Between Tightening and Tenacity

Q1 2026 Investor Report

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Table of Content

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Global **Economy**

From Stable Growth to Energy Shock

The year began with the global economy in a cautious but workable balance. The IMF projected 3.3% global GDP growth for 2026, with inflation gradually easing toward 2.6% according to the World Bank. Labour markets were resilient, global unemployment hovered near 4.9%, and central banks believed their tightening cycles were largely complete. Advanced economies were expected to grow by 1.8% and emerging markets by 4.2%. Even Germany and Japan showed early signs of recovery, supported by fiscal expansion. After several turbulent years, the outlook suggested tentative stabilization.

That backdrop changed on February 28, when the United States and Israel launched strikes on Iran and Tehran responded by closing the Strait of Hormuz, the corridor for roughly a fifth of global oil and LNG trade. Oil prices jumped from about $70 to above $100 per barrel, while European natural gas prices rose sharply. The energy shock reignited inflation pressures and constrained central banks. The Federal Reserve, holding rates at 3.50 to 3.75%, faced a dilemma: cutting rates risked stoking inflation, while raising them threatened already slowing growth. Similar constraints confronted the European Central Bank and the Bank of England. Concerns about stagflation moved from research notes into mainstream discussion.

By the end of the first quarter, the outlook had shifted from steady to conditional. Allianz lowered its global growth forecast to 2.6%, and markets anticipated a downward revision to the IMF's earlier projection. U.S. nonfarm payrolls swung from gains in January to losses in February, reflecting policy uncertainty and labour market disruption. Global equities recorded one of their weakest quarters in years, pressured by energy disruption, tightening credit conditions, and a plateau in AI capital expenditure growth. The trajectory for the remainder of 2026 now hinges largely on the duration of the Middle East conflict. A swift resolution would likely confine the damage to a temporary inflation spike, while a prolonged conflict could materially alter the global economic path.

Local **Economy**

Nigeria's Fragile Recovery Meets an External Shock

Nigeria began 2026 with macroeconomic indicators finally improving. Inflation, which stood above 24% in early 2025, declined to 15.06% by February 2026, marking eleven straight months of moderation and the lowest level since 2020. The naira stabilised within a narrow official range of ₦1,340 to ₦1,430 per dollar, easing imported inflation and supporting business confidence. External reserves rose to $50.45 billion, the highest in thirteen years. Output also strengthened, with GDP expanding by 4.07% year on year in the fourth quarter of 2025 and full-year growth reaching 3.87%. Business activity indicators remained in expansion, with PMI readings consistently above 50.

Despite these gains, structural challenges persist. High lending rates continue to limit access to credit, particularly for small and medium-sized enterprises, while weak real incomes constrain consumer demand. Persistent power shortages force firms to rely on diesel and gas generators, raising production and logistics costs. Insecurity in agricultural regions threatens food supply, reflected in food inflation rebounding to 12.12% in February after earlier easing. Although the Central Bank reduced the policy rate by 50 basis points to 26.5%, borrowing costs remain high, and the impact on the real economy has been limited.

This fragile recovery now faces an external shock. The conflict involving the United States, Israel, and Iran pushed Brent crude prices above $100 per barrel in March, far above Nigeria's budget benchmark of $64.85. While this presents a potential fiscal windfall through higher oil revenues, it also raises domestic fuel and energy costs. The risk is that rising energy prices reverse recent disinflation through higher transport, food, and production costs. How Nigeria manages this trade-off between revenue gains and inflation control will shape the country's economic path through 2026.

