
14 Public Administration	- 0.30	1.90	2.12	2.29	1.83
15 Education	- 0.75	1.35	1.31	2.00	2.47
16 Human Health and Social Services	4.93	4.20	2.78	2.96	1.76

Source: CBN, VNL Capital Research

## Inflation: Further Disinflation Faces Pressure from Rising Energy Prices

Inflation dynamics have shifted from reform-induced price shocks to a phase of gradual stabilisation. Headline inflation moderated significantly from previous highs near 34% to around 21.8–22.9% by

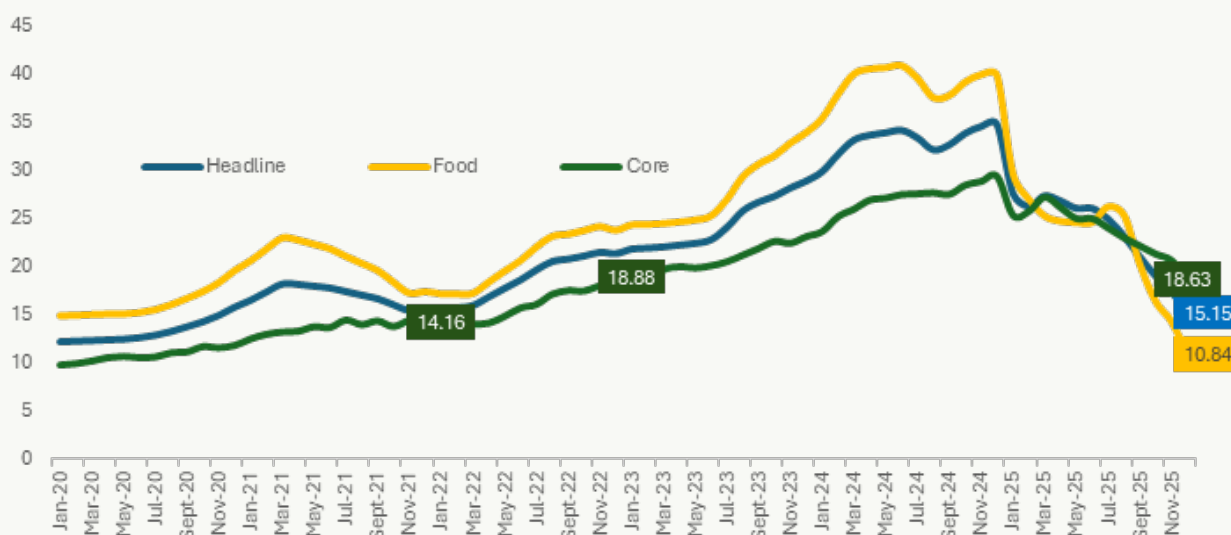
mid-period, reflecting a clear disinflation trend. This easing was supported by a combination of factors, including the NBS CPI rebasing in January 2025 and improved stability in the foreign exchange market.

## Nigeria Economic Outlook

However, recent developments risk disrupting this trend. Energy price shocks are likely to reverse part of the disinflation gains. In Nigeria, fuel prices pass through quickly to broader price levels. Recent upward adjustments, driven by the ongoing US–Iran conflict, have already increased fuel prices by 30–40%, with limited scope for reversal in the near term.

This mirrors the 2022 episode, when a series of fuel price increases contributed to a more than 4% rise in annual inflation, pushing CPI to 18.88%. A similar transmission is expected in 2026, with the impact likely to become evident in March and April inflation readings.

**Figure 5.5: Food Inflation Remains the Dominant Driver**



Source: CBN, VNL Capital Research

## Fiscal Policy: Improving Headline Balance, But Underlying Risks Persist

Fiscal performance has shown mixed progress in the post-pandemic period, reflecting ongoing reforms alongside structural constraints. The overall fiscal deficit narrowed from 4.2% of GDP in 2023 to an estimated 2.6% in 2024, largely driven by fuel subsidy removal, which generated savings of about 2% of GDP, alongside naira depreciation and improved non-oil revenue mobilisation.

Revenue-to-GDP rose sharply from 9.8% in 2023 to 14.4% in 2024. However, expenditure growth continued to outpace revenue gains, keeping the deficit elevated and above the Fiscal Responsibility Act threshold of 2.6%.

While headline deficits have improved, partly due to slower growth in debt service costs, the widening primary deficit suggests that fiscal vulnerabilities

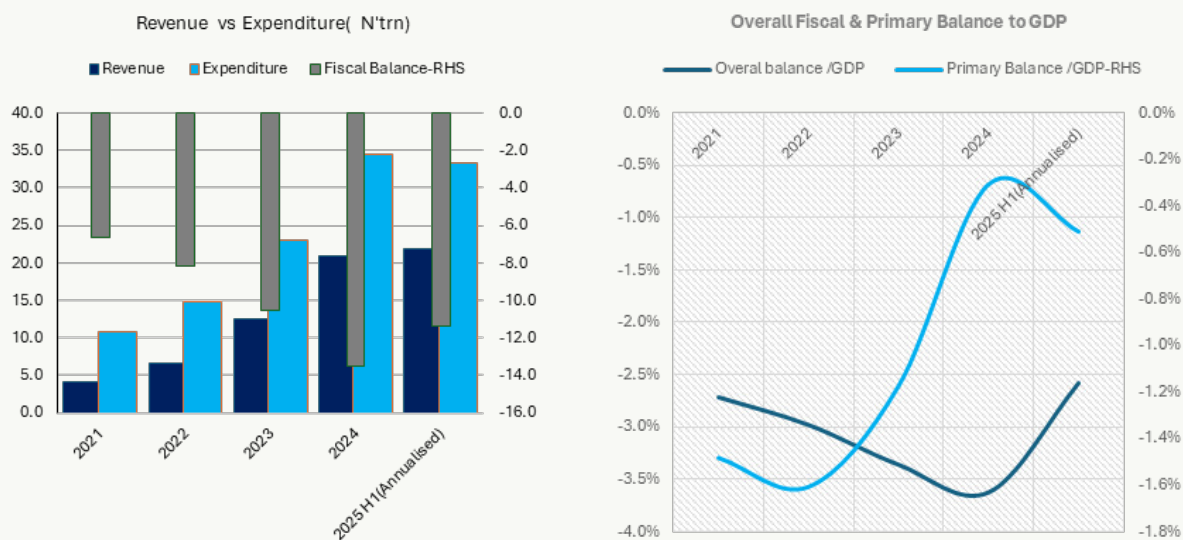
## Nigeria Economic Outlook

remain. Government spending continues to exceed revenue even before interest payments, pointing to rising medium- to long-term debt and potential tax pressures.

Looking ahead, IMF projections suggest a widening of the fiscal deficit to around 4.9% of GDP in 2026. The budget is based on conservative assumptions of \$64.85 per barrel and production of 1.84mbpd, implying a deficit of N23.85 trillion (about 4.28% of GDP). However, current oil prices, trading above \$80 and at times approaching \$110 amid Middle East tensions, present upside risks to revenue, particularly if production improves from the current level of around 1.46mbpd.

Nonetheless, persistent revenue shortfalls, high debt service costs, and oil price volatility continue to pose risks to fiscal outcomes.

**Figure 5.6: Rising Primary Deficit Signals Limited Improvement in Fiscal Sustainability**



Source: CBN, VNL Capital Research

## Public Debt Dynamics: Rising Liquidity Risks Amid Manageable Solvency

Public debt has expanded sharply, tripling in local currency terms, driven by persistent fiscal deficits and naira depreciation, which has significantly increased the domestic value of external obligations. As of September 2025, total public debt stood at N153.3 trillion.

The debt-to-GDP ratio has moderated in 2025, largely due to the upward revision in nominal GDP following the rebasing exercise. In addition, the Debt Management Office raised the benchmark threshold from 40% to 60%, providing more room for debt accumulation. As a result, solvency risks remain

## Nigeria Economic Outlook

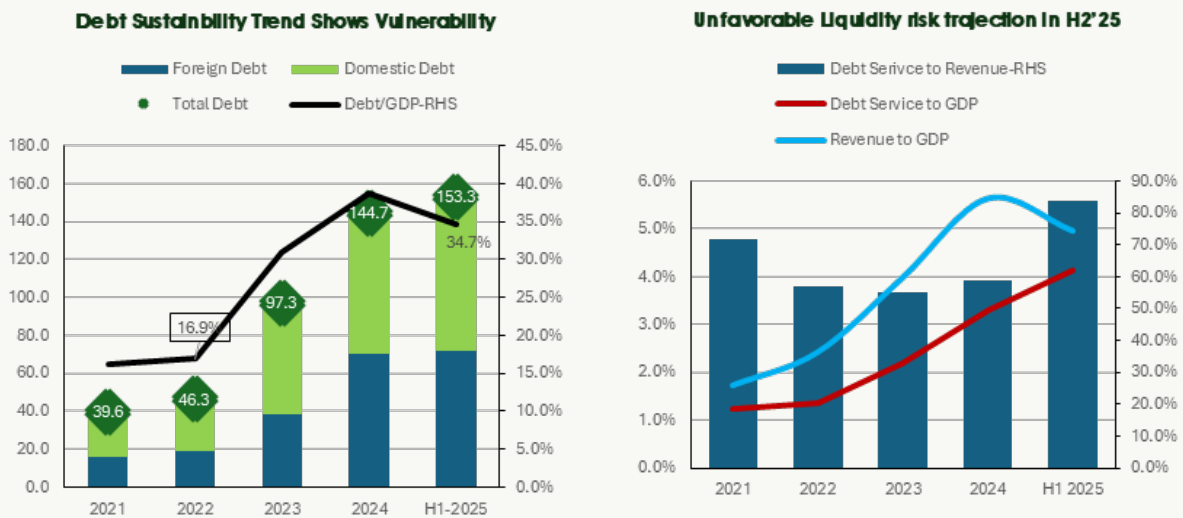
relatively contained, while liquidity risks are becoming more prominent.

Debt service burdens, both as a share of revenue and GDP, continue to rise. This reflects elevated domestic interest rates, maturing debt obligations, the higher local currency cost of servicing external debt, and a widening primary deficit driven by increased non-debt spending.

