

2025 Macro Economic **OUTLOOK**

Looking forward to the future



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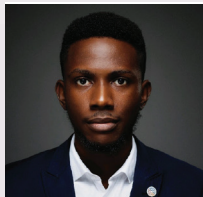
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Message from Partners



Dear Recipient,

Welcome to 2025 once again!

I am pleased to present the Comercio Partners' research report, which I believe provides a comprehensive analysis of the current market landscape and emerging trends in our industry that deserves any serious investors/stakeholders attention.

This report is a testament to our commitment to staying ahead of the curve and continually seeking opportunities for growth and innovation.

Our team has meticulously gathered and analyzed data from various sources to offer valuable insights that will guide our strategic decisions and also help us better serve our clients.

As we continue to navigate the ever-evolving market landscape, there will definitely be a new game, a new market, a new product and a new challenge , any business should have a process to hold out for game winning strategy by developing a strategic successful business litmus test that are focused on areas of growth and profitability .

So , I encourage you to thoroughly review this report and enjoy the contents that have been served for your business success/delight.

Thank you for your continued dedication and commitment to our company's success.



Stephen Osho
CEO, Comercio Partners
Capital

Message from Partners



Dear Valued Stakeholders,

As we step further into 2025, I want to take a moment to reflect on the journey we've shared and the exciting path that lies ahead. This year promises to be a transformative one, shaped by both the lingering effects of 2024's reforms and the dynamic shifts in the global economic landscape.

Our 2025 Macro Report is more than just a collection of data and insights—it's a roadmap designed to help you navigate the complexities of this evolving environment. From the ripple effects of the "America First Policy" to the localized impacts of recent reforms, the report provides a clear lens through which to view the opportunities and challenges that await.

What sets us apart at Comercio Partners is our unwavering commitment to innovation and adaptability. This report embodies that spirit, offering actionable strategies to not only weather the uncertainties of the year but to thrive amidst them. I encourage you to dive into its pages, as it holds the key to unlocking growth and resilience for your endeavors.

Thank you for your continued trust and partnership. Together, I am confident we will turn the challenges of 2025 into opportunities for success.

Here's to a year of bold decisions and remarkable achievements!

Warm regards,



Tosin Osunkoya
CEO, Comercio Partners
Asset Management

Message from Partners



I know we are in February , but I would still like to wish you a Happy New Year.

I am excited to present to you our 2025 Macro report.

The year 2025 will surely be an interesting one. The current administration introduced a number of reforms in 2024. We felt the impact of some immediately, whilst some have a lag effect, with the impact felt in 2025 and beyond. Add the changes going on globally, especially in the United States with their President introducing the “America First Policy”, and you will understand why I said, it will be an interesting year.

As we navigate the year, we need to remain ahead of the curve, and I hope that this economic report will help you achieve that.

I know it is a voluminous report but do take time to review it as it could help you prepare for the year ahead.

Thank you for the support over the year and your faith and trust in Comercio Partners over the years.



Nnamdi Nwizu
CEO, Comercio Partners
Trading

Executive Summary: Comercio Partners 2025 Outlook Report

As we step into 2025, **Comercio Partners** remains steadfast in delivering forward-thinking insights to navigate an increasingly complex global and local investment landscape. The year ahead presents a dynamic interplay of **macroeconomic shifts, geopolitical recalibrations, and policy-driven market realignments**, all of which will shape capital flows and asset performance across markets.

Globally, 2025 marks a pivotal year. The world economy is poised for a slowdown as the aftereffects of aggressive monetary tightening in 2023–2024 filter through financial systems. Central banks, particularly the **U.S. Federal Reserve**, are expected to pivot towards a more accommodative stance, though the extent of rate cuts remains uncertain given lingering inflationary pressures. The U.S. economy faces a complex mix of potential fiscal expansion under the Trump administration and a recalibration of monetary policy. Meanwhile, **China's economy** struggles with structural imbalances, weak domestic demand, and a volatile real estate sector, leading to downward revisions in growth expectations. These global economic shifts will have cascading effects on capital markets, risk sentiment, and emerging market debt pricing.

Closer to home, **Nigeria's macroeconomic trajectory** will be defined by inflation trends, exchange rate stability, and fiscal expansion. Following the sharp depreciation of the naira in 2024, policy adjustments, improved external reserves, and enhanced local refining capacity are expected to drive relative exchange rate stability. The recalibration of GDP through rebasing and Nigeria's balance of payments improvement will offer a more accurate reflection of the economy's growth potential. However, persistent inflationary pressures, fiscal constraints, and elevated interest rates will continue to shape business sentiment and investment flows.

The fixed-income market, particularly for SSA Eurobonds, will be shaped by the Federal Reserve's rate trajectory and Nigeria's improving credit profile. Nigeria's successful re-entry into the Eurobond market, coupled with rising foreign reserves and

fiscal reforms, signals renewed investor confidence. However, external pressures, including global liquidity conditions and investor risk appetite, will remain key determinants of sovereign debt performance. Sub-Saharan Africa's sovereign debt landscape remains mixed, with South Africa benefiting from improved political stability and fiscal reforms, while Kenya and Ghana face heightened risks due to fragile debt sustainability and credit downgrades. **Ghana's post-restructuring debt market** faces a delicate recovery phase.

In **commodities**, gold is set for a steady bullish trajectory, driven by **central bank purchases and global de-dollarization efforts**. Despite potential headwinds from a stronger U.S. dollar and fluctuating real yields, gold's safe-haven appeal remains intact. The **oil market**, however, presents a more complex outlook, with **OPEC+ adjusting supply strategies** amid a backdrop of muted global demand growth and geopolitical uncertainties.

The **Nigerian equity market** remains a landscape of **both opportunity and caution**. While high interest rates in early 2025 may initially pressure valuations, potential rate cuts later in the year could revive market sentiment. **Consumer goods firms** will seek relief from inflationary pressures, while the **oil & gas sector** is poised to benefit from domestic refining transformation. **Banks will navigate capital raises and regulatory shifts**, while the **telecom sector** anticipates a rebound following a difficult 2024, supported by tariff adjustments and operational efficiency improvements.

In this evolving financial landscape, **Comercio Partners** remains committed to identifying **high-conviction investment opportunities while mitigating risks**. 2025 will be a year of strategic positioning—**agility, insight, and foresight will determine success**. Our research, expertise, and market intelligence will continue to serve as the foundation for helping clients navigate a rapidly shifting investment climate, ensuring informed and forward-looking decision-making.



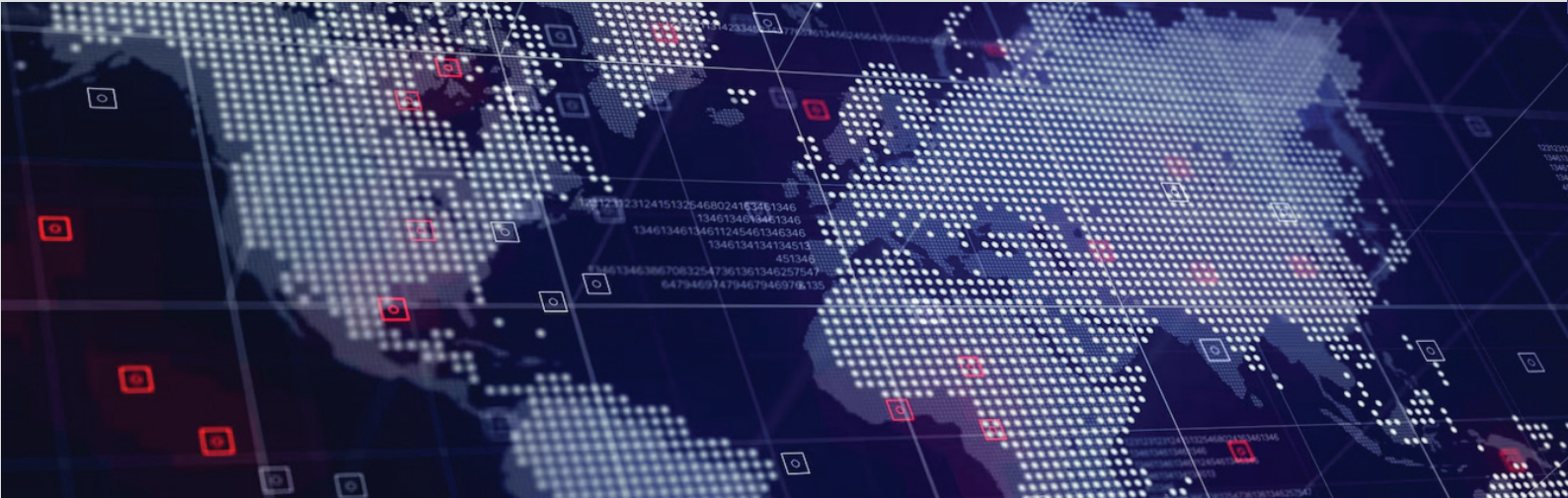


SECTION A:

Global Macroeconomic Outlook 2025

CHAPTER 1

The World Economy In 2025



1. General Overview

Global economic growth in 2025 is projected to remain subdued, reflecting a continuation of trends observed post-pandemic. Both advanced and developing economies are expected to experience slower growth rates compared to the decade

preceding the pandemic. Persistent macroeconomic challenges, shaped by geopolitical tensions and restrictive monetary policies, underpin this moderate outlook.



Source: Data sourced from World Bank¹, IMF², and Fitch³

- World Bank, Global Economic Prospects (Washington, DC: World Bank, 2024), <https://doi.org/10.1596/978-1-4648-2058-8>.
- International Monetary Fund, World Economic Outlook: Policy Pivot, Rising Threats (Washington, DC: International Monetary Fund, 2024).
- Fitch Ratings, "Global Economic Outlook," Fitch Ratings, September 2024, <https://www.fitchratings.com/research/sovereigns/global-economic-outlook-september-2024-10-09-2024>.



While geopolitical conflicts and persistently high interest rates will create challenges, our analysis suggests that the global economy is not at

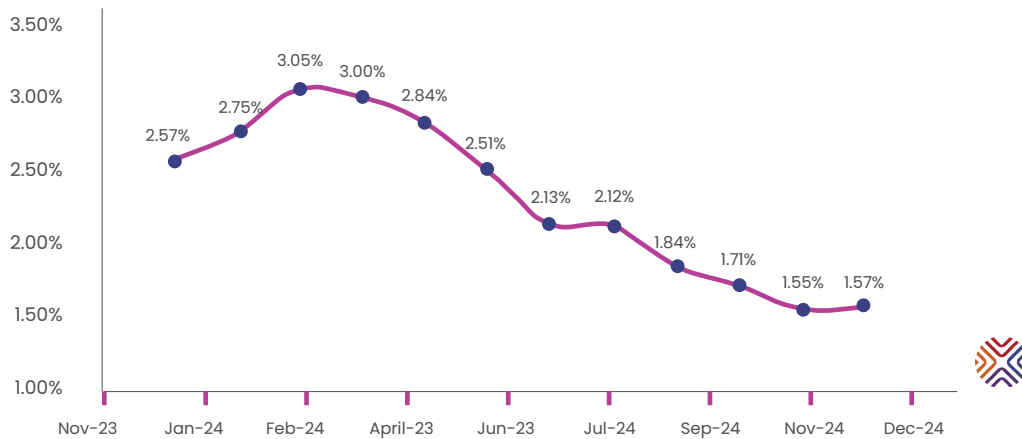
immediate risk of recession within 2025. However, structural changes and shifting dynamics will heavily influence the global growth trajectory.

2. Anchors of Stability: Domestic Demand and Consumer Resilience

While aggregate growth is expected to remain subdued, we anticipate that developing economies will provide crucial support for the global economy. In many of these economies, strengthening domestic demand will serve as a stabilizing force. This recovery, driven by easing inflationary pressures and a cyclical

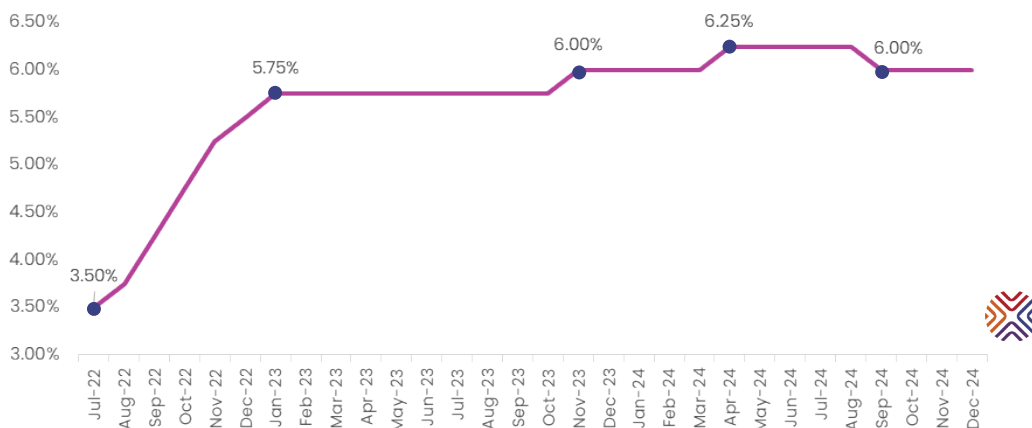
upturn, is expected to mitigate the adverse effects of sluggish industrial performance and the lingering impact of restrictive financial conditions. Although borrowing costs remain restrictive, their decline is likely to offer some support for consumption and investment in developing countries

Indonesia’s Inflation has Decelerated from March’s Peak



Source: Data sourced from Bank Indonesia⁴

Indonesia’s Policy Rate Appears to be Pivoting Towards the downside



Source: Data sourced from Bank Indonesia⁵

4. Bank Indonesia, "Inflation Data," last modified 2025, <https://www.bi.go.id/en/statistik/indikator/data-inflasi.aspx>.

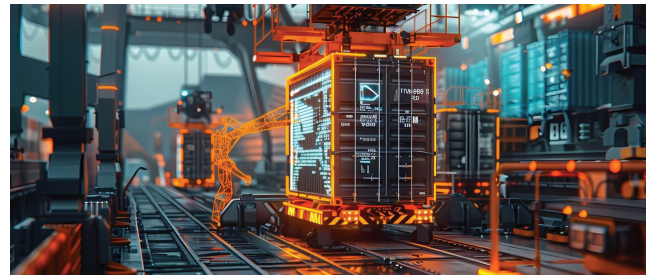
5. Bank Indonesia, "BI-Rate," last modified 2025, <https://www.bi.go.id/en/statistik/indikator/BI-Rate.aspx>.

Consumer resilience in certain regions is anticipated to further support economic activity, providing a modest counterbalance to the broader global slowdown.

3. Forces Shaping the Economic Landscape

3.1 The New Geopolitics: Resilience Over Efficiency

Geopolitical developments will be a critical determinant of economic trends in 2025. As countries prioritize resilience over efficiency, industrial policies will shift toward domestic production, particularly in strategic sectors. This pivot, marked by expanded tariffs and sanctions, aims to reduce external dependencies but risks fragmenting global value chains and reducing overall efficiency.



3.2 AI at the Helm: Technology's Dual-Edged Impact

Investment in technology, particularly artificial intelligence (AI), is anticipated to drive productivity improvements across industries. AI-powered automation and machine learning are transforming sectors, enhancing efficiency, and fostering innovation.

However, these advances pose challenges, especially in labor markets, where automation displaces routine tasks traditionally performed by humans.