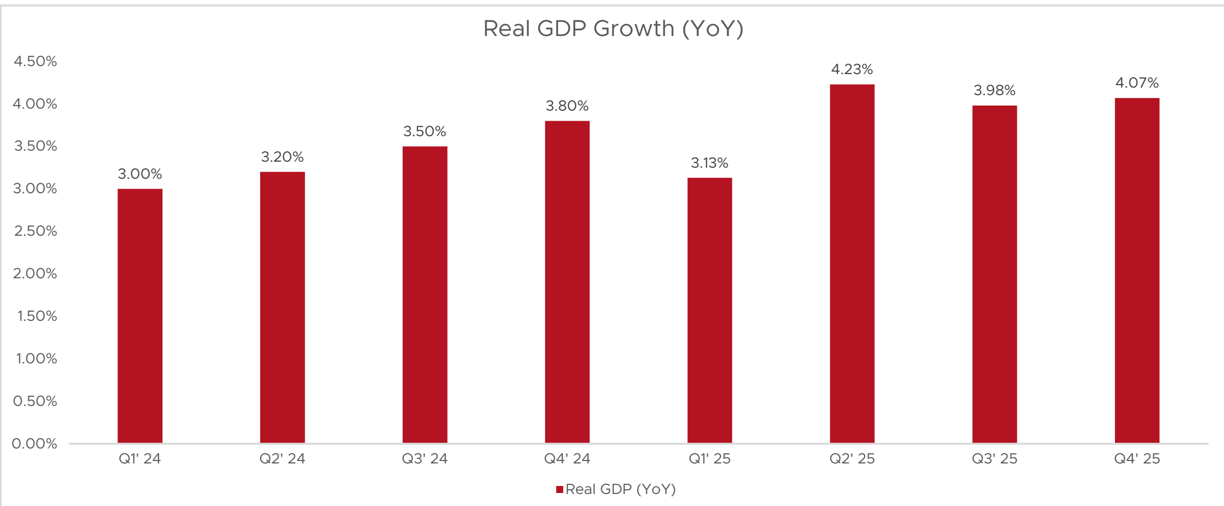
Gross **Domestic Product**

Nigeria's Growth Momentum Faces an External Shock

Nigeria entered Q1 2026 with its strongest growth in nearly a decade. Real GDP rose 4.07% year on year in Q4 2025, lifting full-year growth to 3.87% from 3.4% in 2024. Expansion was driven by the non-oil economy, which represents over 96% of output. Agriculture grew 4%, information and communication 7.55%, finance and insurance 8.30%, and construction 5.08%. Services, about half of GDP, remained the main engine, while oil's contribution was still modest. Business activity stayed in expansion, with PMI readings above 50.

Outlook

Forecasts for 2026 were positive at about 4.3% to 4.4%, supported by currency stability, easing inflation, stronger reserves, and better oil production. However, oil above $100 after the Strait of Hormuz disruption now threatens higher operating costs, weaker demand, and slower growth into Q2.