Under the IMF’s Market Access Country Debt Sustainability Framework, Nigeria’s debt remains sustainable in the near term. However, gross financing needs are rising, and debt service ratios continue to exceed prudent thresholds.

Downside risks remain significant. Lower oil prices, further naira depreciation, and the crystallisation of contingent liabilities, such as government arrears, could increase sovereign stress risks over the medium term.

**Figure 5.7: Unfavourable Liquidity Risk Trend**



Source: Budget Office, VNL Capital Research



## Budget Performance Analysis (Budget vs Actual)

The 2026 budget is anchored on an oil price assumption of \$64.85 per barrel and a projected fiscal deficit of 4.3–4.5% of GDP, with debt service absorbing about 45% of revenue. However, consensus expectations remain less optimistic on oil production, despite currently favourable oil prices.

Tighter monetary policy is also likely to weigh on non-oil revenue. Slower economic activity and weaker corporate earnings could dampen revenue mobilisation and liquidity conditions.

Recent budget performance reinforces these concerns. In H1 2025, expenditure declined, but revenue underperformed significantly by nearly 50%.

A similar pattern was observed in 2024, although expenditure slippage was less pronounced.

Persistent revenue shortfalls, combined with weak capital expenditure execution, continue to highlight structural fiscal challenges. While GDP rebasing and ongoing reforms have provided some relief, elevated debt servicing costs still constrain fiscal space.

Overall, these trends raise questions about the government’s ability to fully deliver on its 2026 fiscal targets. Sustained tax reform implementation, stricter expenditure discipline, and a more neutral fiscal stance will be critical to preserving debt sustainability and supporting long-term growth.

Figure 5.8: Budget Performance Analysis (Budget vs Actual)

(N'trm)	2023-Budget	Vs Actual	Budget-2024	Vs Actual	2025'H1- Budget	Vs Actual
Expenditure	24.8	-7.20% ↓	35.06	-1.60% ↓	27.5	-39.5% ↓
Revenue	11.0	13.0% ↑	25.88	-18.9% ↓	20.4	-46.5% ↓
Fiscal balance	-13.78	23.4% ↑	-9.18	-47.2% ↓	-7.1	19.2% ↑

Source: Budget office, NBS, VNL Research

Figure 5.9: 2026 Budget Assumption: Our Views

	2025 Budget	Expectation	Reality Check
Expenditure	\$58.18trn	Lower than budgeted	Historically weak execution rates. Capital spending typically realises only 40–60% of budgeted levels.
Revenue	N34.33trn	Above budgeted	Supported by 2025 tax reforms, but upside constrained by weak growth and tight monetary conditions.
Fiscal Deficit	4.28% of GDP	Lower than budgeted	Persistent revenue shortfalls and supplementary spending have led to repeated overshoots.
Oil Price	\$64.85	Above budgeted	Elevated geopolitical risk (US–Iran tensions) and supply disruptions support higher prices.
Oil Production	1.84mbpd	Lower than budgeted	Actual output (c1.3–1.5mbpd) remains below target due to structural constraints and underinvestment.
Exchange Rate	1400	Lower than budgeted	Supported by FX reforms, improved reserves, and reduced market distortions.

Source: Budget office, VNL Research



## Monetary Policy Outlook

### Monetary Policy Outlook: Disinflation Remains a Monetary Story

The Cardoso-led Central Bank maintained a tight policy stance through most of 2025, holding the Monetary Policy Rate (MPR) at 27.5% before implementing two modest 50bps cuts after the August peak. This represents one of the slowest normalization cycles among Nigeria's peer economies. The cautious approach was supported by improved naira stability, with the currency appreciating by 6.1% by year-end, alongside disinflation recorded in 10 of the 12 months of 2025.

This marked a measured dovish pivot rather than a full policy shift. Liquidity conditions remained tightly managed. The adjustment to the Cash Reserve Ratio (CRR), combined with the introduction of a 75% CRR on non-TSA public sector deposits, ensured that easing did not translate into excess liquidity.

Money supply control was central to this outcome. M2 growth slowed sharply to 7.7% year-on-year in December 2025, down from over 40% in 2024. This was driven by aggressive sterilization through Open Market Operations (OMO), sustained Treasury Bills issuance, and strong transmission of higher policy rates into market yields.

These measures, alongside FX stability and CPI rebasing effects, anchored the disinflation trend. Headline inflation declined from a peak of 24.48% to 15.12% by year-end.

Going forward, inflation dynamics will remain closely tied to money supply growth, FX stability, and global oil price developments.

### Pre-Election Dynamics: Liquidity Risks Could Re-Emerge

Historical patterns since 2009 show a consistent trend: pre-election cycles are typically associated with sharp increases in money supply. Liquidity growth has often exceeded 20–30%, and in some cases 50%, driven by elevated fiscal spending. This has consistently translated into higher inflation with a lag. The 2010–11, 2014–15, 2018–19, and 2022–23 cycles all followed this pattern.

2026 presents a similar risk. As a pre-election

year, the pressure for fiscal expansion is expected to rise. The Central Bank has already flagged election-related liquidity as a key inflation risk for 2026–2027.

Encouragingly, early data suggest a proactive stance. Money supply growth remained contained at 11.0% in January 2026, signalling continued policy discipline.

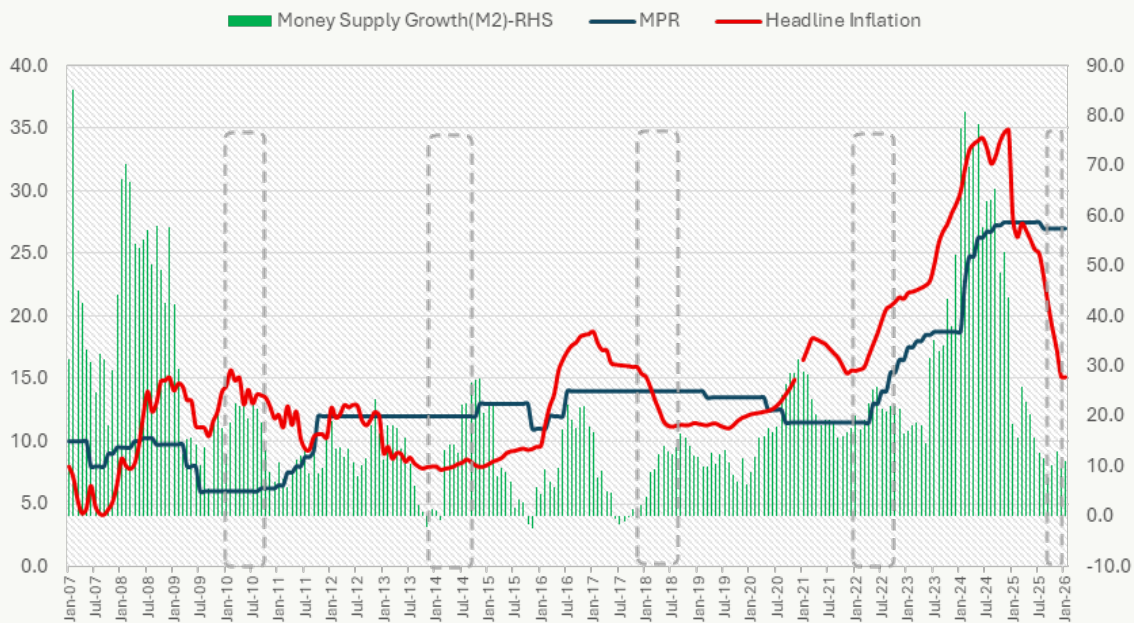
However, this restraint may be difficult to sustain.

## Nigeria Economic Outlook

As political spending intensifies, any re-acceleration in liquidity could quickly reverse disinflation gains and renew pressure on inflation and the exchange rate.

Maintaining a tight monetary stance will therefore be critical to preserving macro stability through the election cycle.

**Figure 5.10: Inflation is Still a Monetary Phenomenon**



Source: Budget office, NBS, VNL Research

Pre-election year

We believe that while the CBN can effectively manage liquidity-driven inflation, the current energy price shock is largely exogenous and will test the limits of policy resilience.

As a result, the authorities' 12–13% inflation target is increasingly a stretch. A replay of the 2022 inflation cycle is becoming more likely.

For context, inflation rose sharply by 5.4ppts to 21.3% in December 2022 following the surge in oil prices triggered by restrictions on Russia's exports. Brent crude increased by over 70% within a short period around the invasion. A similar magnitude of price shock has already been observed in March 2026.

We therefore expect inflation to shift back to an upward trajectory, with monetary policy likely to respond accordingly through a more restrictive stance.

Figure 5.11: Considerable Rate Cuts Looking More Unlikely

	Inflation Forecast	Rate Cut Expectation	2025 MPR (Actual)	2026 MPR (Our Forecast)	Probability	Primary
SCENARIO 1	12.5%	-50bps	27%	26.50%	20%	<ol style="list-style-type: none"> <li>1. Inflation falls to 12-13%</li> <li>2. Naira stays stable with further appreciation to an average of N1350</li> <li>3. Unencumbered reserves exceed \$34.8 billion.</li> <li>4. GDP growth rises above 4.25%.</li> </ol>
SCENARIO 2	18.73%	+100bps	27%	28%	35%	<ol style="list-style-type: none"> <li>1. Inflation climbs above 18%.</li> <li>2. Naira sees mild depreciation to NN1450</li> <li>3. Reserve growth slows</li> <li>4. GDP growth remains at 3.5%</li> </ol>
SCENARIO 3	21.62%	+400bps	27%	31%	45%	<ol style="list-style-type: none"> <li>1. Inflation surges above 20%</li> <li>2. Naira faces sustained above N1500</li> <li>3. Unencumbered reserves stagnate or fall below \$20billion</li> <li>4. GDP growth drops below 3%</li> </ol>