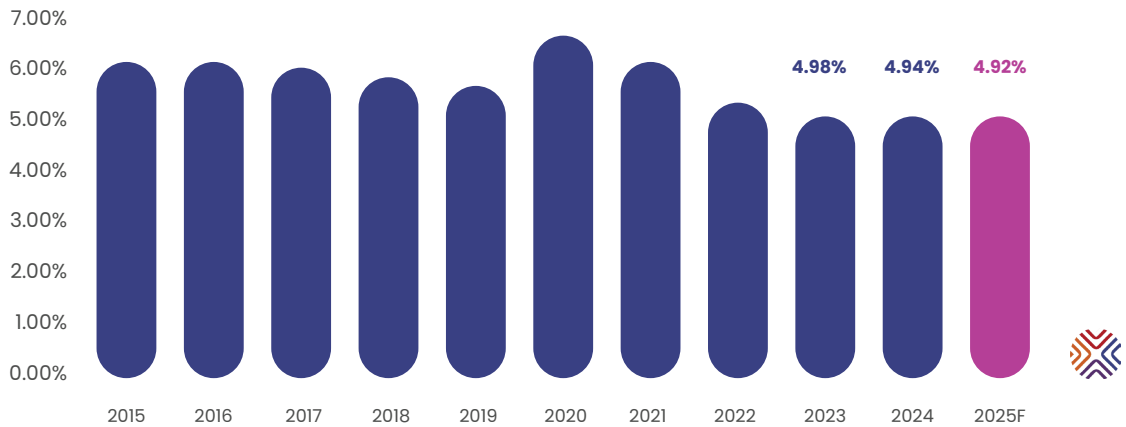
3.3 The Workforce in Flux: Adapting to Technological Shifts

Elevated unemployment levels are expected to persist through 2025, as projected by the International Labour Organization (ILO).⁶ This will be likely influenced by the dual pressures of economic adjustment and technological disruption. Automation and AI investments are reshaping labor markets, with significant implications for global employment.



6. International Labour Organization, "World Unemployment Rate," [rshiny.ilo.org](https://rshiny.ilo.org/dataexplorer53/?lang=en&segment=indicator&id=UNE_2EAP_SEX_AGE_RT_A), accessed 2024, https://rshiny.ilo.org/dataexplorer53/?lang=en&segment=indicator&id=UNE_2EAP_SEX_AGE_RT_A.

Global Unemployment Rate is Expected to Remain at 4.9% Level

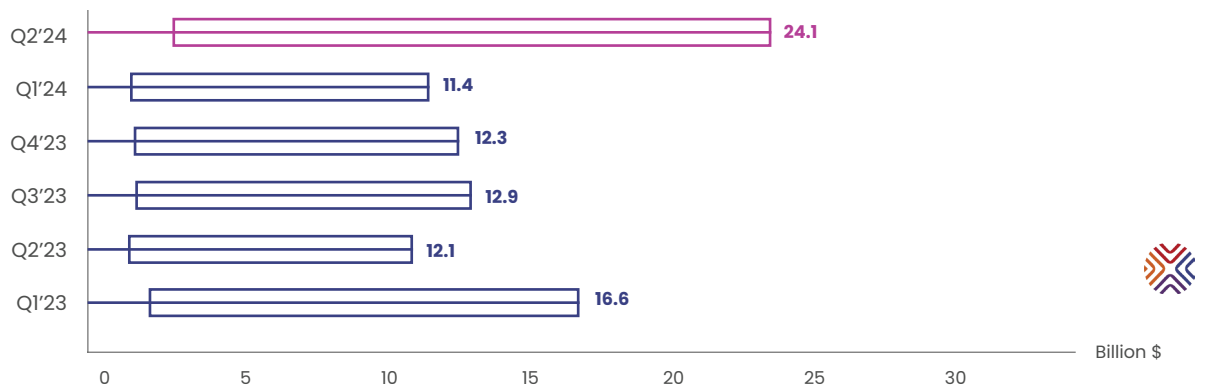


Source: Data sourced from the International Labour Organization (ILO) ⁷

Between April and June 2024 alone, global AI start-up investment surged to \$24 billion, contributing to a 16% increase in overall start-up funding for the period.⁸ While transformative for productivity, these advancements heighten unemployment risks,

particularly in industries such as manufacturing, transportation, and finance. AI-powered tools like chatbots, robotic process automation (RPA), and autonomous vehicles are displacing jobs, and heightening unemployment risks.

Funding to AI Startups Rose Significantly in Q2 2024 (Billion Dollars)



Source: Data sourced from Crunchbase⁹

Studies by McKinsey suggest that automation could displace up to 800 million jobs globally by 2030.¹⁰ Generative AI, capable of automating up to 70% of

workers' tasks, underscores the urgency of reskilling initiatives to mitigate labor market disruptions.¹¹

7. International Labour Organization, "World Unemployment Rate,"
 8. Reuters Staff, "AI Startup Funding More than Doubles in Q2, Crunchbase Data Shows," Reuters, July 9, 2024, <https://www.reuters.com/technology/artificial-intelligence/ai-startup-funding-more-than-doubles-q2-crunchbase-data-shows-2024-07-09/>.
 9. Ibid.
 10. James Manyika et al., Jobs Lost, Jobs Gained: What the Future of Work Will Mean for Jobs, Skills, and Wages (McKinsey & Company, November 28, 2017), <https://www.mckinsey.com/featured-insights/future-of-work/jobs-lost-jobs-gained-what-the-future-of-work-will-mean-for-jobs-skills-and-wages>.
 11. Index, "Generative AI for Business Automation: Improving Efficiency & Reducing Cost," Index.dev, May 2024, <https://www.index.dev/blog/generative-ai-business-automation-efficiency-cost>.



4. Inflation and Interest Rate Outlook

4.1 Inflation Dynamics

While the acute phase of the cost-of-living crisis may have passed, inflationary pressures remain elevated. Structural factors, including demographic shifts, stricter immigration controls, and supply chain realignments, are reinforcing higher wage demands and production costs.

Developing economies, in particular, face heightened inflationary pressures due to their vulnerability to

commodity price volatility and geopolitical shocks. A potential escalation of geopolitical tensions, similar to events in 2022, could disrupt commodity markets, further strain supply chains, and disproportionately affect low-income economies. The chance of escalation in geopolitical tensions has increased since Donald Trump emerged as the winner of the US 2024 Presidential Election.

4.2 Central Bank Policy

Cooling labor markets provide central banks some leeway to adjust monetary policies. **We expect Institutions such as the Federal Reserve, European Central Bank (ECB), and Bank of England (BOE) to consider more but measured interest rate reductions in 2025, balancing inflation control with economic stability.**



CHAPTER 2

U.S. Economic Outlook 2025: Resilience Amid Slowdowns



1. Shifting Sands: Navigating a Decelerating Economy

As the U.S. economy enters 2025, it faces a delicate balancing act. Growth remains resilient for now, buoyed by strong household finances and technological investment. However, signs of a gradual slowdown are emerging, driven by waning fiscal support, changing consumption patterns, and persistent inflationary pressures.

Therefore, we expect US economic growth to slow in 2025, however, avoiding a recession.

Monetary policy, particularly the Federal Reserve's interest rate trajectory, will continue to shape economic behavior. Yet, structural factors may limit the impact of rate adjustments on investment and consumer activity in the short run.

2. Economic Drivers in Focus

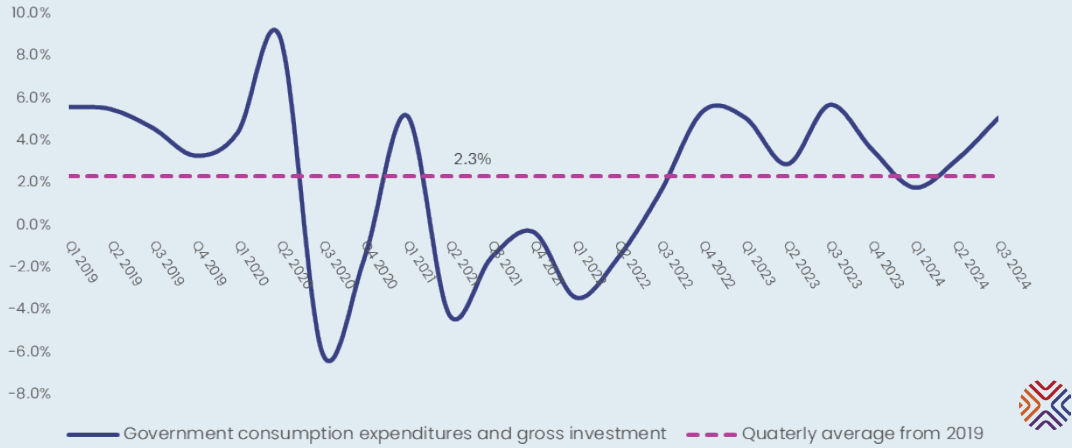
2.1 GDP Growth: Resilience Tested by Waning Stimulus

GDP growth, while firm, is expected to moderate due to:

Fading Fiscal Impulse: Pandemic-era fiscal stimulus is winding down, reducing its contribution to growth.

With the U.S. debt limit becoming a pressing issue in 2025, Congress may push for an agreement with the White House where the increase in the debt limit is tied to a fraction of the reductions in government expenditure.

Growth in U.S Government Expenditure is Beginning to Slow



Source: Data sourced from the Bureau of Economic Analysis (BEA)¹

Trade Imbalances: Faster growth in imports (especially capital goods) compared to exports may exacerbate trade deficits, despite potential shifts in trade policies under the new administration.

U.S' Importation Outpacing its Exports Similar to Recession Year 2020



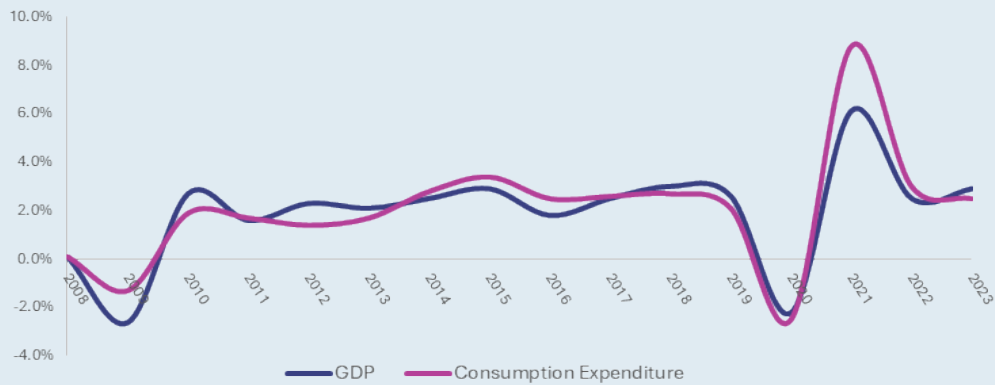
Source: Data sourced from the Bureau of Economic Analysis (BEA)²

1. Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate), Corporate Profits (Revised Estimate), and GDP by Industry, Third Quarter 2024," U.S. Bureau of Economic Analysis (BEA), accessed 2024, <https://www.bea.gov/news/2024/gross-domestic-product-third-estimate-corporate-profits-revised-estimate-and-gdp-1>.
 2. Ibid.



Consumption Dynamics: Rising personal incomes are unlikely to translate into proportional increases in consumption. This reflects the credit-driven nature of the U.S. economy, where consumer credit often buffers spending trends.

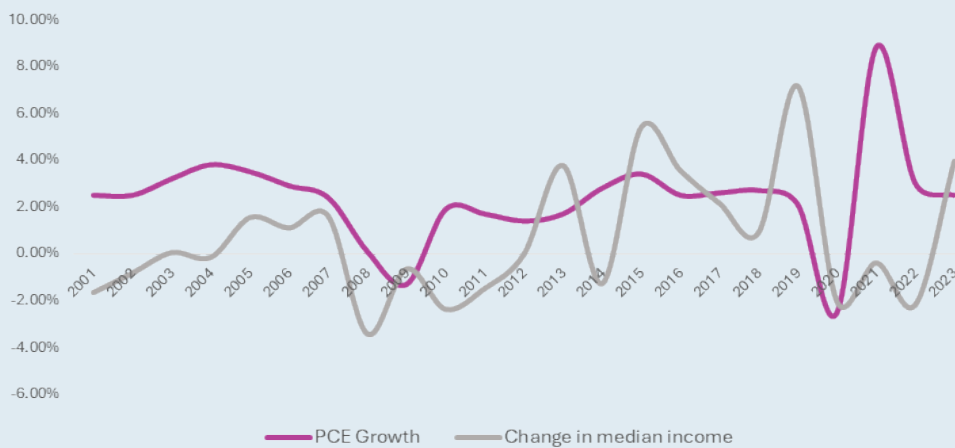
U.S' GDP and Consumption Expenditure are Highly Correlated.



Source: Data sourced from the Bureau of Economic Analysis (BEA)³

The Life Cycle Hypothesis and Permanent Income Hypothesis further underscore this limited correlation, suggesting that changes in income have a muted effect on spending compared to shifts in credit availability.

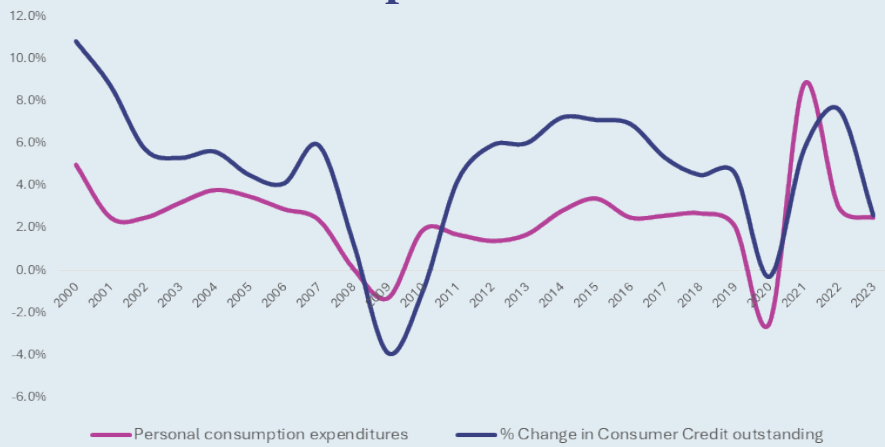
Income Growth is not a Significant Driver for Increased Consumption in the US.



Source: Data sourced from the Bureau of Economic Analysis (BEA) and US Census Bureau^{4,5}

3. Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate), Corporate Profits (Revised Estimate), and GDP by Industry, Third Quarter 2024,"
 4. Ibid.
 5. U.S. Census Bureau, "Income in the United States: 2023," Census.gov, September 10, 2024, <https://www.census.gov/data/tables/2024/demo/income-poverty/p60-282.html>.