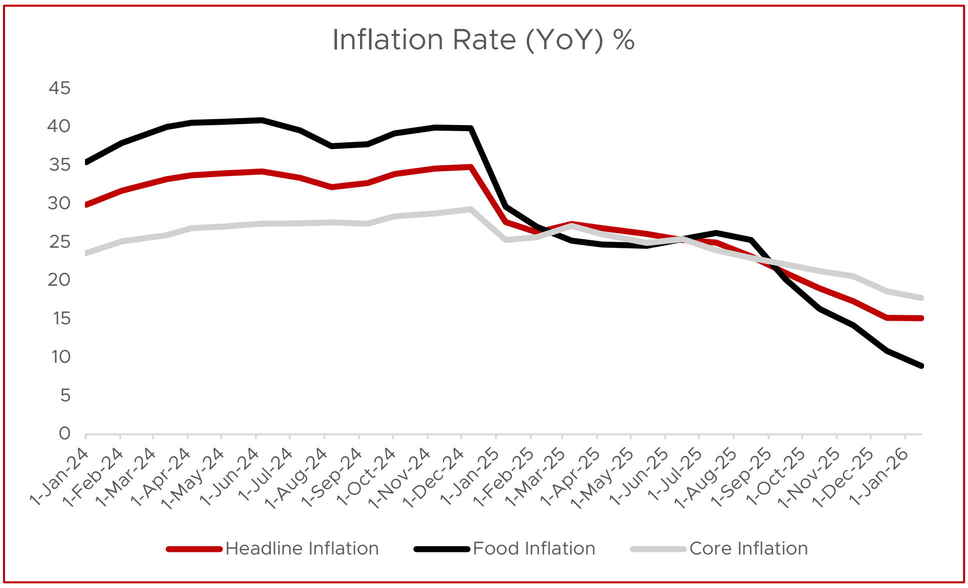
Inflation

Eleven Months of Progress, One New Threat

Nigeria's headline inflation fell to 15.10% in January 2026, the eleventh straight decline from above 30% in 2024. Food (8.89%) and core (17.72%) eased, and month-on-month inflation turned negative (–2.88%). CPI rebasing by the National Bureau of Statistics lowered levels, but the disinflation trend was broadly validated. February flagged fragility: food inflation rebounded to 12.12% despite stable headline prints. With oil above $100, fuel and logistics costs risk feeding back into prices.

Outlook

The eleven months of hard-won progress are not yet undone, but they are under genuine pressure. The trajectory for the rest of 2026 depends heavily on how long crude stays above $100 and how effectively the government manages domestic fuel price transmission.



Monetary **Policy**

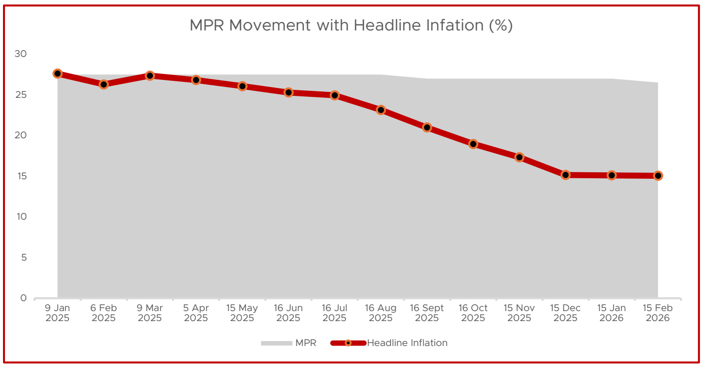
A Cautious Pivot at a Delicate Moment

For most of 2024 and 2025, the Central Bank of Nigeria (CBN) pursued an aggressive tightening cycle, raising the Monetary Policy Rate (MPR) to a peak of 27.5% to combat inflation. By Q1 2026, improving price dynamics allowed a cautious shift in stance. At its 304th MPC meeting on 24 February 2026, CBN cut the MPR by 50 basis points to 26.5%, marking its first reduction of the year.

However, policy easing was deliberately restrained. The Cash Reserve Ratio remained at 45% for commercial banks and 16% for merchant banks, while the Liquidity Ratio stayed at 30%, signaling a measured recalibration rather than full monetary easing. CBN attributed the disinflation trend to lagged effects of prior tightening, FX stability, stronger capital inflows, and an improved balance of payments. External reserves stood at $50.45 billion, covering 9.68 months of imports, the highest in 13 years.

Outlook

The central bank warned that election-related fiscal spending ahead of 2027 and the recent global oil price shock could re-ignite inflationary pressures. Policy direction now hinges on balancing growth support with price stability under rising external uncertainty.



Capital **Importation**

Nigeria's Capital Inflows Surge, but Quality of Investment Remains a Concern

Nigeria recorded a strong rebound in capital imports, rising to $23.22 billion in 2025 from $12.32 billion in 2024, nearly doubling year-on-year. Inflows accelerated through the year, with Q4 2025 reaching $6.44 billion, supported by naira stability, improved FX transparency, high domestic interest rates, and rising external reserves. The banking sector dominated inflows, accounting for 59.75% of Q4 capital, followed by financial services at 30.15%, reflecting strong participation in high-yield fixed-income and money-market instruments.

However, the composition of inflows reveals a structural weakness. Foreign direct investment remained minimal at $923.01 million, just 3.97% of total inflows, while portfolio flows accounted for over 80% each quarter. Manufacturing received only $463.52 million, highlighting limited investment in productive capacity. This heavy reliance on short-term "hot money" exposes the economy to sudden reversals if global risk sentiment or interest rate differentials shift.