Source: Budget office, NBS, VNL Research

## Reserve Adequacy: Strengthening Buffers Against Money Supply and Import bills

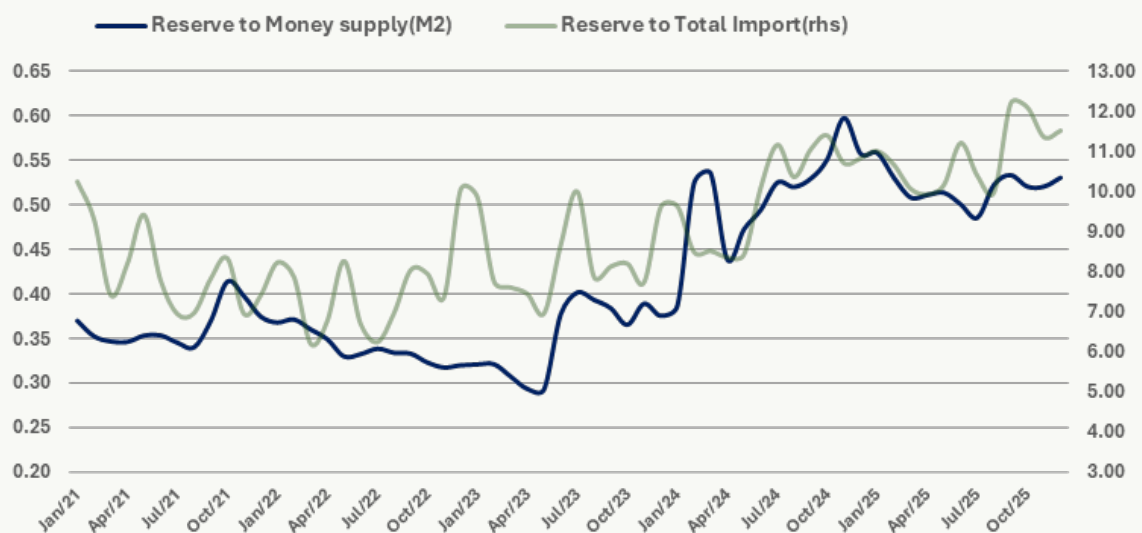
Nigeria’s external reserves have improved markedly relative to both broad money supply and total imports since the 2023 reforms. The reserves-to-money supply ratio, which fell to around \$0.30 per naira in early 2023 amid FX fragmentation and high inflation, has recovered steadily. It rose sharply from mid-2024, peaking near \$0.60 by early 2025, before moderating to about \$0.53 by August 2025.

At the same time, import cover strengthened significantly. Reserves-to-imports recovered from roughly five months in 2022 to consistently above 11 months by late 2025, with peaks exceeding 13 months. This dual improvement signals a clear structural strengthening in Nigeria’s external buffers.

This progress reflects a combination of policy reforms and supportive external conditions. FX unification and fuel subsidy removal reduced leakages and compressed import demand, while the ramp-up of the Dangote refinery further lowered the fuel import bill. Higher oil receipts, renewed portfolio inflows, and tighter liquidity management through Open Market Operations and CRR adjustments also supported reserve accumulation.

Overall, the stronger reserve position enhances naira stability and provides the Central Bank with greater policy flexibility in managing external and monetary shocks.

**Figure 5.12: Strengthened Reserve Adequacy Signals Limited Near-Term External Risk**



Source: Budget office, NBS, VNL Research

## Reserve Composition: Lower Liquidity Risk, Stronger Buffer Quality

A deeper look at the CBN’s external buffers shows a clear improvement in reserve quality. Net usable reserves, the unencumbered portion available for immediate deployment, have risen sharply from just \$3.99bn at end-2023 to \$23.11bn by December 2024, and further to \$34.80bn by end-2025.

Gross reserves have also strengthened, now exceeding \$45bn and providing import cover of close to 10 months, comfortably above standard adequacy thresholds.

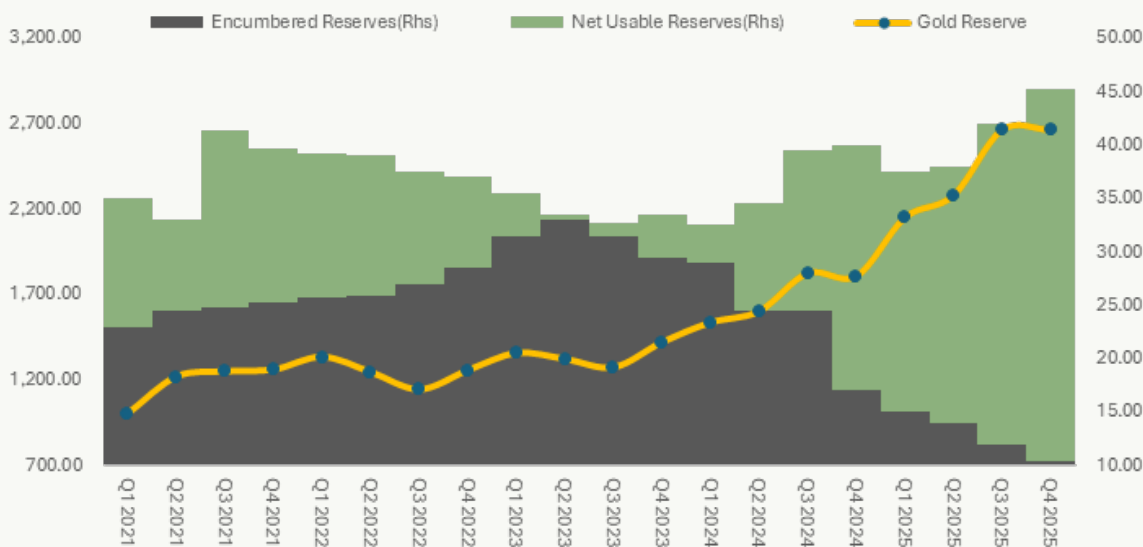
This improvement reflects a series of structural reforms. FX market unification, the clearance of legacy swap obligations and hidden liabilities, and fuel subsidy removal have significantly reduced pressure on external accounts. At the same time, improved policy credibility has supported stronger inflows from remittances, non-oil exports, and foreign

investment, while tight monetary conditions have helped stabilize the external position.

Gold accumulation has further enhanced reserve composition. Holdings rose to about \$2.6bn by late 2025 and increased to \$3.5bn in Q1 2026. Importantly, these purchases were funded in naira using domestic mining output, preserving foreign exchange. This approach strengthens diversification, provides a hedge against inflation and FX volatility, and improves overall reserve quality.

Overall, Nigeria’s reserve position is now stronger, cleaner, and less encumbered. Liquidity risks have declined materially, while the CBN has gained greater policy flexibility. Crucially, this improvement has been achieved with limited reliance on additional external borrowing.

Figure 5.13: Structurally Resilient Foreign Reserves.



Source: CBN, VNL Research

## Nigeria Economic Outlook

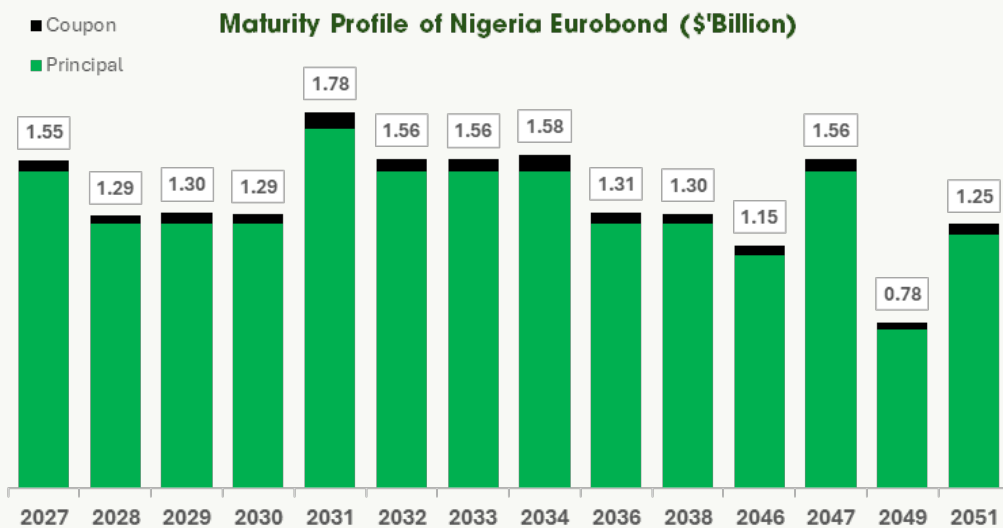
That said, while the rise in unencumbered reserves and domestic gold accumulation has significantly strengthened Nigeria’s external position, it remains important to assess the Eurobond maturity profile to better anticipate future pressure points on reserves and identify potential windows for new issuances.

The country’s Eurobond obligations are somewhat front-loaded. Repayments begin at \$1.55 billion in 2027, remain relatively stable through 2030, before peaking at \$1.78 billion in 2031, and then form another cluster averaging between \$1.56bn and

\$1.58bn annually from 2032 to 2034. Longer-dated maturities are more evenly spaced, with the next notable payment of \$1.56bn due in 2047.

With net usable reserves now at \$34.80bn, providing close to 10 months of import cover, Nigeria is in a much stronger position to manage these obligations. The improved buffer also creates room for the government to consider fresh Eurobond issuances over the next few years, particularly to refinance ahead of the 2031 hump and smooth the overall debt repayment profile.

**Figure 5.14: Less Pressure from Eurobond Maturity Profile**



Source: Budget office, NBS, VNL Research



## External Sector

### FX Market Convergence: Successful Anchoring of Market Expectations

In 2025, the naira recorded a 6.12% appreciation in the latter part of the year, accompanied by a sharp narrowing of the parallel market premium, from over 20% in early 2024 to below 3% by December. This convergence was driven by the full operationalization of the unified FX window in mid-2024, the systematic clearance of legacy swap obligations worth several billion dollars inherited from prior administrations, sustained CBN interventions backed by rebuilt reserve buffers, and a decisive shift away from multiple exchange rate regimes.