Consumer credit has Historically been a Key Driver of Personal Consumption in the US



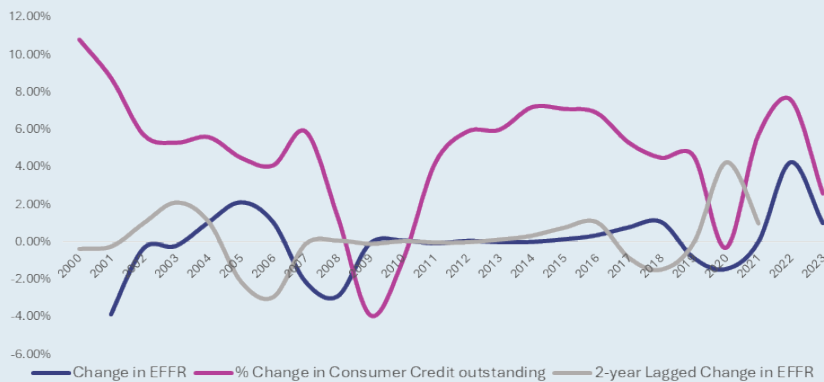
Source: Data sourced from the Bureau of Economic Analysis (BEA) and US Census Bureau^{6,7}

2.2 The Consumption Puzzle: Despite the Fed’s Rate Cuts, Credit Recovery May Still Lag, Slightly Slowing Growth in 2025

While lower interest rates may ease borrowing costs, consumer behavior often lags behind policy changes. Factors influencing this include:

Sticky Behavior: Households take time to adjust spending in response to interest rate cuts.

Changes in Policy Rate Does Not Significantly Affect Credit Until After 2 Years

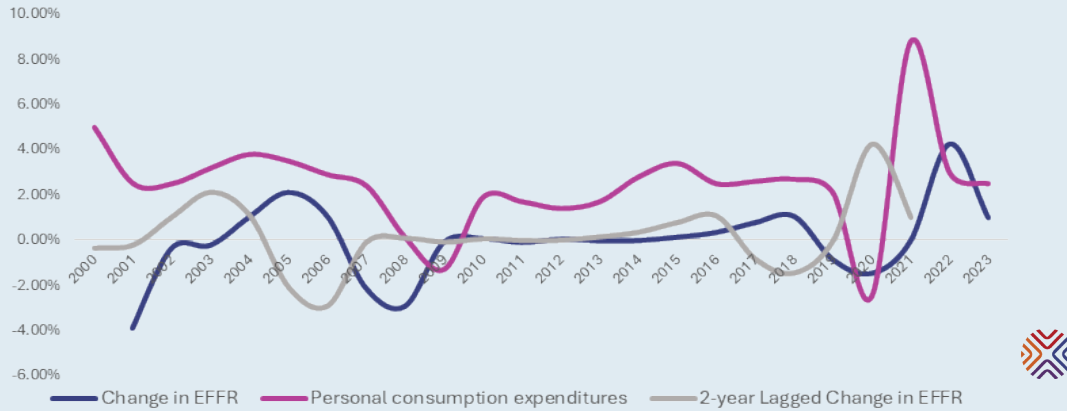


Source: Data sourced from US Federal Reserve and Federal Reserve Bank New York (FRBNY)^{8,9}

6. Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate)."
7. Federal Reserve Board, "The Fed - Consumer Credit - G.19," Federal Reserve, December 2024, <https://www.federalreserve.gov/releases/g19/current/default.htm>.
8. Ibid.
9. Federal Reserve Bank of New York, "Effective Federal Funds Rate," New York Fed, accessed 2024, <https://www.newyorkfed.org/markets/reference-rates/effr>.



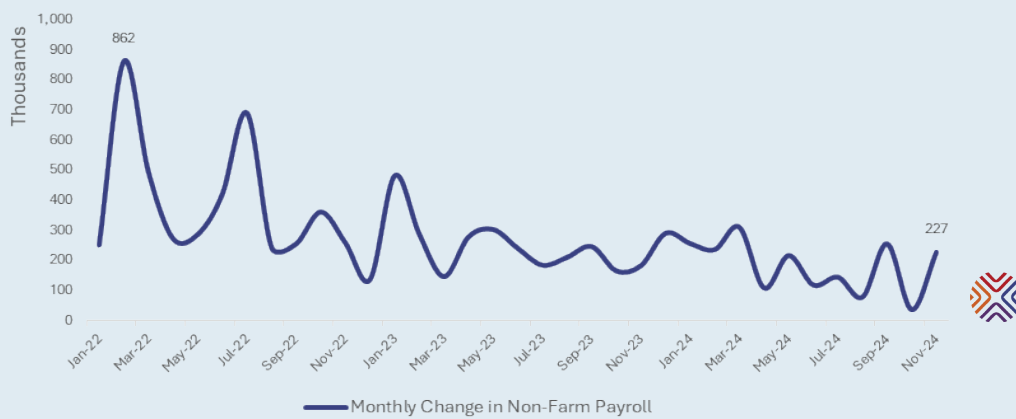
Consumers Tend to React to the Changes in the Opportunity Cost of Holding Money Until After 2 Years



Source: Data sourced from Federal Reserve Bank New York (FRBNY) and Bureau of Economic Analysis^{10,11}

Credit Supply vs. Demand: While borrowing costs may decline due to rate cuts, demand for credit may remain weak if households are uncertain about future economic conditions, especially now that the labor market is beginning to show weakness.

US Labor Market Continues to Weaken



Source: Data sourced from the US Bureau of Labor Statistics¹²

10. Federal Reserve Bank of New York, "Effective Federal Funds Rate,"
 11. Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate)."
 12. U.S. Bureau of Labor Statistics, "Employment Situation Summary," Bureau of Labor Statistics, December 6, 2024, <https://www.bls.gov/news.release/empsit.nr0.htm>.

Expectations of Future Rates: Anticipation of further rate cuts or economic downturns may lead to deferred borrowing, as borrowers postpone borrowing to a later time in the future. Market participants expect about half a percentage point cut in 2025 according to the CME Fed Watch Tool, aligning with FOMC Members’ median forecast from their released Dot Plot. **Rational expectations theory** suggests that consumers may hold off on taking on new debt (or refinancing old loans) if they expect interest rates to drop further or if they anticipate an economic downturn. This cautious sentiment could also dampen borrowing in the short term.



Tightened Lending Standards: Despite falling borrowing costs, banks may restrict credit access amid economic uncertainty and doubts about the Fed achieving a soft landing. Anticipated Basel III Endgame regulations in 2025 could further tighten financial conditions, limiting growth.



In light of these dynamics, we believe the **Fed’s future rate cuts will not have an immediate or significant influence on consumption in 2025**, limiting its potential as a growth driver. Moreover, it’s important

to view Fed policy rate decisions as responses to economic performance rather than as predictors of economic shifts, reinforcing our expectation of slower growth despite easing monetary policy.

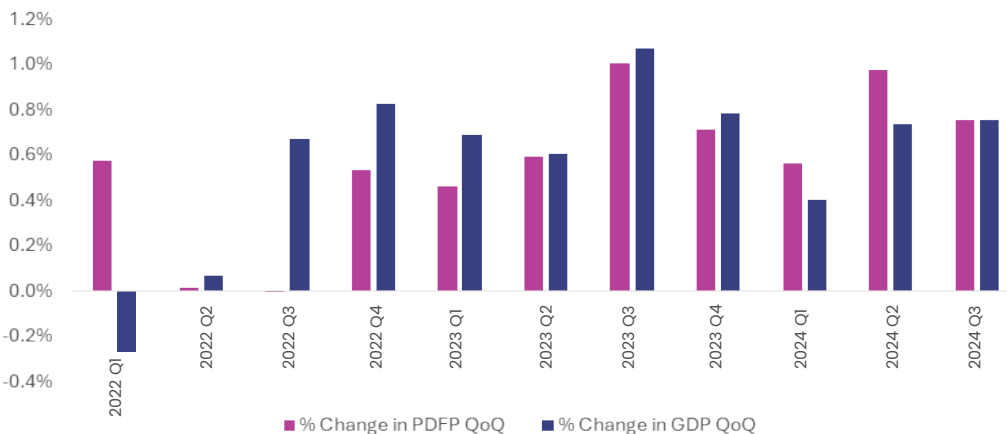
3. Bright Spots in Economic Activity

3.1 Real Private Domestic Final Purchases: A Pillar of Stability

Private domestic final purchases (PDFP)—a combination of personal consumption expenditures and private fixed investment—continue to outpace

GDP growth. This trend signals robust underlying economic activity and is expected to act as a stabilizing force against broader headwinds.

PDFP Outpacing GDP on a QoQ Basis in the US

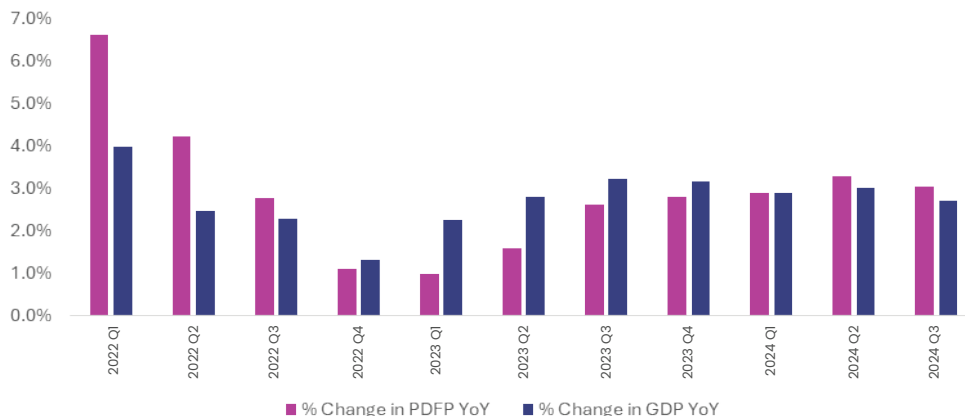


Source: Data sourced from the Bureau of Economic Analysis (BEA)¹³

13. Bureau of Economic Analysis, “Gross Domestic Product (Third Estimate).”



PDFP Outpacing GDP on a YoY Basis in the US



Source: Data sourced from the Bureau of Economic Analysis (BEA)¹⁴

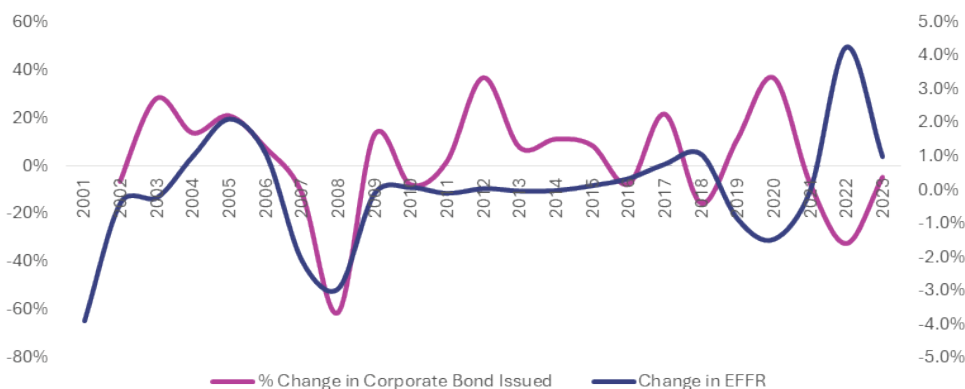
4. Headwinds to Growth

4.1 Investment Challenges: The Weight of Higher Borrowing Costs

Corporate investment is expected to face pressure as elevated long-term borrowing costs persist. Despite the Federal Reserve’s rate cuts, yields on 10-year U.S. Treasuries remain high, dampening corporate bond issuance and investment in capital-intensive sectors.

We expect yield on 10-year Treasuries to remain on the high side throughout 2025 as we do not think the Federal Reserve will have a reason to resort to cutting rate aggressively, especially as inflation expectations increases with Donald Trump coming back into office.

Corporate Bond Sensitivity to Policy Rate Changes was Low until post-pandemic when the Fed’s aggressive actions began to impact long-term yields.



Source: Data sourced from Federal Reserve Bank New York (FRBNY) and US Federal Reserve^{15,16}

14. Bureau of Economic Analysis, "Gross Domestic Product (Third Estimate)."
 15. Federal Reserve Bank of New York, "Effective Federal Funds Rate."
 16. Federal Reserve Board, "New Security Issues, U.S. Corporations," Board of Governors of the Federal Reserve System, accessed 2024, <https://www.federalreserve.gov/data/corpsecure/default.htm>.

The semiconductor industry, a barometer for global economic health, exemplifies this challenge. Sluggish demand outside AI-related applications has already led key players such as ASML, a Dutch manufacturer

of chip production equipment to downgrade sales forecasts, highlighting vulnerabilities in broader industrial investment.

4.2 Trade Dynamics: Navigating Imbalances

Continued growth in imports, particularly capital goods, has outpaced exports, exacerbating trade imbalances. While reshoring initiatives and tech-related capital spending may bolster domestic

manufacturing, Trump’s protectionist policies could weaken export competitiveness if retaliatory measures arise.

5. Inflation and Labor Market Trends



5.1 Inflation: Cooling but Still Elevated

Inflationary pressures are easing as nominal wage growth slows and productivity gains driven by AI investments reduce input costs. However, structural factors such as stricter immigration laws and rising housing costs could keep inflation above pre-

pandemic levels.

Despite moderating inflation, the Federal Reserve’s 2% target may remain elusive until mid-2025.

5.2 Labor Market: A Cooling Resilience

The labor market, a cornerstone of post-pandemic recovery, is showing signs of cooling. While unemployment rates remain stable, wage growth is decelerating, particularly in sectors affected by

technological disruption. This softening is expected to continue, easing inflationary pressures but contributing to slower economic growth.



6. Federal Reserve Policy: The Limits of Monetary Easing



The Federal Reserve's rate-cutting cycle is expected to continue, with an anticipated 125 basis points reduction in 2025. However, the delayed effects of prior tightening and persistently high long-term interest rates will limit the stimulative effects of these cuts.

The Basel III Endgame accord may come on board in 2025. If this happens, Banks' tighter lending standards and cautious corporate and consumer sentiment will further constrain the potential for rate cuts to ignite growth.

7. Conclusion: Resilience Amidst Challenges



The U.S. economy in 2025 is poised for a slowdown but retains critical stabilizing factors. Strong household finances and robust PDPF growth will act as counterweights to weakening investment, trade imbalances, and labor market challenges. While

Federal Reserve policy will provide some relief, its impact will be limited, emphasizing the need for structural reforms and strategic investments to sustain resilience.

CHAPTER 3

Why The U.S. Economy Will Likely Avoid A Recession In 2025



1. Rethinking Recession Signals: Why Traditional Indicators Are Missing the Mark

Despite frequent recession warnings from trusted indicators like the Leading Economic Index (LEI), the Sahm Rule, and the inverted yield curve, the U.S. economy has shown remarkable resilience. These tools, historically reliable, are increasingly challenged by structural changes and new economic realities.

As traditional models grapple with the complexities of today's economy, their predictive power diminishes. This section delves into why these signals have fallen short, why the U.S. economy continues to perform well, and the prospects for sustained stability in 2025.