Outlook

While FX stability, strong reserves, and gradual monetary easing support continued inflows into 2026, risks remain elevated. Security concerns, election uncertainty, infrastructure constraints, and global energy volatility could weaken investor confidence. The headline recovery is strong, but its foundation remains fragile.

System **Liquidity**

Liquidity Volatility Tests CBN Sterilization Strategy

Q1 2026 began with aggressive liquidity tightening by the CBN, which withdrew ₦13.41 trillion in January, nearly five times the amount sterilized a year earlier. This led to a 5.5% decline in bank reserves, a 0.8% contraction in M3, and softer private sector credit. However, the tightening proved temporary as maturing OMO and Treasury bill repayments flooded the system, pushing liquidity at the Standing Deposit Facility to ₦8.06 trillion by mid-March.

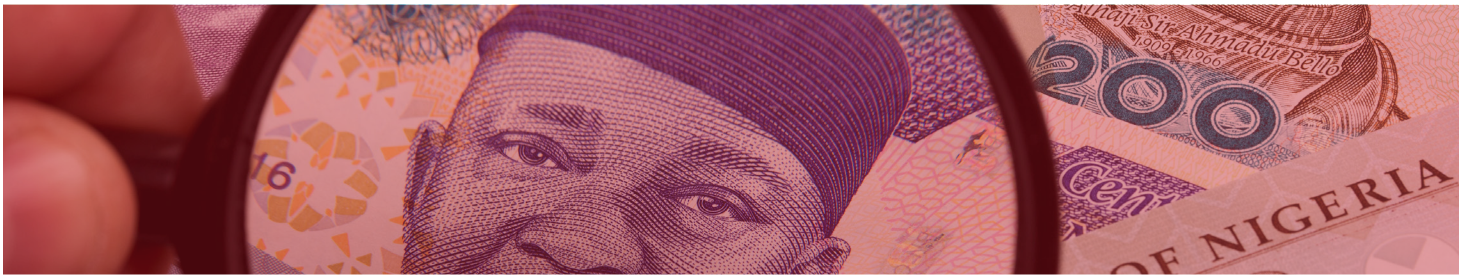
Despite a ₦2.36 trillion OMO mop-up, liquidity quickly rebounded, highlighting the structural challenge of rolling maturities and persistent inflows.

Outlook

CBN is expected to maintain aggressive sterilization, but risks remain that excess liquidity could spill into inflation and FX pressure, especially amid rising global oil-driven cost pressures.

Treasury **Bill Market**

Strong Demand Drives Nigerian T-Bills Market Amid Early Yield Compression



Tenor	Feb'26 Auc 2	Mar'26 Auc 1	Mar'26 Auc 2	Mar'26 Auc 3	Mar'26 Auc 4	Change M-o-M (basis points)
91	15.80%	15.95%	15.95%	15.95%	15.95%	0.00
182	16.65%	16.50%	16.65%	16.62%	16.42%	0.00
364	15.90%	16.73%	16.72%	16.63%	16.43%	0.01

Nigeria's Treasury Bills market delivered a strong Q1 2026 performance, marked by intense investor demand, heavy oversubscription, and a gradual shift toward longer maturities. At the January auction, the DMO raised ₦1.144 trillion against a ₦850 billion offer, with subscriptions reaching ₦1.38 trillion. Demand was heavily concentrated in the 364-day bill, which alone attracted ₦987.78 billion, reflecting strong appetite for yield in a high-rate environment, with stop rates at 18.47%.

Momentum strengthened further in March, when subscriptions surged to ₦2.78 trillion versus an ₦850 billion offer, a 227% oversubscription. The CBN allotted ₦933.92 billion, while the 364-day yield edged slightly lower, signalling the early impact of monetary easing following the February policy rate cut.