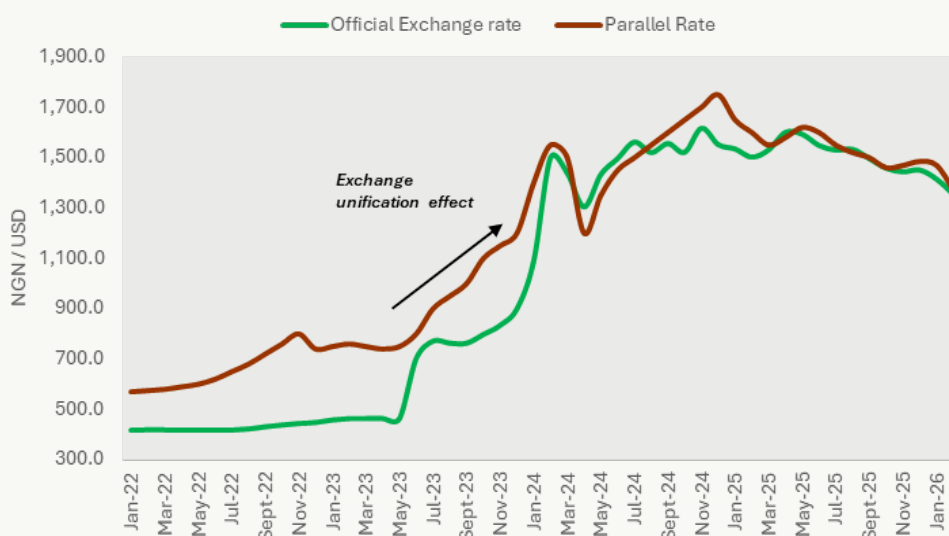
Unlike the volatile 2023–2024 period, when premiums consistently exceeded 20% and triggered widespread corporate FX losses that eroded shareholder equity, the 2025 alignment reflects genuine market confidence rather than administrative controls.

Historically, similar episodes of stability, such as the

brief calm following the 2016 devaluation, proved short-lived due to the absence of supporting structural reforms. The current episode, however, is anchored on stronger foundations: cleared hidden liabilities, removal of fuel subsidies that previously absorbed over ₦1 trillion annually in FX demand, rising non-oil inflows from remittances and exports, and improved investor sentiment following credit rating upgrades.

Heading into 2026, this hard-won stability is expected to hold, provided election-related spending and potential risk-off sentiment from escalating Middle East tensions do not reignite demand pressures. Sustained convergence should anchor import costs, reduce FX-related corporate losses that previously pushed some firms toward negative equity, and preserve the credibility that has begun to attract fresh capital, supporting broader macroeconomic resilience.

Figure 5.15: Gap Between Official and Parallel rate closing



Sources: CBN, Rate Captain, VNL Research

## Capital Inflows Rebound: Portfolio Investment Takes Centre Stage

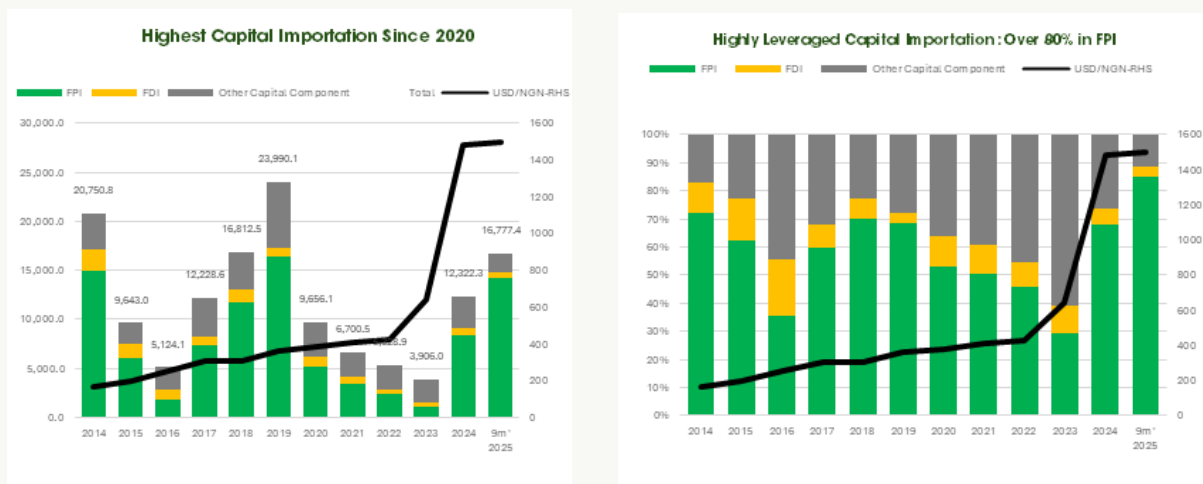
The improved FX environment unlocked a strong rebound in capital importation, with total inflows rising by 380.2% (y/y) in the first nine months of 2025 alone. Foreign portfolio investment (FPI) dominated the mix, accounting for about 75% of total inflows, driven by elevated local yields through OMO-driven carry and supported by positive policy signals, including the prospect of re-entry into global indices, improved FX transparency, and renewed investor confidence following credit rating upgrades.

This marks a clear reversal from the capital flight seen in 2023–2024, when uncertainty around exchange rate windows triggered net outflows exceeding \$2 billion in some quarters, and echoes the post-2014 recovery pattern, albeit on stronger and more sustainable footing given cleared legacy obligations and a more predictable operating environment.

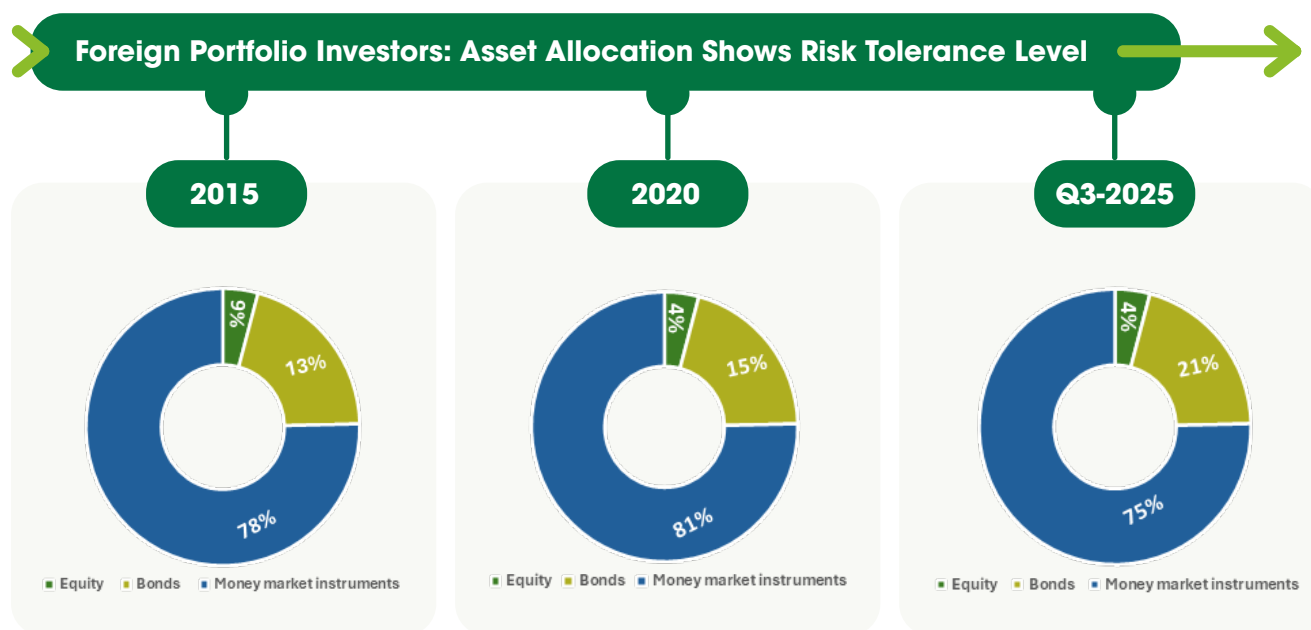
That said, the heavy FPI tilt, while supportive of near-term liquidity and reserve build-up, still carries the familiar risk of reversibility, particularly in a pre-election cycle where political uncertainty can trigger sudden outflows, as seen in previous episodes. However, the current momentum, underpinned by stronger external fundamentals, \$3.5bn in domestically accumulated gold reserves that diversify buffers away from sole USD dependence, and a more credible policy framework, positions Nigeria to attract even stronger inflows in 2026, provided global risk appetite remains supportive, and reform momentum is sustained.

Overall, the resurgence in capital inflows has not only supported reserve accretion but also reinforced FX stability, creating a virtuous cycle that strengthens external balances and improves macroeconomic resilience.

Figure 5.16: Highly Leveraged Capital Inflows



Source: CBN, VNL Research



Source: NBS, VNL Capital Research

## Current Account Surplus and the J Curve Effect

The combination of FX stability and stronger capital inflows has translated into a sustained current account surplus, with the current account-to-GDP ratio reaching 4.4% as at Q3 2025. This clearly reflects the classic J-curve dynamic, where the initial pain of naira adjustment gradually gives way to improved trade competitiveness.

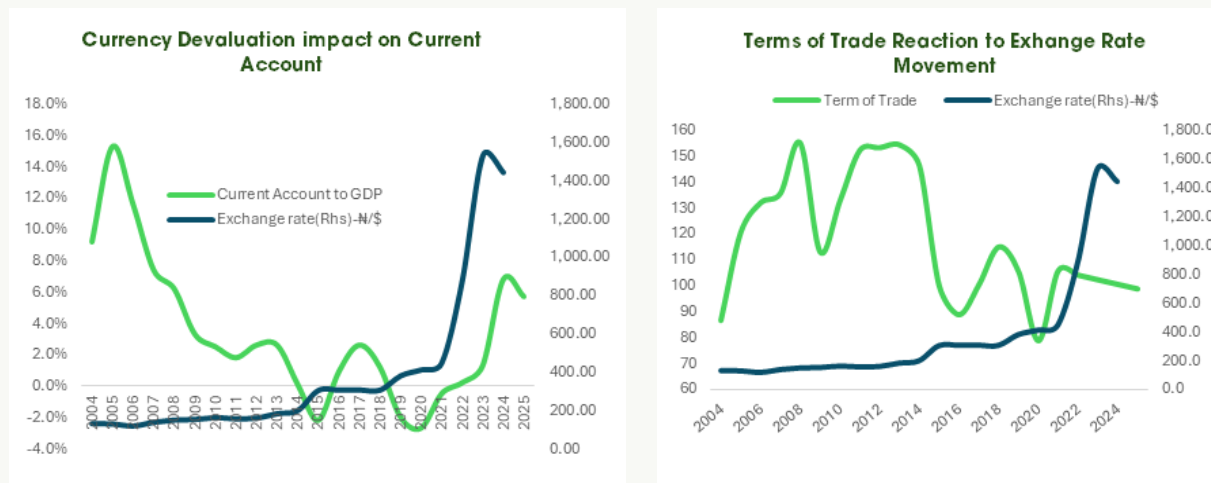
The earlier devaluation triggered the standard transmission mechanism: in the short term, import prices rose sharply in naira terms, temporarily worsening the trade balance and widening deficits in the immediate post-adjustment period. Over time, however, the weaker currency improved competitiveness, supporting non-oil exports, particularly in agriculture and solid minerals, while import compression, driven by higher local production, tighter liquidity, and substitution toward domestic goods, helped moderate the import bill.