2. The Leading Economic Index: An Outdated Barometer

The Conference Board's Leading Economic Index (LEI) has long been a trusted tool for forecasting recessions, using metrics such as manufacturing

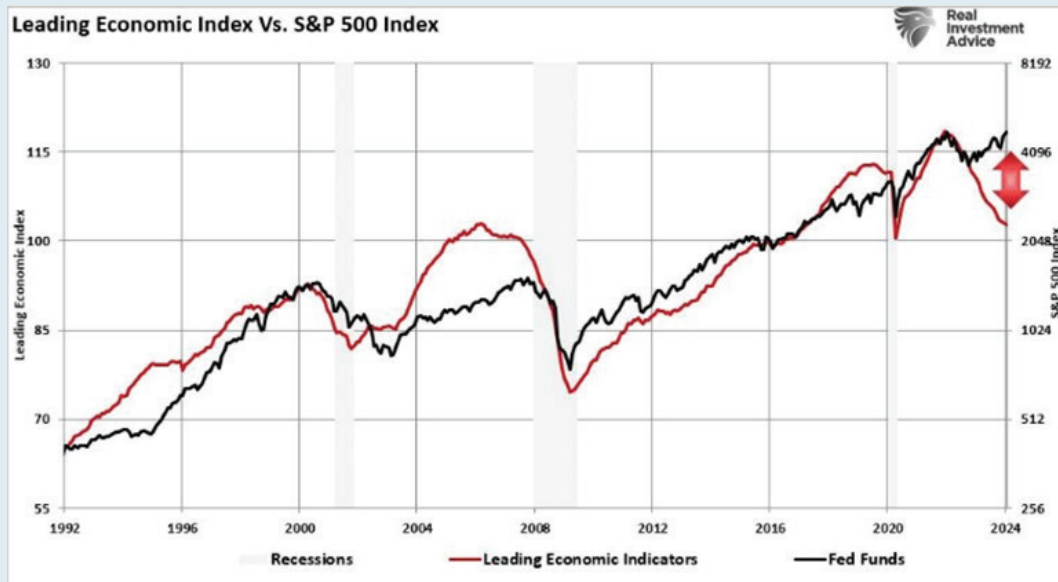
hours, new orders, and building permits. Since mid-2022, however, the LEI has persistently signaled a looming recession that has yet to materialize.

The US LEI signaled recession again in September, but the economy may only slow ahead



Source: The Conference Board¹

Evolving Labor Markets: Labor market dynamics have shifted dramatically post-pandemic. Flexible work arrangements, structural changes in hiring, and immigration trends have disrupted traditional patterns that the LEI relies on.



Source: Real Investment Advice²

1. The Conference Board, "The Conference Board Leading Economic Index® (LEI) for the US Declined in September," The Conference Board, October 21, 2024, <https://www.conference-board.org/topics/us-leading-indicators/press/us-lei-oct-2024>.
2. Lance Roberts, "Conference Board Scraps Its Recession Call," Real Investment Advice (RIA), February 24, 2024, <https://realinvestmentadvice.com/resources/blog/conference-board-scraps-its-recession-call/>.

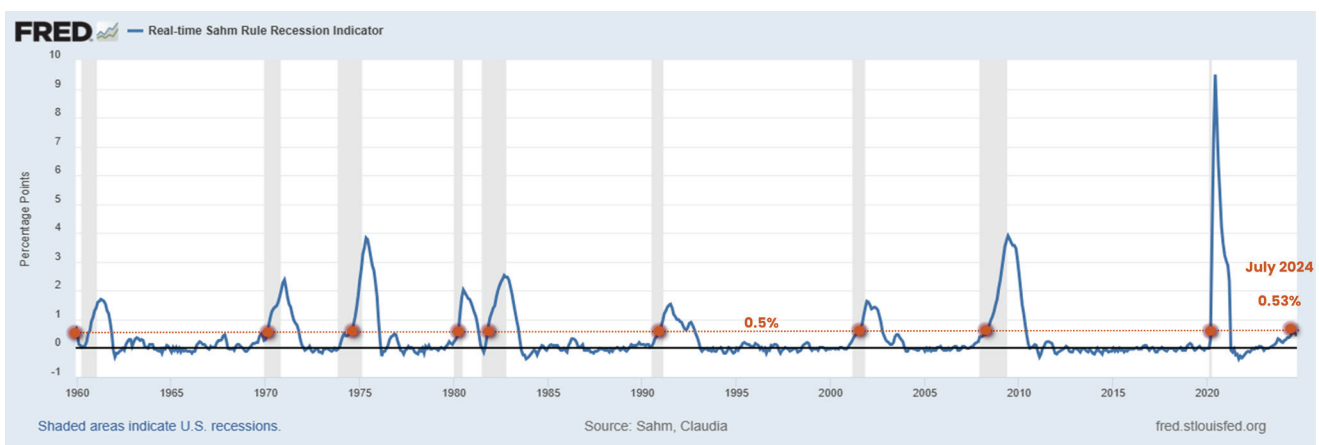
Stock Market Divergence: Historically aligned with economic performance, stock market trends now reflect optimism in sectors like AI, where tangible innovation outpaces broader economic challenges.

The Conference Board itself acknowledged these shortcomings in February 2024, admitting its model might be outpaced by evolving economic realities.

3. The Sahm Rule: Labor Market Resilience Misinterpreted

The Sahm Rule, another highly regarded recession indicator, was triggered in August 2024, suggesting a potential downturn based on a 0.5% rise in the

unemployment rate’s three-month average from its 12-month low.



Source: Federal Reserve Bank of St. Louis³

However, the economy has defied this signal due to unique labor market dynamics:



Increased Labor Force Participation: A surge in immigration and demographic shifts have bolstered the labor supply, keeping unemployment artificially higher without indicating economic distress.



Consumer and Corporate Strength: Resilient consumer spending and corporate profits offset unemployment fluctuations, highlighting a disconnect between the Sahm Rule and broader economic health.

The Sahm Rule’s labor-focused framework may not fully capture the broader resilience of the economy in a landscape where consumer spending, corporate profits, and fiscal support are keeping growth buoyant, even with a slight increase in unemployment.

3. Claudia Sahn, “Real-Time Sahm Rule Recession Indicator,” FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/SAHMREALTIME>.

4. The Inverted Yield Curve: A Troubled Bellwether

The inverted yield curve, which occurs when short-term bond yields (3-month bond) exceed long-term yields (10-year bond), has traditionally been one of the most reliable recession indicators, flashing red before every of the 8 U.S. recessions since the late 1960s. This indicator, activated since October 2022, has yet to coincide with an economic slowdown,

prompting even Campbell Harvey, the economist who introduced the indicator, to reconsider its current applicability. This ongoing inversion, the longest in history, raises questions about its predictive validity in an era where interest rate movements and bond market dynamics have been influenced by unprecedented fiscal and monetary policies.



Source: Federal Reserve Bank of St. Louis ⁴

We view the inverted yield curve as an indicator of economic cooling, suggesting a potential slowdown rather than a definitive signal of recession. While past inversions have preceded recessions, the current curve reflects a slowdown that we began to see in

2022, with periods of negative GDP growth already realized. However, the yield curve lacks the precision to assess the severity or depth of any future economic softening. Thus, while it signals caution, it does not reliably predict a full recession on its own.

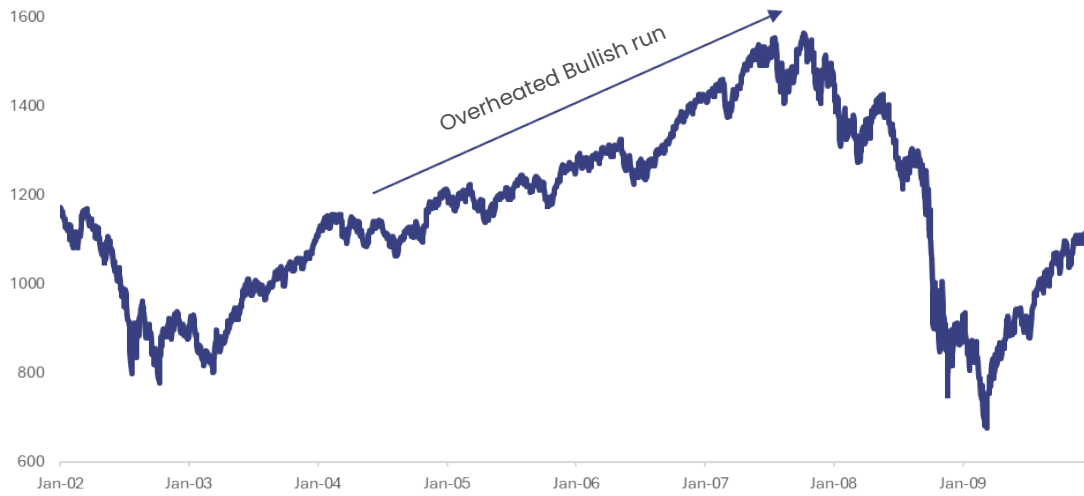
4.1 The Flaws in Conventional Economic Indicators

Pulitzer winner for anticipating and explaining the 2007/2008 financial crisis, Steven Pearlstein highlights a critical flaw in traditional recession indicators: they are often ill-equipped to detect the underlying causes of modern economic downturns. In predicting

the 2008 financial crisis, he admitted that just looking at the data might not reveal some of the alarming signs under the surface as he arrived at his prediction that there was going to be an implosion because the financial market bullishness was overheated.

4. Federal Reserve Bank of St. Louis, "10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity," FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/T10Y3M>.

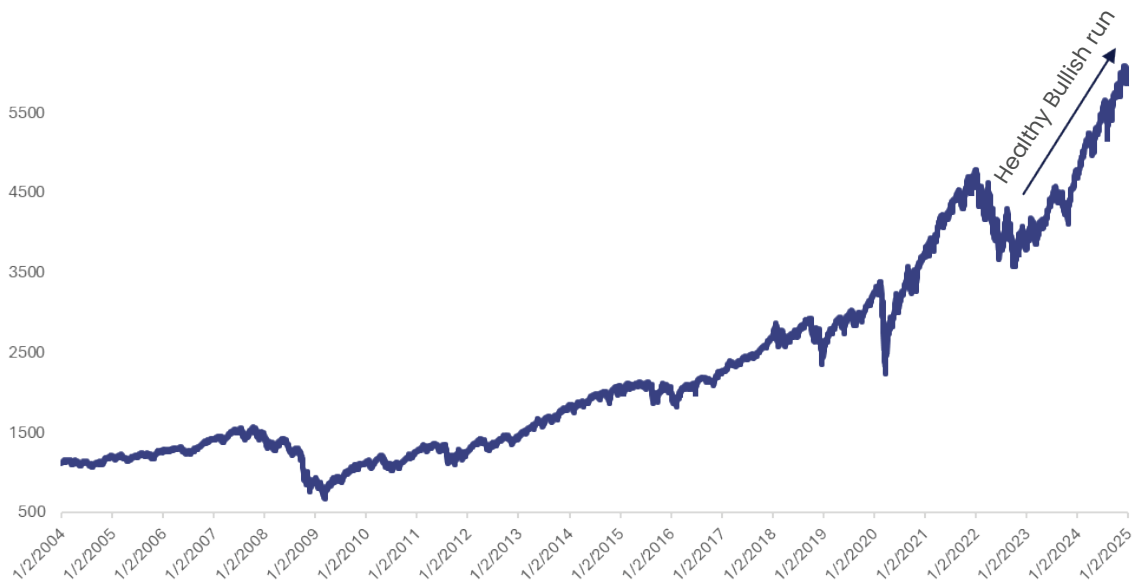
S&P 500 Performance Leading to the 2008 Financial Crisis



Source: Data sourced from Bloomberg⁵

Pearlstein observes that the recessions of recent decades were less about routine economic contractions and more about financial market crashes or “bubble bursts.”

S&P 500 Performance Leading to the AI Inspired Bull Run



Source: Data sourced from Bloomberg⁶

5. Bloomberg LP, “S&P 500 Index,” Bloomberg Terminal, accessed January 1, 2025.

6. Ibid.



Today, while stock valuations have risen sharply, especially in sectors fueled by the artificial intelligence boom, this trend is backed by tangible innovations rather than speculative excess, suggesting that any correction would likely be a

pullback rather than a market implosion. Thus, indicators focused solely on data-based metrics may miss broader contexts, such as technological advancements and consumer behavior trends, that better explain the economy’s resilience.

4.2 The Dis-Inverted Yield Curve as a Potentially Better Signal

A recent trend suggests that the dis-inverting yield curve, where the spread between short- and long-

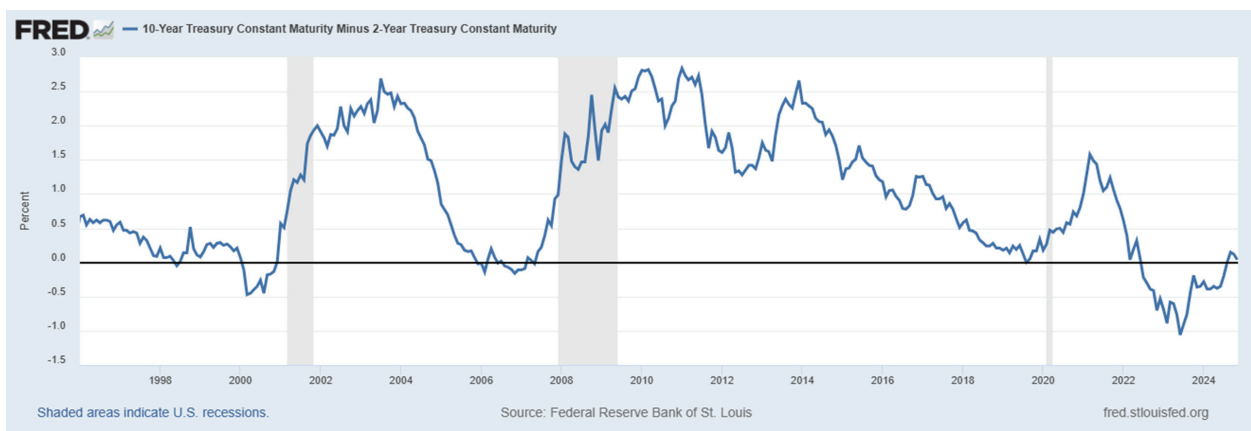
term yields gravitates towards the positive territory, might be a more accurate recession predictor.



Source: Federal Reserve Bank of St. Louis ⁷

Also, when the yield curve—measured by the spread between the 10-year and 2-year Treasury yields—turns positive or ‘dis-inverts’ shortly before the Federal Reserve begins cutting interest rates, a recession often followed not long afterward. For

instance, in December 2000, the yield curve turned positive, and the Fed lowered rates a month later; within two months, the economy entered a recession. A similar sequence occurred before the Great Recession.



Source: Federal Reserve Bank of St. Louis ⁸

7. Federal Reserve Bank of St. Louis, “10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity.”
 8. Federal Reserve Bank of St. Louis, “10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity,” FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/T10Y2Y>.

However, history shows that this pattern is not foolproof. For example, in September 2019, the yield

curve dis-inverted, prompting the Fed to cut rates, but a recession did not materialize until February 2020.



Source: Federal Reserve Bank of St. Louis ⁹



Source: Federal Reserve Bank of St. Louis ¹⁰

In September 2024, the spread between the 2-year and 10-year yields turned positive just before the FOMC’s 50-basis-point rate cut, and the 3-month and 10-year spreads also began trending toward positive territory. Yet, till now, the U.S. economy shows no significant signs of slowing. This underscores the inconsistency of the yield curve as a recession predictor in current economic conditions.

The yield curve’s current dis-inversion could be partially attributed to a “bear steepening,” where

long-term rates rise faster than short-term ones due to expectations of inflation, a concern which has been reignited by Trump’s victory in the presidential election as the market expects inflationary and expansionary policies. This is different from bull steepening, where short-term rates fall faster than long-term rates due to expectations of rate cuts. This bear steepening can be linked to fiscal policy expectations, such as increased government debt issuance following potential tax cuts under the new administration. This could lead to higher yields as supply might exceed

9. Federal Reserve Bank of St. Louis, “10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity,”
 10. Federal Reserve Bank of St. Louis, “10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity.”

bond demand, especially now that investors are wary of elevated US debt levels. This, however, has nothing to do with recession expectations. Despite bear steepening being bad for the economy as it impacts both consumer and business borrowings, it has a long-term lagging impact.