Outlook

The CBN plans ₦3.95 trillion in Q2 auctions against ₦3.2 trillion maturities, maintaining tight liquidity conditions ahead of the 2027 election cycle. While yields are expected to gradually decline with disinflation, they will likely remain elevated. The main risk is a reversal in inflation progress due to global oil shocks, which could keep yields high and constrain private sector credit.

Tenor	Dec'25 Auc 2	Jan'26 Auc 1	Jan'26 Auc 2	Change M-o-M (basis points)
91	15.50%	15.80%	15.84%	0.00
182	15.95%	16.50%	16.65%	0.01
364	17.51%	18.47%	18.36%	0.01

Tenor	Jan'26 Auc 2	Feb'26 Auc 1	Feb'26 Auc 2	Change M-o-M (basis points)
91	15.84%	15.84%	15.80%	0.00
182	16.65%	16.50%	16.65%	0.00
364	18.36%	16.98%	15.90%	-0.02

FGN **Bond Market**

Record Demand Drives Nigerian FGN Bond Market Amid High-Yield Environment

Nigeria's FGN bond market delivered a standout Q1 2026 performance, with demand consistently outpacing supply. The Debt Management Office (DMO) raised ₦2.7 trillion, up 38.76% year on year, against ₦5.88 trillion in total subscriptions, reflecting strong institutional appetite. Pension funds and asset managers dominated participation, driven by yield attraction and capital preservation needs.

January set the tone with ₦1.54 trillion allotted versus a ₦900 billion offer, with stop rates around 17.5%–17.6%. February saw sustained demand as issuance rose 128.6% year on year, while March showed early signs of repricing as stop rates on key maturities widened, reflecting shifting liquidity conditions.

Outlook

The DMO is expected to remain highly active given Nigeria's ₦68 trillion 2026 budget and large financing gap, keeping yields elevated. However, rising debt service costs and potential inflation risks from global oil price shocks could pressure the market. While demand remains strong, Nigeria's bond market is increasingly carrying fiscal financing burden amid limited revenue expansion.

FGN **Bond Market (contd.)**

Record Demand Drives Nigerian FGN Bond Market Amid High-Yield Environment

JANUARY 2026 BOND AUCTION RESULT							
Non-comp	Maturity	Offer (bn)	Sub (bn)	Allot (bn)	Marginal Rate	Rate	Change M-o-M (basis points)
	21-Feb-31	300.00	514.45	398.19	17.62%	19.33%	(171.00)
	21-Feb-34	400.00	1007	576.33	17.50%	20.00%	(250.00)
	29-Jan-35	200.00	975.21	570.16	17.52%	22.60%	(508.00)
		900.00	2496.66	1544.7			

FEBRUARY 2026 BOND AUCTION RESULT							
Non-comp	Maturity	Offer (bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	Rate	Change M-o-M (basis points)
	25-Jun-32	400.00	851.59	188.14	15.68%	15.74%	(15.58)
	15-May-33	300.00	874.69	208.63	15.59%	15.74%	(15.58)
	21-Feb-34	100.00	972.93	127.51	15.59%	15.50%	(15.34)
		800.00	2699.21	524.27			

MARCH 2026 BOND AUCTION RESULT							
Non-comp	Maturity	Offer (bn)	Sub (₦'bn)	Allot (₦'bn)	Marginal Rate	Rate	Change M-o-M (basis points)
	21-Aug-30	250.00	251.43	88.797	15.68%	16.00%	(15.84)
	20-Jun-32	200.00	217.87	63.997	15.59%	16.15%	(15.99)
	15-May-33	300.00	462.21	332.71	15.59%	16.64%	(16.48)
		750.00	931.51	485.50			