Supporting this adjustment is a modest improvement in Nigeria’s terms of trade (ToT), which rose to 102.13

points by September 2025 (January 2018 = 100), reflecting stronger relative export prices versus imports following the exchange rate adjustment and a more favourable global commodity backdrop. While terms of trade typically respond with a lag to currency reforms, the recent improvement marks a clear shift from the persistent deficits of the pre-reform era, when the current account averaged around -2% of GDP. It also mirrors the post-2016 adjustment episode, where increased exchange rate flexibility eventually strengthened external balances after an initial deterioration.

Looking ahead, the current account is expected to remain in surplus through 2026, providing a buffer against any moderation in oil revenues, reinforcing external resilience, and sustaining the improved macroeconomic stability achieved through recent reforms.

Figure 5.17: Naira Devaluation Spurs Trade Surplus, ToT Lags



Sources: CBN, VNL Capital Research

## External Metrics Sensitivity to Oil Prices

Lessons from the 2022 geopolitical episode remain relevant. Despite recent gains, Nigeria’s external position is still sensitive to oil price movements. In 2025, crude oil prices remained largely above \$65 per barrel, supported by rising geopolitical tensions that intensified toward year-end. These elevated prices partly underpinned the naira’s 6.12% appreciation, supported the widening of the current account surplus to around 4.4% of GDP, and accelerated the build-up of net usable reserves to \$34.80bn.

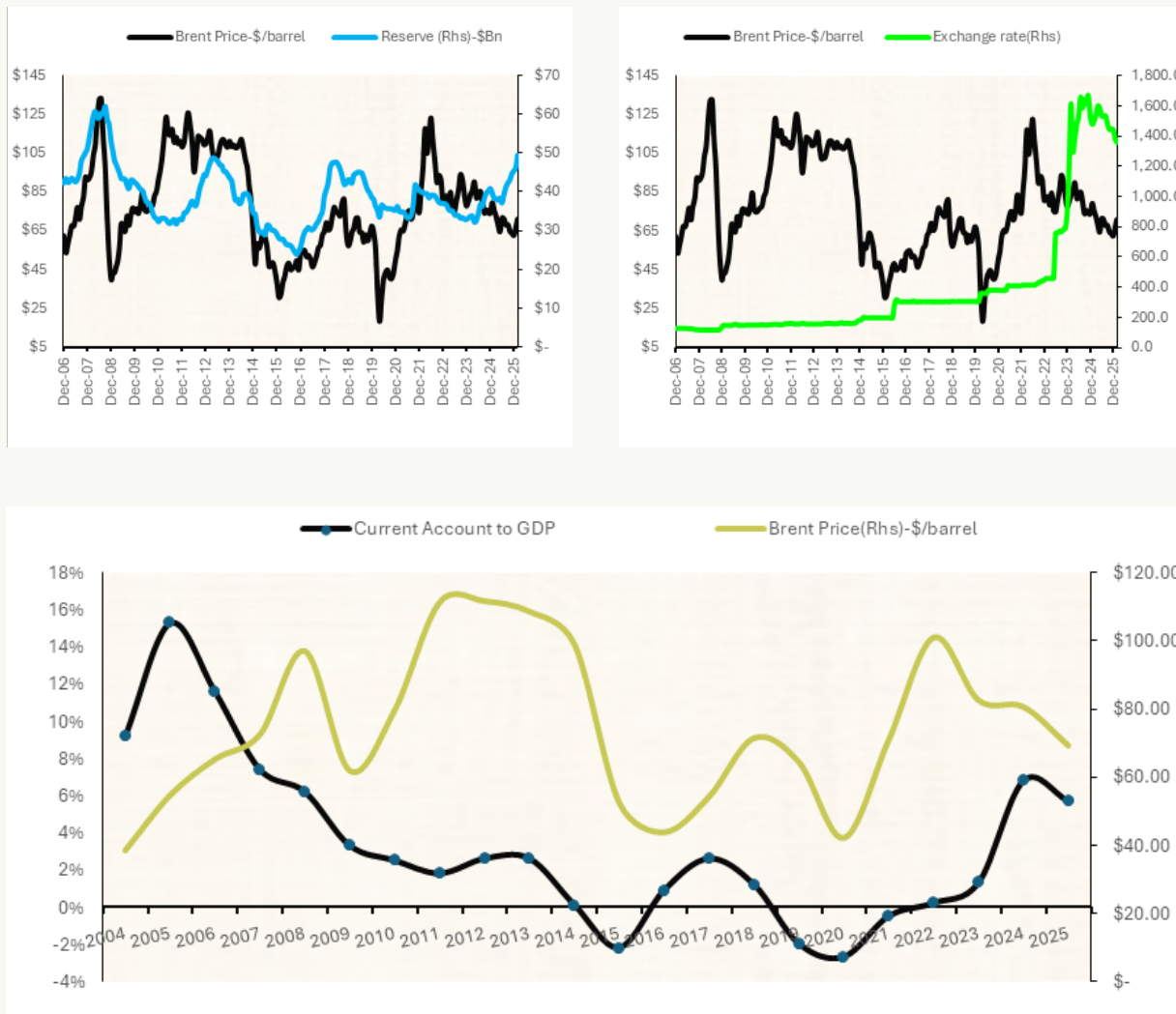
This dynamic echo the 2022 experience, when Russia–Ukraine tensions pushed crude above \$100 per barrel, delivering a windfall that temporarily boosted reserves and widened the current account surplus by over \$10bn. However, the transmission mechanism today is fundamentally different. In 2022, the benefits of higher oil prices were diluted by multiple exchange rate windows, significant fuel subsidy leakages exceeding ₦1 trillion annually, and weak reserve management, resulting in limited naira stability and only modest reserve accumulation.

In contrast, recent reforms, including FX market unification, subsidy removal, clearance of legacy obligations, and the strategic accumulation of \$3.5bn in domestically sourced gold, have significantly improved the pass-through from oil revenues to macroeconomic stability.

The key shift lies in the quality of buffers. Net usable reserves now stand at \$34.80bn, complemented by \$3.5bn in gold holdings, a more diversified inflow base, and a current account already in structural surplus. As a result, even if oil prices moderate or remain volatile amid ongoing geopolitical tensions, Nigeria’s external position is far more resilient than in 2022. The improved policy framework and stronger reserve quality should help cushion downside risks and maintain stability through the 2026 pre-election period, marking a transition from fragile oil dependence to a more resilient, reform-anchored external sector.

## Nigeria Economic Outlook

**Figure 5.18: Varying Transmission of Oil Prices to Key External Metrics**



Source: CBN, US IEA, VNL Capital Research



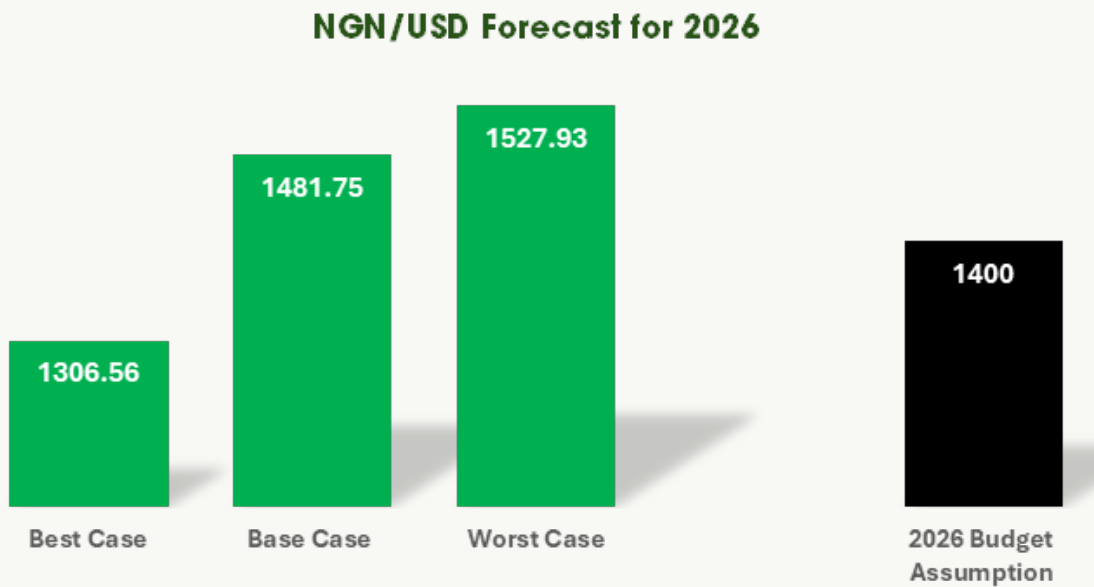
## Naira FX Forecast for 2026

We believe three key factors will drive the direction of the naira in 2026: the trajectory of external reserves, growth in money supply, inflation dynamics, and global policy uncertainty. To capture these interactions, we combine multiple quantitative approaches, including regression analysis, Money Zero Maturity (MZM), and

Real Effective Exchange Rate (REER) models, with qualitative adjustments to reflect prevailing market conditions and policy signals.

Based on this framework, we outline the following scenario-based outlook.