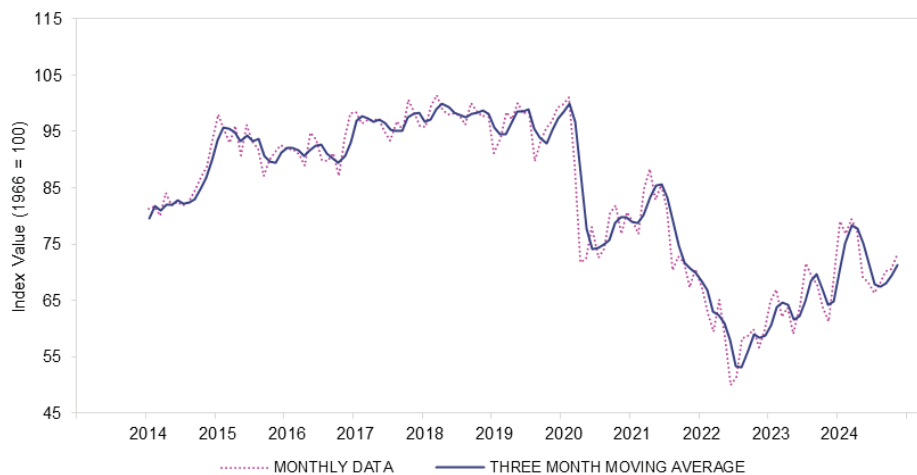
While the dis-inverting yield curve could still signal economic shifts, its reliability as a predictor of recession in today's environment remains questionable.

5. Reasons for Economic Resilience

Beyond the limits of traditional indicators, several factors underscore why the U.S. economy may remain recession-resistant in 2025.



The Index of Consumer Sentiment



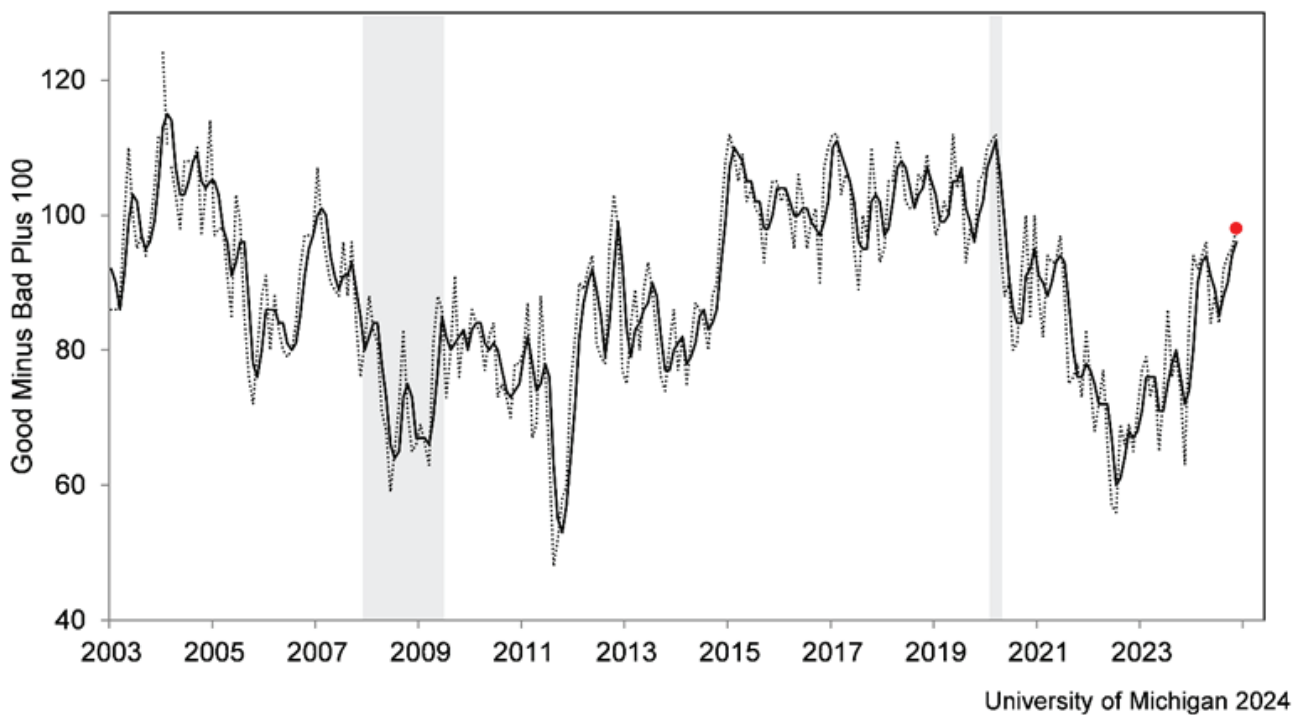
Source: University of Michigan ¹¹

11. University of Michigan, "Surveys of Consumers," Umich.edu, <http://www.sca.isr.umich.edu/>.

First, while the labor market is indeed showing signs of cooling, jobless claims remain significantly below pre-recessionary levels, suggesting the labor market is not weak, only normalized after post-pandemic highs. This labor stability, in turn, supports consumer spending, which remains robust, partially due to strong

consumer confidence and elevated savings resulting from an unprecedented \$5 trillion fiscal stimulus during the pandemic. Households continue to have enough reserves to drive spending, a vital component of economic health.

**Long-Run Business Conditions Surge to Highest Since 2020
(Monthly and three month moving average; Nov 2024 prelim data closed prior to election)**



Source: University of Michigan ¹²

Corporate health also plays a critical role in sustaining growth. **Many firms have enjoyed increased revenues and profits, building up reserves that allow for investment and innovation. This corporate stability not only supports shareholder wealth but also positions companies to provide wage increases, reinforcing consumer confidence.** Moreover, while

some may argue that market euphoria has reached unsustainable levels, current investor sentiment remains more conservative than before previous recessions, with substantial allocations to safe-haven assets like gold and Treasuries, which temper the risk of a sudden, disruptive sell-off.

12. University of Michigan, "Surveys of Consumers,"



6. Conclusion

In sum, while traditional recession indicators have been valuable predictors of economic downturns in the past, today's U.S. economy is shaped by unique structural and behavioral dynamics that challenge these models. The labor market's post-pandemic adjustment, consumer resilience, and innovation-driven corporate growth are all factors that point to sustained economic strength rather than impending recession. The unprecedented fiscal and monetary support of recent years has contributed to a more resilient foundation, allowing the economy to

navigate potential slowdowns without tipping into a full-scale recession.

While the economy may face pressures from inflation and geopolitical uncertainties, the data indicates that 2025 is likely to see continued, if modest, growth. Traditional indicators, while informative, may require recalibration to account for the modern economy's nuances. For now, the U.S. economy appears well-prepared to withstand recessionary forces and remain on a stable growth path into the next year.



CHAPTER 4

What U.S. Debt Wall Means To You

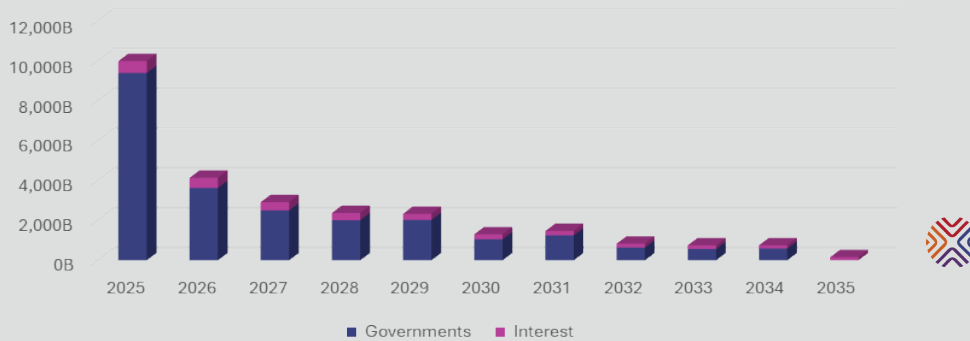


1. Introduction

Looking at US debt repayment in 2025, the dynamics of the current economic situation have revealed some vital events that may play out in early 2025. The total debt repayment as of the beginning of 2025, due to be paid in 2025 is \$10 trillion compared to the total debt repayment at the start of 2024 and 2023 which

stood at \$9.6 trillion and \$7.6 trillion respectively, which is 3.8% increase from 2024 and 31.6% increase from 2023. The marginal increase in debt repayment for 2025 is a factor that should be closely monitored due to the reinstatement of the US debt wall on 1st January 2025.

US Debt Repayment Schedule



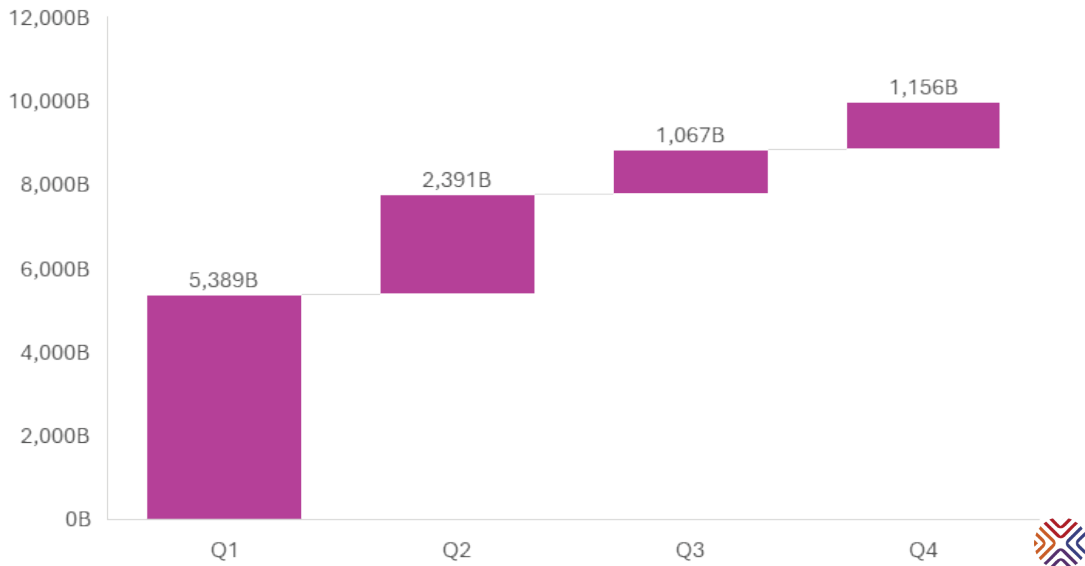
Source: Data sourced from Bloomberg ¹

1. Bloomberg LP, "US Debt Repayment Schedule," Bloomberg Terminal, accessed December 28, 2025.



A further breakdown of the repayment period for 2025 indicates that 54% of the total debt is due in Q1 2025.

US Debt Repayment Schedule 2025



Source: Data sourced from Bloomberg ²

2. The Impact of High Loan Repayment on the U.S. Economy and Market

The United States currently faces significant challenges regarding its escalating debt repayment obligations. With a debt ceiling of \$31.4 trillion, which was suspended from June 2023 until January 2025, and total outstanding debt reaching \$36 trillion as of November 30, 2024, the economic and market implications are profound.³ The prior suspension allowed the U.S. government to meet its financial obligations temporarily, but as of January 2, 2025, the new debt ceiling will be determined based on the outstanding debt subject to the statutory limit at the close of the preceding day. This structure implies that the U.S. will almost immediately approach its new limit, necessitating swift action⁴.



2. Bloomberg LP, "US Debt Repayment Schedule."
 3. U.S. Department of the Treasury, Summary of Treasury Securities Outstanding (Washington, D.C.: U.S. Department of the Treasury, January, 2025), <https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/summary-of-treasury-securities-outstanding>.
 4. U.S. Department of the Treasury, Debt Limit Letter to Congress (Washington, D.C.: U.S. Department of the Treasury, January 2025), <https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress.pdf>.

3. Extraordinary Measures and Congressional Gridlock

Suppose the U.S. reaches its debt ceiling, which is projected to happen by the US Treasury between January 14th and 23rd, 2025. In that case, the Treasury is expected to initiate extraordinary measures to

create temporary capacity for meeting financial obligations. According to the Department of Treasury, these measures include:⁵

The U.S. Treasury can declare a “Debt Issuance Suspension Period” (DISP) to temporarily manage finances. This allows the Secretary of the Treasury to suspend new investments and redeem existing ones in the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF). The DISP provides limited relief, freeing up about \$8 billion monthly for the CSRDF and \$300 million for the PSRHBF, though these redemptions do not increase overall borrowing capacity since they would have occurred later. Once the debt impasse ends, the law requires the Treasury to fully restore the funds, ensuring no impact on employees or retirees.

Suspending the daily reinvestment of Treasury securities held by the Government Securities Investment Fund (G Fund), a retirement fund for federal employees, freeing up borrowing capacity while ensuring fund participants remain unaffected.

Suspending the reinvestment of Treasury securities held by the Exchange Stabilization Fund (ESF), which is partially invested in special-issue Treasury securities.

Suspending the issuance of State and Local Government Series (SLGS) securities. While this measure does not free up existing borrowing capacity, it prevents new debt from adding to the debt limit, conserving approximately \$6 billion in monthly headroom. State and local governments must seek alternative investments during this suspension to comply with tax laws.

These actions allow the government to delay breaching the debt ceiling while awaiting Congressional intervention. According to the Economic Policy Innovation Center, these measures are estimated to sustain operations only until June 16, 2025, intensifying the urgency for legislative action.⁶

On December 19, 2024, the U.S. House of Representatives voted on a government spending bill aimed at averting a government shutdown and suspending the debt ceiling. The bill failed with a vote of 174–235, with 38 Republicans joining Democrats in opposition.⁷ This reflects the political discord and sets the stage for further negotiations.

5. U.S. Department of the Treasury, Description of Extraordinary Measures (Washington, D.C.: U.S. Department of the Treasury, January 19, 2023), https://home.treasury.gov/system/files/136/Description_Extraordinary_Measures-2023_01_19.pdf.

6. Economic Policy Innovation Center, Preparing for the Debt Limit: Projecting the 2025 X-Date (Washington, D.C.: Economic Policy Innovation Center, January 2025), <https://epicforamerica.org/federal-budget/preparing-for-the-debt-limit-projecting-the-2025-x-date/>.

7. Filip Timotija, “These 38 Republicans Voted against the Trump-Backed Spending Bill,” The Hill, December 20, 2024, <https://thehill.com/homenews/house/5049933-38-republicans-voted-against-trump-backed-spending-bill/>.

4. Speaker Mike Johnson’s Proposal and Political Dynamics

Speaker Mike Johnson recently proposed raising the debt ceiling by \$1.5 trillion in exchange for \$2.5 trillion in cuts to mandatory spending.⁸ This plan is part of a broader reconciliation strategy to address the debt ceiling. However, Congressional support remains fragmented. The anticipated negotiations will likely involve significant political maneuvering, potentially including Donald Trump’s economic agenda, which focuses on tax cuts and tariff increases as bargaining tools to secure Republican support for raising the ceiling.

Historical precedence underscores the cyclical nature of debt ceiling debates:



January 19, 2023: The U.S. reached its debt ceiling, prompting the Treasury to declare a debt issuance suspension period and employ extraordinary measures to manage obligations.

April 19, 2023: House Speaker Kevin McCarthy introduced the Limit, Save, Grow Act, proposing:



Raising the debt ceiling by \$1.5 trillion through March 2024.



Reducing government spending by \$4.5 trillion through program cuts and reversals.