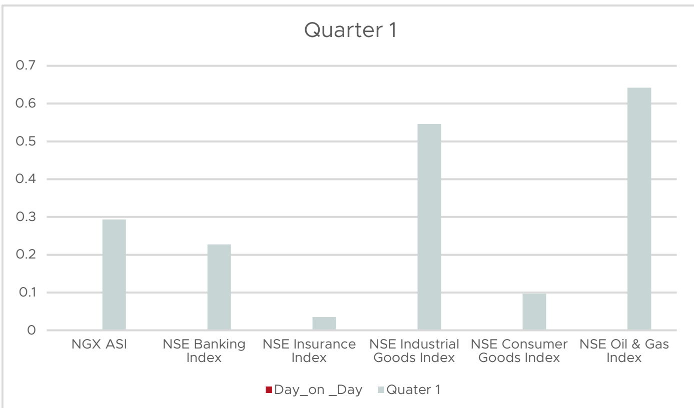
Nigeria **Equities Market**

Q1 2026 was nothing short of historic for Nigeria's equities market. The NGX All-Share Index surged 29.35% year-to-date, climbing from 155,613 points at the start of January to 201,287 points by the end of March — the highest level ever recorded in the history of the Nigerian stock market. Market capitalisation rose from ₦99.38 trillion to ₦129.21 trillion, a ₦29.83 trillion gain in just three months.

The rally was broad-based but heavily led by industrial goods and telecoms. BUA Cement surged 83% to ₦11.06 trillion in market cap, Dangote Cement rose 33% to ₦13.67 trillion, and Lafarge WAPCO gained 63.5% — with industrial goods alone adding ₦9.79 trillion to market value. Three forces drove the rally: strong 2025 full-year corporate earnings, the completion of the CBN's banking recapitalisation exercise, which saw 33 banks collectively raise ₦4.61 trillion, injecting significant liquidity and broadening investor participation and a rotation out of fixed income as real returns on NTBs and bonds began to compress. Globally, the NGX ranked as the second-best performing stock exchange in Q1 2026, trailing only South Korea's 44.3% return, a remarkable statement for an emerging market navigating inflation, high interest rates, and a Middle East energy shock simultaneously.

Outlook

The rally is real, but the risks are equally real. Rising Middle East tensions are pushing global investors toward developed markets and away from emerging and frontier plays like Nigeria.



Foreign **Exchange**

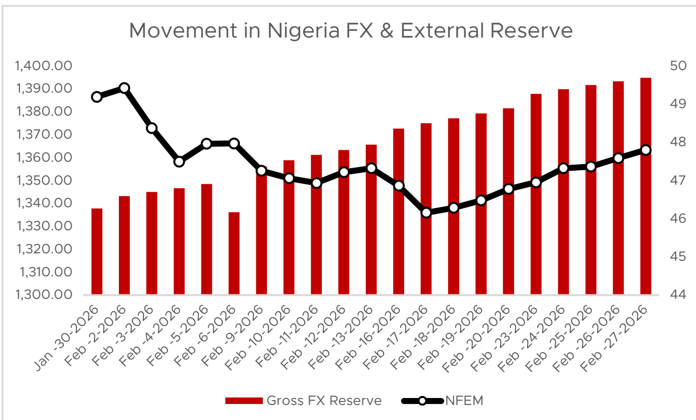
Naira Stability Returns Amid Structural FX Reforms

The naira delivered its strongest period of stability in years during Q1 2026, trading within a relatively tight band of ₦1,340 to ₦1,430 per dollar in the official market. This marked a sharp contrast to the volatility of 2023–2024, when the currency weakened dramatically. By end-2025, the naira had already recorded a 6.5% annual appreciation, its first full-year gain since 2012, and Q1 2026 consolidated that recovery.

Stability was driven by stronger fundamentals: external reserves reached $50.45 billion, diaspora remittances rose to about $600 million monthly, and improved FX liquidity followed renewed access for BDCs to official dollar sales. The spread between official and parallel markets narrowed significantly, reflecting reduced speculative pressure.

Outlook

While fundamentals remain supportive, the naira faces renewed pressure from global risk sentiment tied to the Middle East oil shock. Higher oil prices support inflows but also trigger capital outflows. The currency is expected to trade broadly between ₦1,400 and ₦1,500, assuming reforms hold and oil output remains stable.



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