Figure 5.19: NGN/USD Forecast for 2026



Source: Budget office, NBS, VNL Research





## Section F

# Nigeria's Financial Markets

## Local Fixed Income Market

### Fiscal Pressures Driving Local Borrowing

Fiscal pressures continue to reflect a structural imbalance between weak revenue generation and rising expenditure needs. The widening deficit has been the primary driver of the sharp increase in domestic debt issuance between 2020 and 2025.

In response to a more restrictive global financing environment, the government deliberately shifted toward the domestic market. This reduced exposure to exchange-rate risk while leveraging deep local liquidity.

This strategy intensified in 2023, when the fiscal deficit exceeded 3% of GDP. Domestic borrowing accelerated through both bonds and Treasury bills, providing a reliable funding channel amid tighter external conditions.

By prioritising local issuance, authorities preserved a degree of fiscal sovereignty and reduced vulnerability to external shocks. However, this shift has come at a cost, elevated domestic interest rates and rising debt service burdens, which continue to constrain fiscal space.

**Figure 6.1: Beyond the Deficit: Liquidity as the Real Driver of Borrowing**

Year	Bond (₦'trn)	T-bills (₦'trn)	Fiscal Deficit (% of GDP)
2021	53.14	N12.88	-2.7%
2022	61.64	17.88	-3.0%
2023	147.83	20.69	-3.4%
2024	210.82	46.32	-3.6%
H1' 2025	94.91	25.46	-2.6%

Source: CBN, Budget office, VNL Capital Research

### Liquidity Conditions and Short-Term Yield Dynamics

T-bill yields have followed a volatile path since 2022, driven by aggressive monetary tightening to contain inflation. Yields rose sharply alongside policy rates and peaked in 2025.

However, 2025 also marked a turning point. Yields declined steadily across several auctions, creating strong trading opportunities. The most notable shift occurred between September and December,

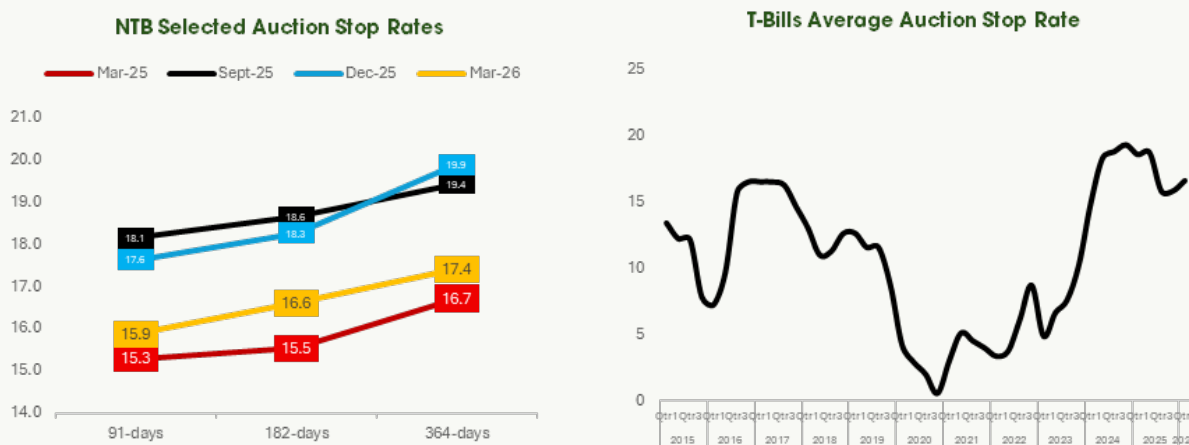
when secondary market yields compressed by over 400bps across the curve. This rally was supported by improved system liquidity and growing expectations of a policy pivot toward easing. Investors moved to lock in attractive rates across both primary and secondary markets, while also benefiting from carry trades supported by naira stability and appreciation.

Looking ahead, the recent surge in energy prices

## Nigeria's Financial Markets

could disrupt this bullish trend. A reversal in inflation expectations would likely push yields higher again. In this environment, the short-to-mid segment of the curve is expected to remain the most attractive, offering a better balance between yield and risk.

**Figure 6.2: Inflation Expectations Are Repricing the Floor**



Source: CBN, VNL Research



## Open Market Operations: Strong Inflows, but Exposed to Energy Shock Risks

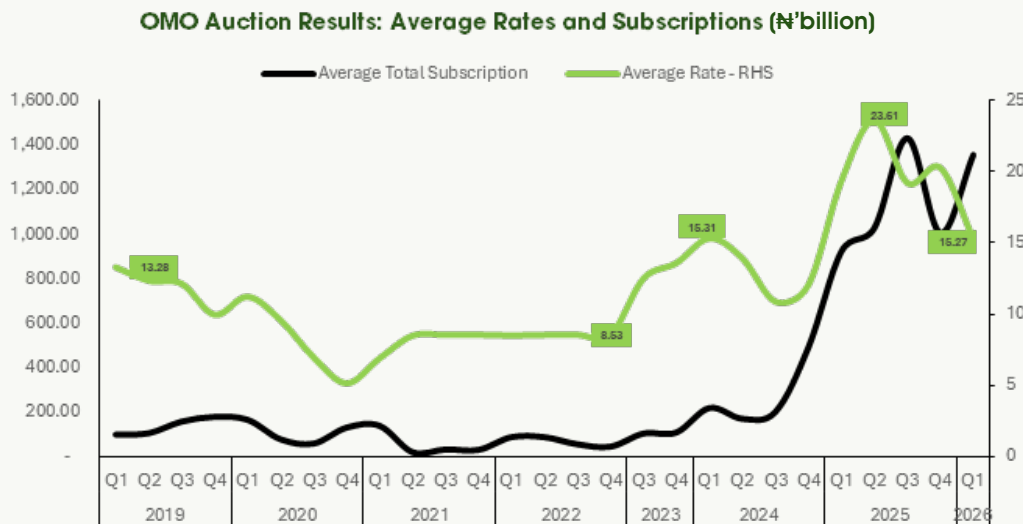
The CBN's Open Market Operations (OMO) window continues to attract strong foreign participation and remains a key channel supporting external reserves. Periods of rising subscriptions have broadly aligned with reserve accumulation, highlighting the close link between capital inflows and liquidity management. Foreign portfolio investment accounts for over 80% of total inflows, with money market instruments contributing nearly 70% of that share. Demand has been supported by naira stability, elevated yields, and improved policy credibility, all reinforcing attractive carry trade opportunities.

This dynamic of hot money influx strengthened after 2022, as tighter liquidity conditions and policy adjustments drove OMO rates higher. Rates increased

from around 8.5% in Q4 2022 to above 15% by early 2024, peaking near 23.6% before moderating in 2025.

Despite this moderation, investor appetite has remained strong. OMO subscriptions rose sharply, from an average of about ₦200 billion in 2024 to significantly higher levels in 2025, reflecting sustained foreign interest driven by favourable risk-adjusted returns relative to advanced markets. However, rising energy prices present a key downside risk. A renewed inflation shock and potential pressure on the real exchange rate could weaken carry trade attractiveness. This may trigger a reassessment of foreign positioning and moderate inflows in the near term.

**Figure 6.3: OMO Auction Results: Average Rates and Subscriptions (N'billion)**



Source: CBN, VNL Capital Research

## FGN Bond Market: Compression vs Historic Curve Inversion,

The liquidity tightening and sustained disinflation since early 2024 have produced one of the strongest fixed-income rallies across emerging markets. Yields across all maturities peaked sharply in the second half of 2024, reaching as high as 21.44% for the 5-year segment, 21.07% for the 20-year and 20.85% for the 4-year. By the second half of 2025 the entire curve had compressed dramatically, with the 30-year yield declining to 14.99%, the 20-year to 15.34%, and the 5-year to 17.11%.

The evolution of the yield curve reveals a pronounced inversion that emerged after the first half of 2024 and deepened through 2025. Limited supply of long-dated paper, combined with falling inflation expectations and anticipated further rate cuts, pushed longer-term yields materially below shorter-term rates. This inversion created attractive relative-value opportunities, enabling investors to lock in higher

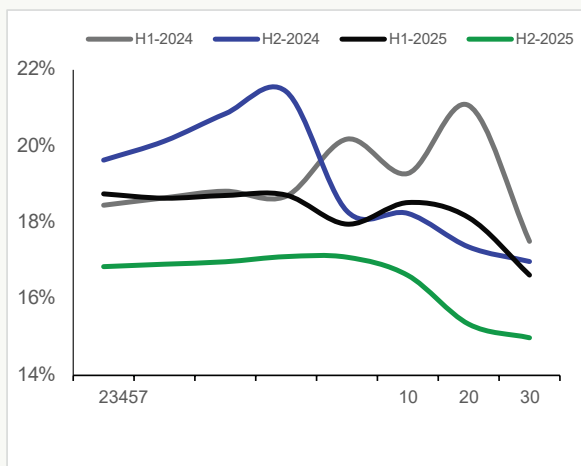
front-end carry while capturing substantial capital gains on the back end as prices rallied strongly. The S&P/FMDQ Bond Index captures this momentum, rising steadily as average yield-to-maturity on FGN bonds declined from a peak of 19.37% in late 2024 to 15.62% by early 2026.

In 2026, liquidity dynamics, particularly fiscal injections from coupon payments and maturities, are likely to put upward pressure on yields. However, we place greater emphasis on inflation as the key anchor for where rates ultimately settle.

This interplay could drive a normalization of the yield curve from its current inverted structure. Against this backdrop, we favour positioning in the short-to-mid segment of the curve for optimal risk-adjusted returns, while maintaining a cautious bias toward underweighting long-duration exposures.