Despite these efforts, President Joe Biden consistently advocated for a clean debt limit increase, opposing conditional spending cuts. The standoff delayed resolution until June 2023, when the debt limit was eventually suspended till 1st January 2025.



8. Jennifer Scholtes, “House Republicans Float a Debt Limit, Spending Pact Deal – with Themselves,” POLITICO, December 20, 2024, <https://www.politico.com/live-updates/2024/12/20/congress/gop-debt-limit-deal-details-00195671>.

5. Debt Obligations and Global Economic Integrity

The integrity of the U.S. financial system is intrinsically linked to its ability to fulfill its debt obligations. A default in debt repayment by the U.S. government would not only disrupt domestic markets but could also trigger a global panic, as:



Global Reserves are mostly denominated in the U.S. Dollar. According to IMF, about 53.4% of global foreign reserves of countries are held in U.S. dollars and U.S. Treasury securities as of Q3, 2024.⁹



US Treasuries serve as Haven Assets, being the backbone of global financial stability. A default would erode their perceived safety and reliability. We would see yield skyrocketing. The creditworthiness of U.S. treasury securities has long bolstered demand for U.S. dollars, contributing to their value and status as the world’s reserve currency. Any hit to confidence in the U.S. economy, whether from default or the uncertainty surrounding it, could cause investors to panic sell U.S. treasury bonds and potentially weaken the dollar.

While a default remains highly unlikely, as Congress has consistently acted to raise or suspend the debt ceiling, about 78 times since 1960. These recurring crises highlight concerns over the U.S.’s growing debt burden.

President	Term (Years)	Number of Debt Ceiling Increase	Number of Debt Ceiling Suspension	Debt Ceiling Start	Debt Ceiling End
Ronald Reagan	1981-1989	18		\$935 billion	\$2.8 trillion
George H.W. Bush	1989 - 1993	4		\$2.8 trillion	\$4.1 trillion
Bill Clinton	1993 - 2001	4		\$4.1 trillion	\$5.95 trillion
George W. Bush	2001 - 2009	7		\$5.95 trillion	\$11.315 trillion
Barack Obama	2009 - 2017	7	2	\$11.3 trillion	\$19.9 trillion
Donald Trump	2017 - 2021	2	2	\$19.9 trillion	\$27 trillion
Joe Biden	2021 - 2025		1	\$27 trillion	\$36 trillion

Source: Data sourced from YahooFinance ¹⁰

9. International Monetary Fund, Global Data Access, accessed January 8, 2025, <https://data.imf.org/?sk=e6a5f467-c14b-4aa8-9f6d-5a09ec4e62a4>.

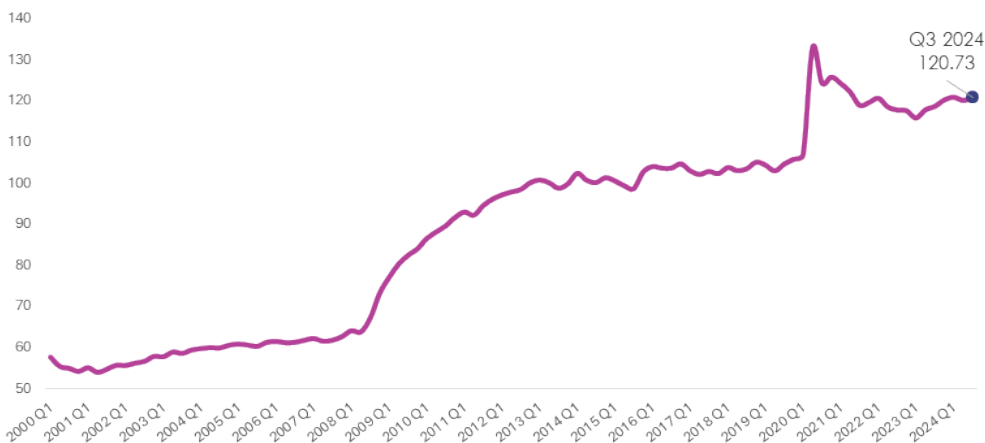
10. Yahoo Finance, "How Many Times Have US Presidents Raised the Debt Ceiling?" Yahoo Finance, last modified January 10, 2025, <https://finance.yahoo.com/news/us-presidents-raised-debt-ceiling-110017986.html>.

Fixed-income investors will be very concerned about the rising debt-to-GDP ratio. The U.S. debt-to-GDP ratio reached 120.7% in Q3 2024, raising alarms about long-term fiscal sustainability. Persistent increases in this ratio make the U.S. economy more vulnerable to

interest rate shocks and reduce fiscal flexibility.

While U.S. Treasury securities remain the global standard for safety, growing debt levels could push investors toward alternative assets.

US Debt-to-GDP Ratio (%)



Source: Federal Reserve Bank of St. Louis ¹¹

6. Effect of US Debt on the Equity Market

The VIX index, which measures expected volatility in the S&P 500, does not typically have a direct relationship with the bond market under normal conditions. However, during periods of heightened

uncertainty, such as concerns about U.S. securities, market volatility often increases. This can cause the VIX to spike as investors become more risk-averse, leading to downward pressure on the S&P 500.

VIX vs S&P Index



Source: Data sourced from Bloomberg ¹²

11. Federal Reserve Economic Data (FRED), "Federal Debt: Total Public Debt as Percent of Gross Domestic Product," St. Louis Federal Reserve, 2019, <https://fred.stlouisfed.org/series/GFDEGDQ188S>.
 12. Bloomberg LP, "VIX Vs S&P," Bloomberg Terminal, accessed December 28, 2025.

Historically, the VIX and the S&P 500 have consistently shown a strong negative correlation. Over the past year, whenever the VIX experienced a significant increase, S&P 500 returns tended to decline. This relationship reflects how heightened market stress and risk aversion drive investors to move away from equities, pushing the VIX higher while equity prices fall. The pattern underscores the VIX's role as a reliable indicator of investor sentiment and market volatility.

Entering the first quarter of 2025, heightened debt repayment obligations are likely to amplify market uncertainty and drive increased volatility. In the event of market panic, the VIX is expected to rise, accompanied by downward pressure on S&P 500 returns. This environment highlights the importance of adopting a cautious and defensive investment strategy in the near term.

7. Bond Market Implications of Debt Limit Uncertainty

The U.S. debt limit debate carries significant implications for the bond market, particularly during periods of heightened uncertainty. Prolonged

delays in raising the debt ceiling can erode investor confidence in US creditworthiness

Impact on U.S. Creditworthiness and Bond Yields



Market Uncertainty:

- Failure to raise the debt limit early enough could lead to market doubts about the U.S.'s creditworthiness, decreasing the attractiveness of U.S.-based securities.



Historical Precedent:

- In August 2023, Fitch Ratings downgraded the U.S. credit rating from AAA to AA+, citing concerns about fiscal management and governance standards.¹³
- A similar downgrade during the period when extraordinary measures are still adopted could increase the yield on U.S. Treasuries.



Investor Behaviour:

- Lower demand for Treasuries could drive bond prices down and yields up, increasing borrowing costs for the government.

Looking at this from another angle, one of the agendas for the Incoming US president, Donald Trump is to cut taxes, if this limit is not raised or suspended it may be difficult for this tax cut to be affected, as the government would need to increase its revenue and cut back on spending in other to finance their debt

obligation.

Also, we can expect fiscal Trade-offs, as the U.S. may need to Increase revenue through alternative means and Reduce spending on discretionary programs, to finance debt obligations.

13. Fitch Ratings, "Fitch Downgrades United States' Long-Term Ratings to 'AA+' from 'AAA'; Outlook Stable," August 1, 2023, <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023>.

Trump’s tax agenda could face significant hurdles under these fiscal constraints, highlighting the intricate balance required between policy objectives and debt management

8. Commodity Market

In periods of heightened market uncertainty, alternative assets like gold and Bitcoin could serve as preferred hedges, providing diversification and perceived insulation from systemic risks. This

dynamic is especially pronounced during times of macroeconomic volatility, geopolitical instability, or fiscal policy shifts.



Gold as a Safe Haven:

- » Since its 2022 rally, gold has delivered an impressive 60% return, reaffirming its status as a premier safe-haven asset.
- » Gold’s allure lies in its ability to retain intrinsic value during periods of inflationary pressure, currency devaluation, or waning confidence in traditional financial systems.
- » **Outlook:** The continuation of global uncertainty driven by inflationary trends, rising interest rates, and geopolitical tensions—is likely to sustain demand for gold, further boosting its rally.



Cryptocurrency as an Emerging Hedge:

- » With Donald Trump’s pro-cryptocurrency stance and a shift towards supportive policies, cryptocurrencies, particularly Bitcoin, stand to benefit as an increasingly mainstream asset class.
- » Positive regulatory signals—such as potential tax incentives, clearer guidelines, and institutional acceptance—are expected to enhance investor confidence, driving inflows into the crypto market.



9. Conclusion

The US debt wall could create some bearish sentiment both in the bond market and equity market if not quickly addressed. We could see the yield on US treasury securities increase, due to market uncertainty and lingering inflationary pressures.

Also, delays in increasing the debt limit could cause a strain on government spending on essential activities, which may weaken the currency. After the inauguration of the incoming President, Donald Trump, we expect this debt limit to complicate his

policy implementation, as it may be difficult to cut down on taxes in a situation where the government cannot borrow more and is managing its income. The expected tariff hike which could increase government revenue, can have a ripple effect, as these countries can retaliate by increasing tariffs on US items. This will cause higher prices for consumers, reduced competitiveness for US exports, and further strain economic growth. Therefore, while the debt ceiling saga continues, we expect Donald Trump to be very cautious with his proposed tariff hikes.



CHAPTER 5

China's Economic Outlook 2025: Balancing Growth And Transformation



1. Introduction

As 2025 begins, the world's second-largest economy stands at a crossroads. China, long celebrated for its rapid growth and industrial prowess, now faces a different kind of challenge: fostering stability and resilience in an increasingly complex economic landscape. Decades of breakneck expansion have given way to structural issues, including an aging population, a faltering property market, and subdued consumer confidence. The question now is whether Beijing can guide the nation toward a sustainable, consumption-driven model without resorting to

the debt-heavy strategies that characterized past recoveries.

The task is monumental. Yet, even amid these challenges, China's economic transition holds profound implications for the global economy. From its impact on commodity prices to shifting trade balances and geopolitical alliances, the world is watching closely as Beijing navigates this critical juncture.

2. Lingering Shadows of the Pandemic

The effects of China's strict COVID-19 measures continue to reverberate through the economy. While many nations have rebounded strongly, China's recovery has been cautious and uneven. Xi Jinping's administration, wary of over-stimulating the economy, has resisted broad consumer subsidies, opting instead for targeted interventions. This approach, though fiscally prudent, has slowed recovery, leaving consumer confidence at its lowest point since the pandemic's peak. By September 2024, confidence had fallen to 85.7 out of 200—a stark indicator of the

challenges ahead.

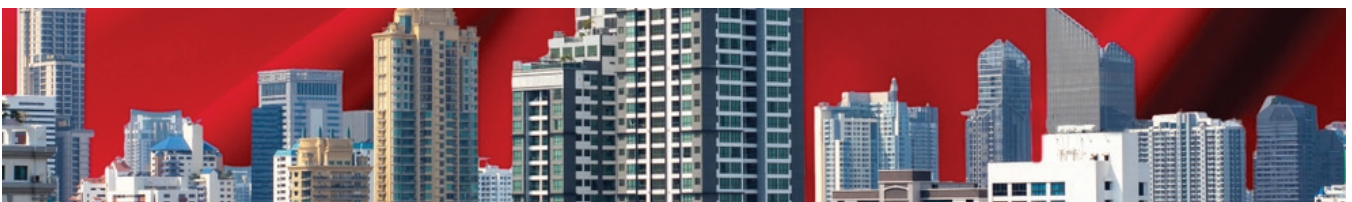
Compounding these issues is a stubbornly high youth unemployment rate, which as of November stands at 16.1% for those aged 16 to 24. This troubling figure highlights not only economic fragility but also growing social risks, as a generation grapples with disillusionment and uncertainty about their future. The government's decision to withhold youth unemployment data for several months in 2023 underscores the sensitivity of the issue.



3. A Fragile Foundation: The Property Market Crisis

Once a cornerstone of China's economic miracle, the property sector has become a significant drag on growth. **The property sector's downturn**, which began in 2021 wiping out several major property developers, continues to weigh heavily on household wealth, as property remains the principal asset for most Chinese households, accounting for roughly **70% of household wealth**. The real estate sector, at its peak, contributed a quarter of the country's GDP, but by 2024, the sector's crisis had led to **\$124.5 billion in property developers' bond defaults**, while housing prices have been dropping consistently since July 2023 (17 months).¹ Local governments, reliant on land sales for revenue, now face fiscal

strain. Local governments were so strapped for cash that they worsened the economic slowdown by cutting spending and harassing firms for fees and back taxes. **The property market downturn, with persistent declines in home prices and unfinished projects, has eroded household confidence in real estate as a safe asset, prompting households to save rather than spend. New home prices fell by 5.8% year-on-year in September**, the steepest drop since 2015, and property sales tumbled by 24% in the first nine months of 2024 alone. The fragile state of the housing market has translated into a sharp decline in consumption as households, uncertain about the future, prefer to save rather than spend.



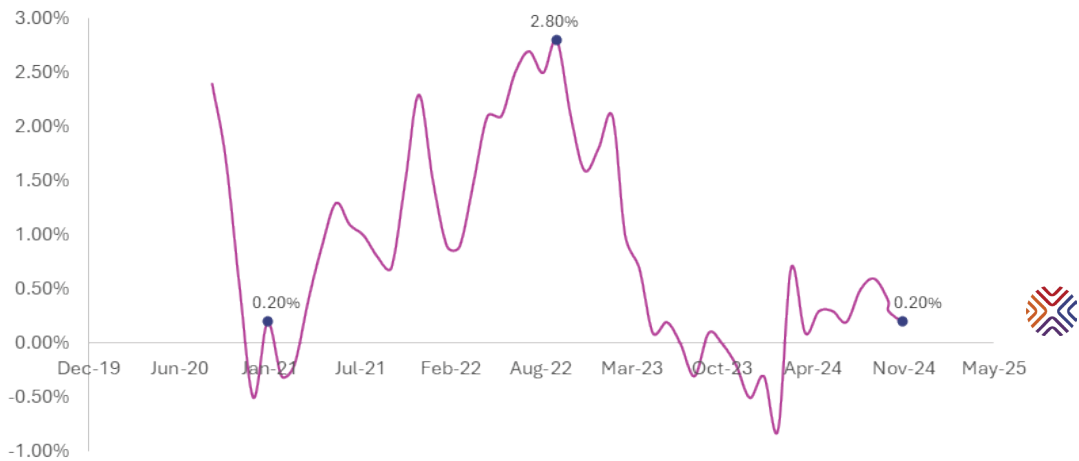
1. Xie Yu, "China's Troubled Property Sector to Face More Debt Defaults," Reuters, October 20, 2023, <https://www.reuters.com/world/china/chinas-troubled-property-sector-face-more-debt-defaults-2023-10-20/>.

4. The Weight of Deflationary Pressures

China’s battle with deflation adds another layer of complexity. By late 2024, the Consumer Price Index (CPI) was at a mere 0.2% year-on-year, while the Producer Price Index (PPI) fell 2.5%, signaling weak

demand and excess supply. Prices of key goods, from metals to electric vehicles, have continued to decline, further dampening consumer sentiment.