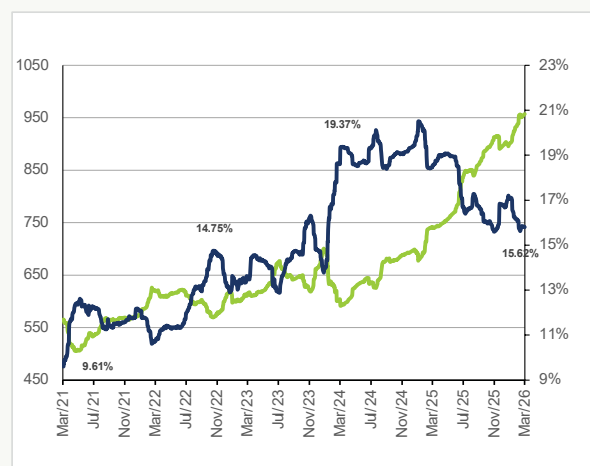
**Figure 6.4 : From Humped to a Smoothed Belly of the Curve**

**Yield Trajectory since 2024: From A hump to Inversion**



Sources: FMDQ, VNL Capital Research

**S&P/FMDQ Bond Index Daily Performance and Average YTM of FGN Bond**



Sources: S&P Global, VNL Capital Research

## Non-Parallel Shift: Hump Curve Positioning Favours Belly Investors in 2025

Across the FGN bond curve, as shown in the table below, yields declined by an average of 300bps. This drove price appreciation of roughly 10% and delivered an average total return of 28.1%. The

2023s segment benefited the most from the bullish sentiment, recording an average total return of 30.1%. Despite this strong performance, the yield curve remains broadly inverted.

**Figure 6.5: Non-Parallel Bullish Shift Favors the 2030s**

Maturity date	Price (NGN)	Coupon	Modified Duration	Convexity	YTM-Jan 3 2025	YTM-Dec 30 2025	Yield Change	Price Return	Total Return
17-Mar-27	93.34	16.3%	0.86	1.1501	20%	16.76%	-3.4%	2.96%	20.4%
20-Mar-27	100.44	19.9%	0.86	1.1591	20%	16.60%	-3.0%	2.66%	22.5%
23-Feb-28	86.07	14.0%	1.57	3.3585	20%	16.85%	-3.3%	5.37%	21.6%
20-Mar-28	102.25	21.0%	1.57	3.3943	20%	16.80%	-3.2%	5.14%	25.7%
28-Nov-28	85.08	15.0%	1.97	5.6291	21%	16.92%	-3.8%	7.94%	25.6%
17-Apr-29	95.61	19.3%	2.04	6.5823	21%	16.98%	-3.9%	8.40%	28.6%
26-Apr-29	81.71	14.6%	2.16	7.0135	21%	16.92%	-4.3%	9.92%	27.7%
22-May-29	75.88	12.5%	2.29	7.4764	21%	16.94%	-4.2%	10.37%	26.8%
20-Nov-29	61.95	8.5%	2.70	10.0001	21%	17.01%	-4.4%	12.97%	26.7%
23-Jul-30	63.16	10.0%	3.04	12.5193	22%	17.12%	-4.6%	15.37%	31.2%
21-Feb-31	88.49	18.5%	2.97	12.6965	22%	17.21%	-4.8%	15.61%	36.5%
27-Apr-32	77.03	12.5%	3.64	20.3494	18%	17.12%	-1.2%	4.45%	20.7%
15-May-33	95.16	19.9%	3.41	19.9725	21%	17.10%	-4.0%	15.33%	36.2%
21-Jun-33	79.02	14.7%	3.82	23.0858	20%	17.07%	-2.8%	11.83%	30.4%
21-Feb-34	92.46	19.0%	3.81	22.7814	21%	16.92%	-3.9%	16.74%	37.3%
18-Jul-34	73.39	12.1%	4.46	30.3382	18%	16.64%	-1.5%	6.83%	23.4%
27-Mar-35	73.72	12.5%	4.34	32.6184	18%	16.81%	-1.4%	6.58%	23.5%
18-Mar-36	71.57	12.4%	4.84	35.9634	18%	16.62%	-1.9%	9.62%	26.9%
18-Apr-37	86.66	16.2%	4.33	35.2259	19%	16.41%	-2.7%	12.82%	31.6%
21-Jun-38	82.84	15.5%	4.64	38.9321	19%	16.18%	-2.8%	14.72%	33.4%
21-Jan-42	74.81	13.0%	5.34	52.3346	18%	15.73%	-2.0%	11.66%	29.0%
24-Jul-45	57.83	9.8%	5.75	63.5861	17%	15.35%	-2.0%	12.93%	29.9%
26-Apr-49	87.29	14.8%	5.44	63.2928	17%	14.93%	-2.1%	12.53%	29.5%
27-Mar-50	76.70	13.0%	5.42	65.3722	17%	15.12%	-1.9%	11.32%	28.2%
21-Jun-53	92.50	15.7%	5.61	65.6533	17%	14.99%	-2.0%	12.51%	29.5%

Sources: FMDQ, VNL Capital Research

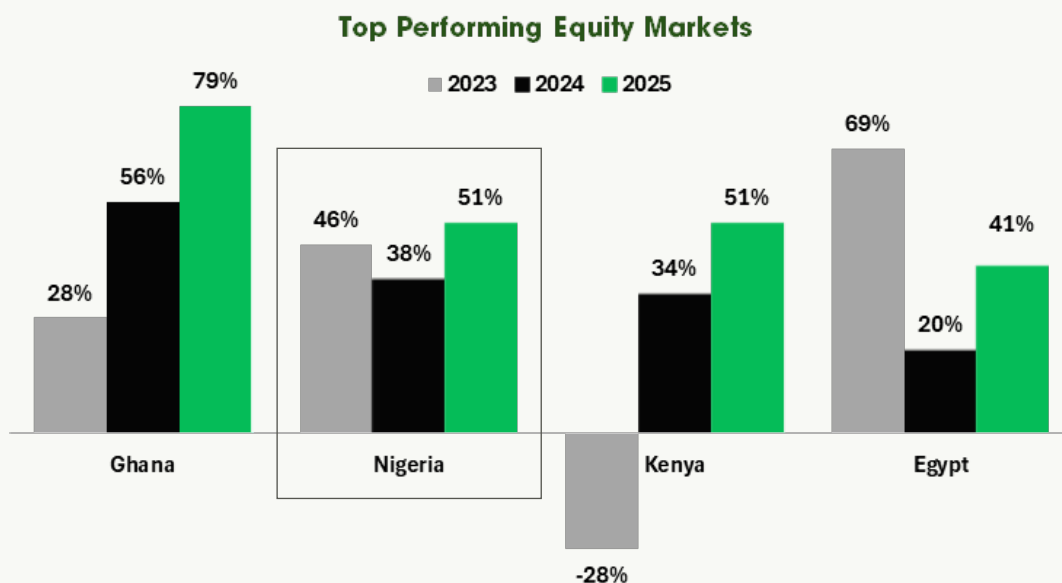
## Local Equities Market

### Relative Performance: Nigeria Among Africa's Top Equity Markets in 2025

Nigeria's equity market posted a robust 51% return in 2025, tying for second place among major African markets. This performance trailed only Ghana's exceptional 79% gain, matched Kenya's 51% return and comfortably outperformed Egypt's 41%. Ghana's outsized return was driven by successful completion of its IMF-supported debt restructuring program and renewed domestic confidence after years of crisis, while Kenya benefited from easing inflation, lower interest rates and a more stable shilling following 2023–2024 volatility. Egypt's more moderate gain reflected ongoing currency reforms and monetary easing under its expanded IMF facility.

Nigeria's performance stood out for its quality and durability, spurred by the unification of the foreign exchange market, removal of fuel subsidies, banking recapitalization and the rebuilding of net usable reserves to \$34.80bn. These structural changes not only reduced corporate FX losses but also restored pricing power and improved earnings across key sectors. The rally reflected the positive impact of macroeconomic reforms that distinguished Nigeria from many regional peers, creating a more durable foundation for equity gains as external buffers strengthened and inflation moderated. This relative outperformance underscores how Nigeria's reform depth has positioned its equity market favorably heading into 2026.

Figure 6.6: Widespread Gains in 2025



Source: African Financials, NGX, VNL Capital Research

## Market Participation: Domestic Flows Dominate as FX Stability Reduces USD Speculation

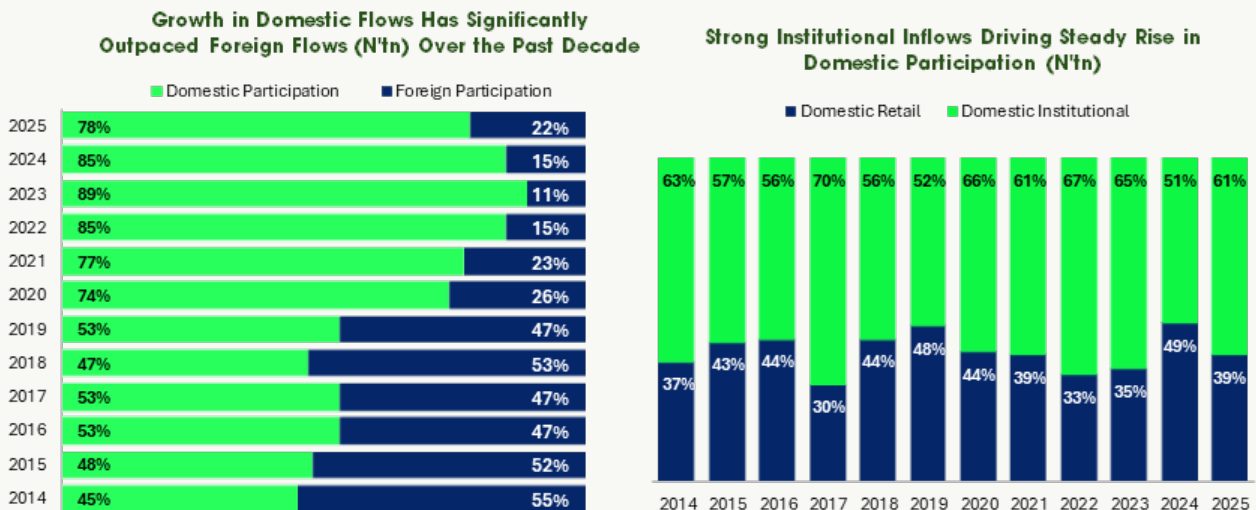
Domestic participation in the Nigerian equity market has risen steadily and now accounts for most of the activity. In 2025, domestic investors drove 78% of total flows, a sharp increase from earlier years (48% in 2022) when foreign participation was far more prominent. This shift reflects growing confidence among local investors, who have increasingly allocated equities as macroeconomic conditions stabilized.