China’s Inflation Down to Pre-2022 Levels

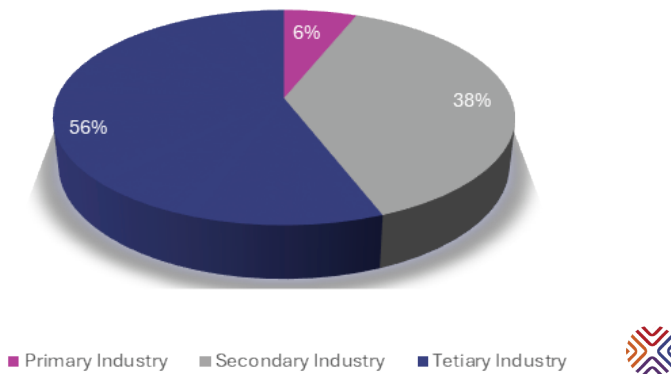


Source: Data sourced from Ycharts ²

Deflation’s grip is rooted in the same challenges that plague other areas of the economy: a crisis of demand rather than supply. Consumers, expecting prices to fall further, have delayed spending, creating

a vicious cycle that monetary easing alone cannot resolve. For over 9 consecutive months, core inflation has remained below 1%, underscoring the persistent lack of consumer momentum.

Industries Contributions to China’s 2024 CNY 95 Trillion GDP as of Q3



Source: Data sourced from the National Bureau of Statistics of China ³

2. YCharts, “China Inflation Rate,” YCharts.com, accessed 2024, https://ycharts.com/indicators/china_inflation_rate.
 3. National Bureau of Statistics of China, “National Data,” Stats.gov.cn, accessed 2024, <https://data.stats.gov.cn/english/easyquery.htm?cn=B01>.

China’s manufacturing sector, once a reliable growth driver, now struggles with issues of overcapacity and declining export demand. Companies in sectors such as steel production face pressures from both excess domestic supply and shifts in global trade patterns, as some manufacturers relocate operations to Southeast

Asia for cost and geopolitical considerations. While manufacturers had invested heavily into their operations, weak demand continues to push prices lower, forcing companies to lower wages and reduce workers to cut down on cost, the reduced household income further dampens consumer confidence.

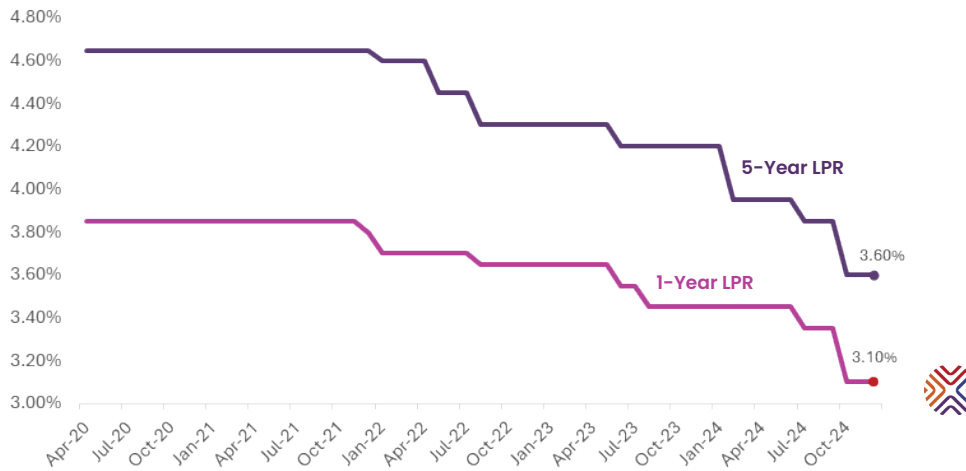
5. Beijing’s Response: Targeted Stimulus

As the economy falters, the government has stepped in with a series of stimulus measures to boost economic activities while eroding the deflationary pressure. While these interventions aim to stabilize the economy, the lack of a comprehensive stimulus package akin to the 2008 response, which injected 4 trillion RMB (\$586 billion) into the economy, reflects

a more cautious stance this time around. **Therefore, we expect more consumer-targeted stimulus packages in 2025 to help drive the Chinese economy to its growth target which is likely to be maintained at 5%.** Below are some of the stimulus packages injected into the economy:

<p>Corporate</p> 	<p>Real Estate Sector</p> 	<p>Local Government</p> 
<ul style="list-style-type: none"> » The PBOC had recently cut both 1-year & 5-year Loan Prime Rate by 25bps. » The reserve Requirement Ratio was also lowered by 0.5% freeing up about RMB 1 trillion (\$140 billion). » Also, In addition, the PBOC launched a share buyback program and swap facility aimed at supporting the capital market by injecting around RMB 800 billion (\$112.6 billion) and providing liquidity to financial institutions. 	<ul style="list-style-type: none"> » Authorities have implemented key financial policies targeting real estate, including reducing the interest rate on existing mortgage loans which stands to reduce households’ interest expenditures by roughly RMB 150 billion annually. <p>Others include:</p> <ul style="list-style-type: none"> » Lowering Minimum Down Payment Ratio to 15% for All Buyers » Extension of Existing Real Estate Financing Policies » Enhanced Lending for Affordable Housing & Support for Acquiring Developers’ Land Inventory. 	<ul style="list-style-type: none"> » More recently, a 10 trillion yuan (\$1.4 trillion) was introduced targeted at the local government. Which includes a 6 trillion yuan increase in local governments’ debt limit and a 4 trillion yuan special local government bond to help address local governments’ debt obligations. 

China’s Loan Prime Rate (LPR) has Been on a Downward Trajectory



Source: Data sourced from the China Foreign Exchange Trade System (CFETS) ⁴

Yet, the cautious scale of these efforts reflects a strategic pivot from the infrastructure-heavy stimulus of the past. Unlike the massive 2008 response, which

injected \$586 billion into the economy, the current measures are more targeted, emphasizing stability over short-term growth.

6. Toward a Consumption-Driven Economy

China’s leadership recognizes the need for a fundamental shift toward a consumer-driven economy. Household consumption, which accounts for less than 40% of GDP, lags far behind the global average. To close this gap, policymakers are exploring measures such as subsidies for household appliances and child allowances. However, these efforts, while helpful, address symptoms rather than the structural issues that constrain consumption, including low wages, precarious job security, and limited social safety nets.

We expect the People’s Bank of China (PBOC) to maintain its accommodative stance, especially as the U.S. Federal Reserve shifts towards more rate reductions, creating further space for monetary easing in China. Nevertheless, monetary policy alone may be insufficient to bridge the demand gap; the

government’s efforts will require substantial fiscal measures to foster consumption and maintain economic resilience.

Compared to the infrastructure-heavy stimulus of the global financial crisis, which ignited robust demand for imported commodities, a consumer-oriented stimulus would mark a notable shift. While this approach would likely dampen the commodity demand surge, it could alleviate some of the pressures on global markets concerned with Chinese competition. Stimulating domestic consumption, particularly for goods like automobiles and home products, would primarily benefit Chinese households rather than exporting surplus goods abroad. This reorientation may offer a respite for China’s economic rivals, easing global competition while fostering growth at home.

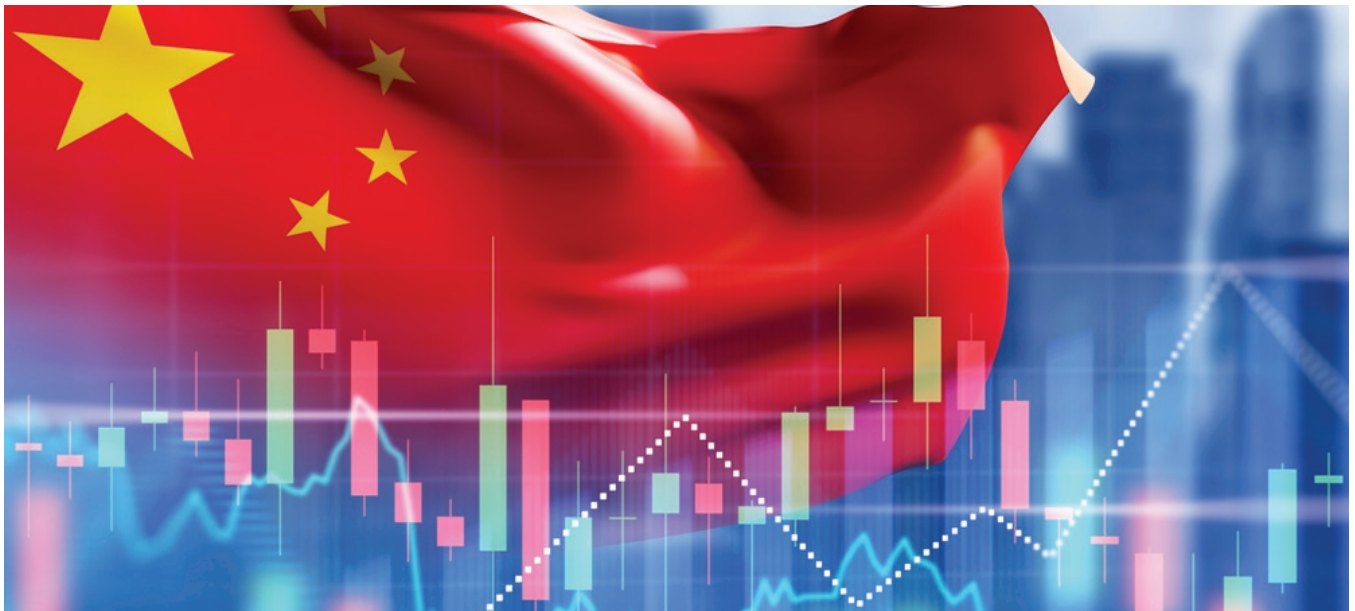
2. China Foreign Exchange Trade System, “Loan Prime Rate - CFETS,” Chinamoney.org.cn, accessed 2024, <https://www.chinamoney.org.cn/english/bmklpr/>.

7. Navigating Global Headwinds

Geopolitical factors remain a significant variable in China's economic outlook. With global protectionist sentiments rising, China's reliance on exports is increasingly challenged by proposed trade policies in key markets. Due to China's current weak demand, the country contributes much more to the global economy as a producer than it does as a consumer, which has sparked trade tensions with the United States, Europe, and several emerging markets. The U.S., under President-elect Donald Trump, has threatened tariffs of up to 60% on Chinese imports.

If implemented, such measures could further strain China's export-dependent industries, necessitating careful diplomatic and economic navigation.

Amid these challenges, there are glimmers of hope. Retail sales rose 3% year-on-year in November, signaling cautious but improving consumer confidence. Industrial production also showed resilience, growing 5.4% year-on-year, while holiday spending during the October "Golden Week" hinted at a slow recovery in household optimism.



8. Conclusion: A Path to Stability

China's economic outlook for 2025 is one of cautious optimism tempered by significant challenges. **We anticipate that China will maintain its growth target of 5% for 2025, a target which we believe isn't beyond reach.** Achieving the growth target will require a delicate balance of monetary easing, fiscal interventions, and structural reforms. Efforts to stimulate domestic consumption will be critical, but their success will depend on addressing deeper issues in employment, wages, and social safety nets.

Globally, China's shift toward a consumer-driven model marks a significant transformation, with far-reaching implications for commodity markets, trade balances, and geopolitical dynamics. While the road ahead is fraught with uncertainties, Beijing's measured approach offers a blueprint for navigating the complexities of modern economic governance. The world will be watching closely as China continues to evolve, shaping not only its own future but also the trajectory of the global economy.

CHAPTER 6

BRICS And De-Dollarization: A Shift In The Global Economic Landscape



1. Introduction

The global financial system stands on the precipice of transformation as the BRICS bloc—traditionally comprising Brazil, Russia, India, China, and South Africa—pushes to reshape the monetary architecture dominated by the US dollar. This ambition, however,

faces a confluence of challenges, geopolitical tensions, and economic realities. Understanding the motivations, implications, and viability of these efforts is crucial for navigating the evolving global economy.

2. The Rise of BRICS: An Emerging Economic Powerhouse

Since its formation in 2009, BRICS has grown from a modest coalition of emerging markets into a formidable economic bloc. Together, the original five members represent 40% of the global population (including new members, now about 45%) and contribute nearly 30% to global GDP (including new members, still around 30%).^{1,2,3} With the inclusion of oil-rich nations such as Saudi Arabia, the UAE, and Iran, BRICS now produces approximately 44% of the world's crude oil.⁴ Its combined economic weight and resource base give it the gravitas to challenge established monetary structures. Also notably, Saudi Arabia and the UAE, as recent entrants, have signaled their intent to phase out the "petrodollar"

by facilitating energy transactions with China, India, and other nations in local currencies. This strategic shift underscores the bloc's determination to reduce dollar reliance and reshape global trade dynamics.

The bloc's increasing focus on local currency trade highlights its intent to reduce reliance on the US dollar. Inter-BRICS trade, which grew by 65% between 2017 and 2022, reached \$614.8 billion, with much of it conducted in national currencies.⁵ For instance, 90% of Russia-China trade is now settled in yuan, while a significant proportion of Russia-India trade operates in rubles and rupees.⁶

3. De-Dollarization: Pragmatism or Ambition?

The call to de-dollarize stems from several economic and geopolitical motivations. Countries within BRICS have experienced the dollar's dominance as both an economic tool and a geopolitical weapon. US sanctions against Russia and other states have underscored the vulnerabilities of dollar reliance, sparking interest in alternative payment mechanisms.

However, the bloc's ambitions are tempered by pragmatism. While the idea of a BRICS currency has been floated, member states have clarified that it remains a distant goal. Indian Reserve Bank Governor Shaktikanta Das recently remarked that de-dollarization is not the group's explicit objective. Instead, the focus is on expanding trade in national currencies and exploring technologies like Central Bank Digital Currencies (CBDCs) to enhance cross-border trade.



1. Ray Leathern, "The Argument for De-Dollarising with BRICS Currency," BRICS Portal, December 6, 2024, <https://infobrics.org/post/42925/>.
2. World Bank Group, "World Bank Open Data: Population, Total," World Bank Open Data, accessed 2024, https://data.worldbank.org/indicator/SP.POP.TOTL?end=2022&locations=BR-RU-IN-CN-ZA-SA-AR-EG-ET-IR-AE-IW&most_recent_value_desc=true&start=2020.
3. World Bank Group, "World Bank Open Data: GDP (Current US\$)," World Bank Open Data, accessed 2024, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2022&locations=BR-RU-IN-CN-ZA-SA-AR-EG-ET-IR-AE-IW&start=2020>.
4. Energy Institute, "Resources and Data Downloads," Statistical Review of World Energy, 2024, <https://www.energyinst.org/statistical-review/resources-and-data-downloads>.
5. Anuradha Chenoy, "The BRICS Plan for a New Financial Architecture," BRICS, 2024, <https://infobrics.org/post/42893>.
6. Chenoy, "The BRICS Plan for a New Financial Architecture."