The sustained naira appreciation of 6.12% and the rebuilding of net usable reserves have significantly reduced the previous necessity to hold USD assets as a hedge against currency volatility. With the naira now more stable and external buffers strengthened, domestic capital that once sought safety offshore has

returned to local equities in greater volumes.

A key driver of this domestic dominance has been the growing role of institutional investors, particularly large mutual funds and pension schemes. Many of these institutions effectively pool capital from a broad base of retail savers, meaning the rise in domestic participation still captures renewed retail interest only now it is channeled through more professional and structured vehicles. This institutional layer has broadened and stabilized market participation, creating a more resilient investor base less prone to sudden swings. The combination of returning domestic flows and reduced USD hedging demand has therefore strengthened overall market liquidity and depth heading into 2026.

**Figure 6.7: Stronger Domestic Participation Signals Market Resilience**



Source: African Financials, NGX, VNL Capital Research

## Sector Performance: Consumer Goods and Industrials Lead the 2025 Equity Rally



Sector performance in 2025 showed a clear rotation toward domestically oriented names that benefited most from FX stability and macroeconomic reforms. Consumer Goods delivered the strongest return at 130%, followed by Insurance at 62% and Industrial Goods at 59%. Banking posted a solid 38% gain, while Oil & Gas recorded a marginal decline of 2%.

This pattern marked a sharp contrast to 2024, when Oil & Gas surged 160% and Insurance led at 123%, and to 2023, when Banking returned 112% and Consumer Goods 93%. The 2025 leadership shift directly reflects the impact of naira appreciation, reduced imported inflation and the rebuilding of external reserves, which restored pricing power and margin expansion for local manufacturers and consumer-facing businesses.

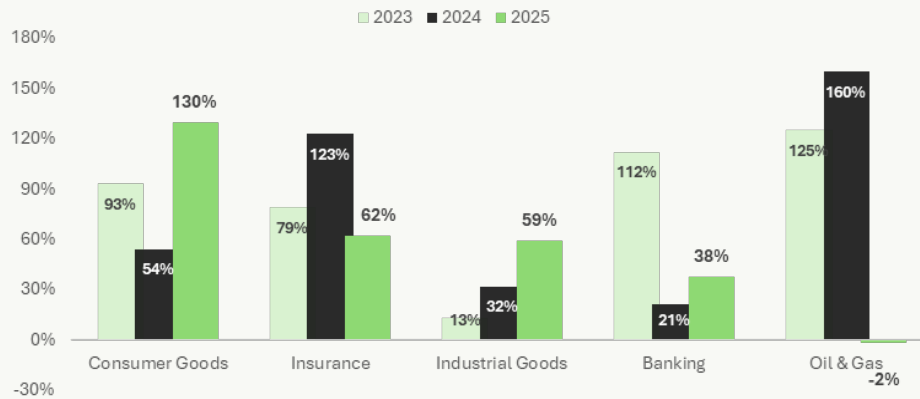
At individual stock level there were standout gains, highlighted by BETAGLAS posting a remarkable 470% return. Within the consumer goods, with GUINNESS delivering 398%, VITAFOAM rising 300%, Champion gaining 267%, and HONYFLOUR advancing 247.62%. Insurance names also featured prominently in the top performers, led by SOVRENINS at 241% and ALLCO at 165%, while Banking stocks such as Wema bank posted 124.18%. In contrast, the Oil & Gas sector

lagged significantly amid global price volatility and profit-taking.




The outperformance of Consumer Goods and Industrials underscores how FX unification has created a more predictable operating environment. These sectors, which previously suffered heavy currency losses, now enjoy improved earnings and stronger domestic demand. Insurance also benefited from recapitalization momentum, while Banking gains were supported by credit growth and valuation re-rating. In contrast, Oil & Gas lagged as global price volatility and profit-taking weighed on the sector after its strong 2024 run.

Heading into 2026, we expect Consumer Goods to remain moderately bullish on continued FX stability and easing inflation, Insurance to sustain momentum from regulatory compliance and recapitalization, Industrials to maintain strength from infrastructure spending, Banking to stay cautiously bullish on credit growth and valuation re-rating, and Oil & Gas to see upstream recovery amid higher global crude volatility. This outlook reinforces our selective preference for high-quality names in Consumer Goods, Industrials and Insurance amid pre-election fiscal pressures.

Figure 6.8: Oil Sector Lost Momentum in 2025



Source: African Financials, NGX, VNL Capital Research

Sector	Top Performers	2025 Return
<b>Consumer Goods</b> 	GUINNESS	
	VITAFOAM	300%
	CHAMPION	267%
	HONYFLOUR	247.62%
	NASCON	242.90%
<b>Insurance</b> 	SOVRENINS	241%
	AIICO	165%
	NEM	144.75%
	UNIVINSURE	83.33%
	MANSARD	67.07%
<b>Industrials</b> 	BETAGLAS	470%
	BERGER	140%
	TRIPPLEG	115%
	WAPCO	92.28%
	BUACEMENT	91.94%
<b>Banking</b> 	WEMABANK	124.18%
	GTCO	59.12%
	ETI	49.64%
	STANBIC	73.61%
	ZENITH	35.82%
<b>Oil &amp; Gas</b> 	ETERNA	17%
	ARADEL	12.04%
	SEPLAT	1.91%
	TOTAL	-8.31%
	OANDO	-39.09%

Source: NGX, VNL Capital Research

## Relative Valuation: Nigeria Offers Attractive Entry Points Among Frontier Markets

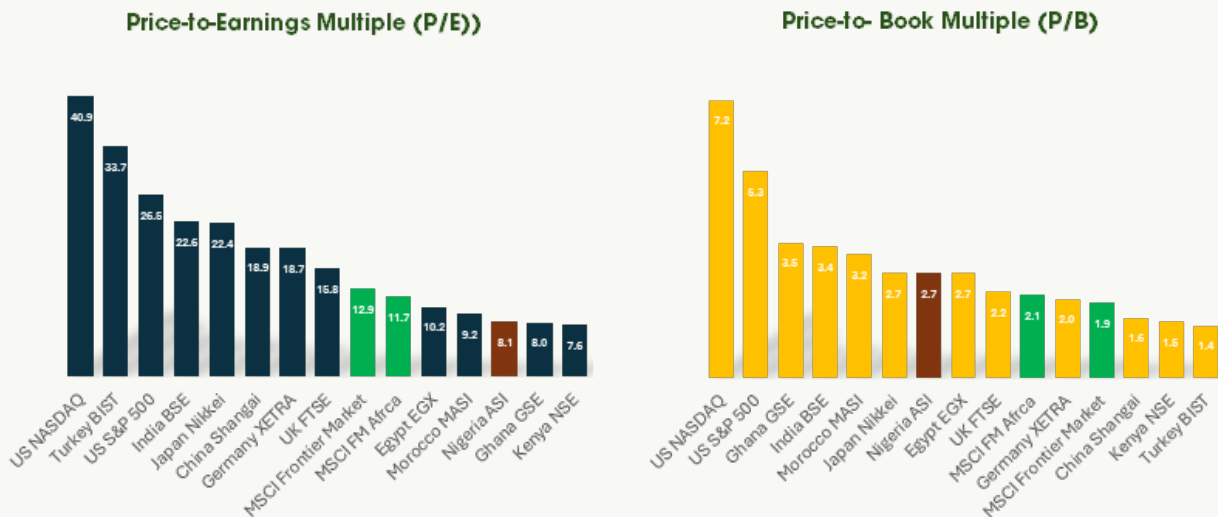
Nigeria's equity market now trades at very attractive valuations compared with both global and regional peers. The NGXASI currently sits at a forward P/E of 7.6 and a P/B of 1.5, among the lowest multiples across frontier and emerging markets. For context, these valuations are significantly cheaper than major markets such as the US NASDAQ (P/E 40.9, P/B 7.2), Turkey (P/E 33.7), and India (P/E 22.6).

This valuation discount creates a clear relative opportunity. With reserves on the rise and sustained naira appreciation, Nigeria offers better risk-reward than many peers where valuations have expanded more aggressively. High-quality names in Consumer Goods, Industrials and Insurance now trade at discounts to historical averages while delivering

strong dividend yields and earnings growth potential. The combination of low multiples and tangible reform-driven fundamentals makes the market one of the most attractively priced in the frontier universe heading into 2026.

We therefore view Nigeria as a selective value play within emerging and frontier markets. While pre-election fiscal pressures may introduce some volatility, the current valuation gap provides a meaningful margin of safety and upside potential for investors positioned in high-quality, domestically oriented stocks. This relative attractiveness reinforces our constructive stance on selective equity exposure for the year ahead.

Figure 6.9: Nigeria Offers Better Risk-Adjusted Return



Source: Bloomberg, MSCI, VNL Capital Research (February 2026)

## Equity Outlook for 2026: Moderate Gains Expected on Reform Foundation and Valuation Support

We expect NGX-ASI to deliver a base-case return of approximately 36.8% in 2026, driven by continued disinflation, further monetary easing and steady corporate earnings growth. Following the strong 2025 performance, we project forward P/E to settle around 8.1x, while EPS growth moderates to 25% in the base case. This outlook is supported by sustained FX stability and relatively stable price level, which together reduce corporate currency risk and improve earnings across key sectors. Institutional and foreign inflows should remain supportive as Nigeria's improved macro credibility continues to attract capital.

Pre-election fiscal pressures and potential widening of the budget deficit introduce some downside risk, but the valuation cushion and reform momentum provide a solid floor. In our base scenario we anticipate orderly market progress without the extreme volatility of prior years, with high-quality names in Consumer Goods, Industrials and Insurance remaining the primary drivers. Overall, Nigeria's equity market offers attractive risk-reward at current levels, balancing moderate upside potential with a reasonable margin of safety heading into 2026.

**Figure 6.10: More Room for Bullish Sentiments**

Parameters	2025	2026		
		Best Case	Base Case	Worst Case
P/E(x)	7.4	8.3	8.1	7.5
EPS Growth (%)	128.17	45	25	0.5
Potential NGXASI Return		<b>62.6%</b>	<b>36.8%</b>	<b>1.9%</b>

Source: Bloomberg, MSCI, VNL Capital Research (February 2026)



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