4. Challenges of a Unified BRICS Currency

Despite its economic heft, BRICS faces formidable obstacles in creating a unified currency. **The geographical dispersion of its members contrasts sharply with the eurozone's contiguous structure, complicating the logistics of a shared monetary system. Furthermore, the divergent economic profiles and priorities of member states make consensus difficult. Lessons from past monetary experiments, such as Europe's Black Wednesday, highlight the perils of misaligned economic strategies.**

Global trust in the US dollar, bolstered by the stability of the US economy and robust financial institutions, poses another challenge. The dollar remains the world's primary reserve currency, accounting for nearly 60% of global foreign exchange reserves.⁷ **BRICS lacks comparable institutions that inspire similar confidence, making a shift to a new currency politically and technically complex.**

5. Local Currencies and Digital Pathways

The global momentum toward local currency trade is gaining traction, driven by economic pragmatism and geopolitical considerations. BRICS nations have been at the forefront of this shift, leveraging local currencies to mitigate exchange rate volatility, avoid sanctions, and reduce transaction costs. For example, 90% of Russia-China trade is conducted in yuan, and significant portions of Russia-India trade are settled in rubles and rupees.⁸ This model has inspired other regions and countries to follow suit.

ASEAN, in May 2023, announced agreements to facilitate trade in local currencies among its member states. Brazil has urged Mercosur countries to adopt a similar approach, while Africa has operationalized the Pan-Africa Payment and Settlement System (PAPSS) to streamline intra-continental trade in local currencies. These initiatives reflect a growing belief in the viability of a multicurrency system, which allows nations to safeguard their fiscal and monetary sovereignty while fostering regional economic integration.

The impact of this trend is twofold. For participating nations, it enhances economic autonomy and reduces vulnerability to external shocks linked to the US dollar's fluctuations or weaponization. For the

US, however, it represents a potential decline in the dollar's global appeal, which could lead to reduced demand for US treasuries and heightened borrowing costs. **As more nations and regions explore local currency trade, the traditional dominance of the dollar faces incremental erosion, signaling a gradual shift toward a more decentralized global financial order.**

Rather than pursuing a single currency, BRICS is focusing on enhancing trade through local currencies and digital platforms. The Kazan summit in October 2024 marked significant progress in this regard. Initiatives such as the BRICS Bridge—a digital settlement platform—aim to streamline financial transactions among member states. This platform integrates local CBDCs and distributed ledger technologies, fostering greater monetary autonomy while reducing transaction costs.

Additionally, the bloc is developing BRICS Clear, an independent financial messaging system for cross-border settlements. This infrastructure, akin to Euroclear or China's Cross-Border Interbank Payment System (CIPS), seeks to bypass traditional networks like SWIFT, which have been weaponized against Russia.

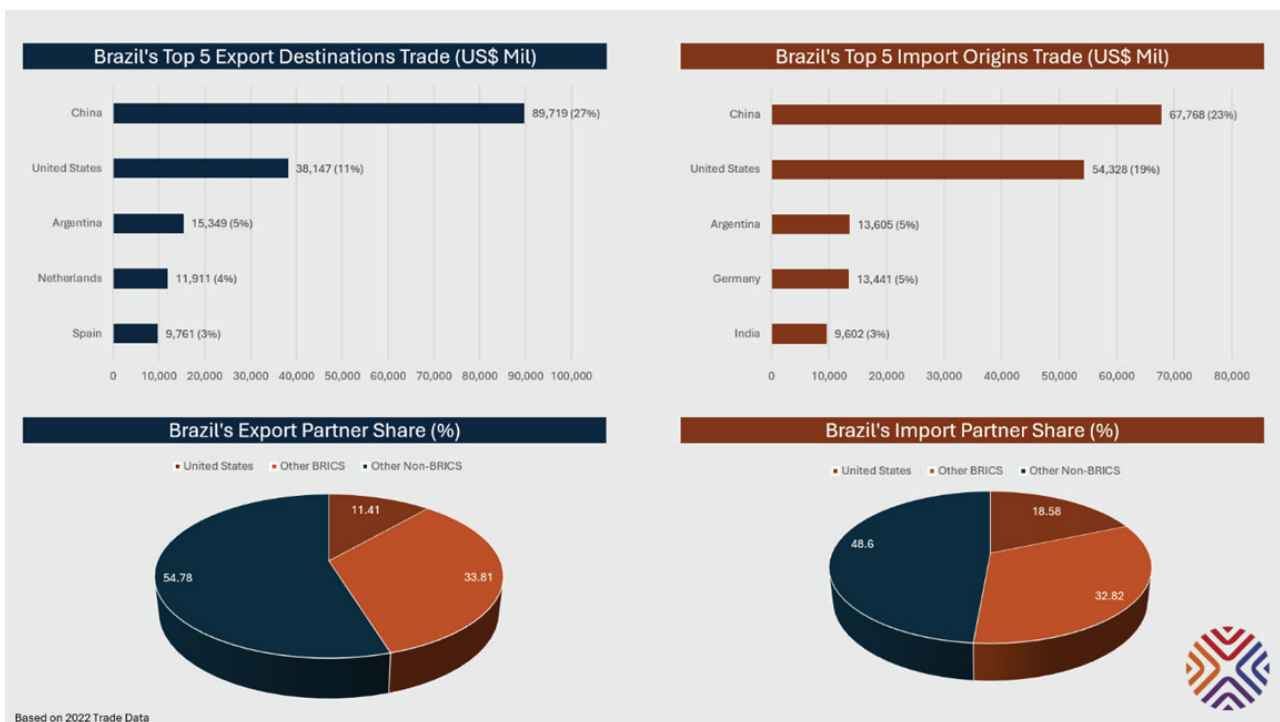
7. Marcus Lu, "Ranked: The World's Top Reserve Currencies in 2024," Visual Capitalist, September 17, 2024, <https://www.visualcapitalist.com/ranked-the-worlds-top-reserve-currencies-in-2024/>.

8. Chenoy, "The BRICS Plan for a New Financial Architecture."

6. Geopolitical Ripples: The Trump Tariff Threat

The BRICS de-dollarization agenda has not gone unnoticed by the US. President-elect Donald Trump recently threatened to impose a **100% tariff** on BRICS nations if they move to replace the dollar. While we view this as a long shot, the rhetoric underscores Washington’s apprehension about losing its monetary primacy. Economists have criticized such threats, arguing that they could accelerate the very trend they seek to counter by pushing countries further toward local currencies.

The graphical analysis below demonstrates the complex and potentially detrimental impact of US tariffs on BRICS countries. While the US serves as a crucial market for their exports, these nations also play a vital role as suppliers of inexpensive inputs for US industries. Moreover, retaliatory tariffs imposed by BRICS countries on US goods could significantly disrupt US exports, given the strong trade interdependence between the two.

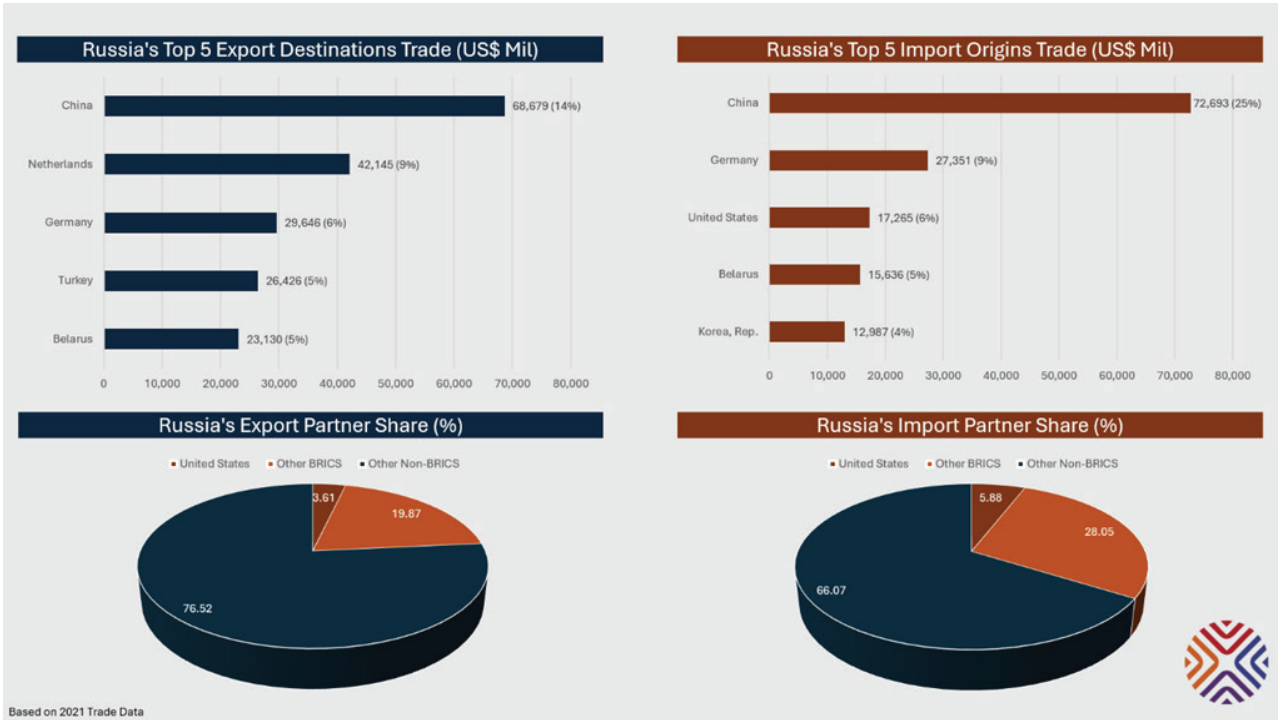


Source: Data sourced from World Integrated Trade Solutions (WITS).⁹

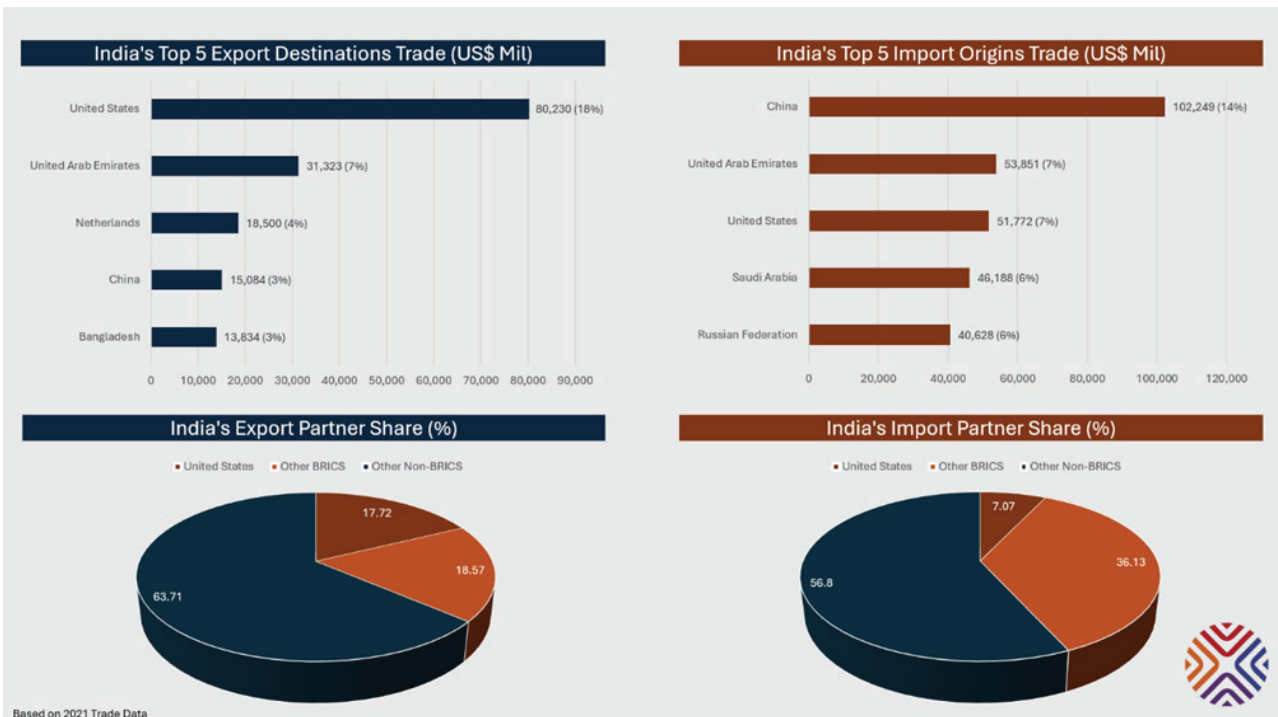


9. World Integrated Trade Solution, “Brazil Trade Summary 2022,” World Bank, accessed 2024, <https://wits.worldbank.org/CountryProfile/en/Country/BRA/Year/2022/Summary>.





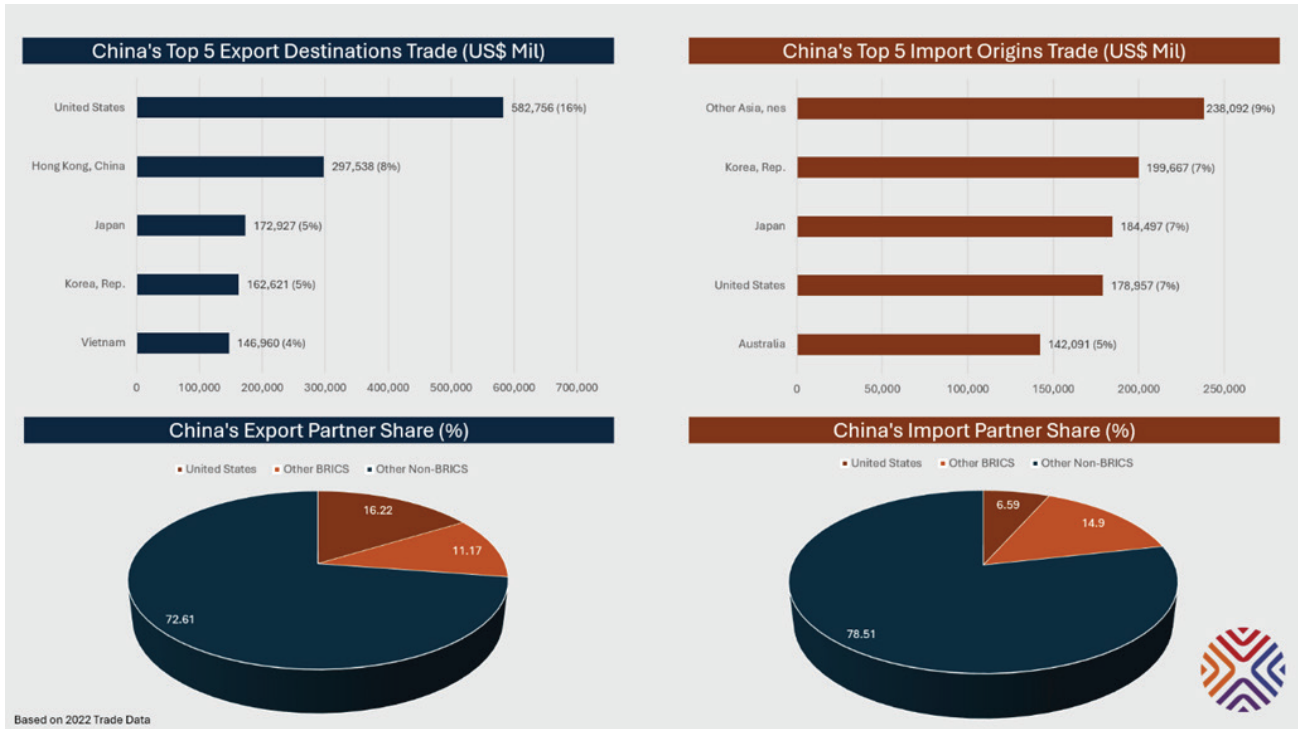
Source: Data Source from World Integrated Trade Solution (WITS).¹⁰



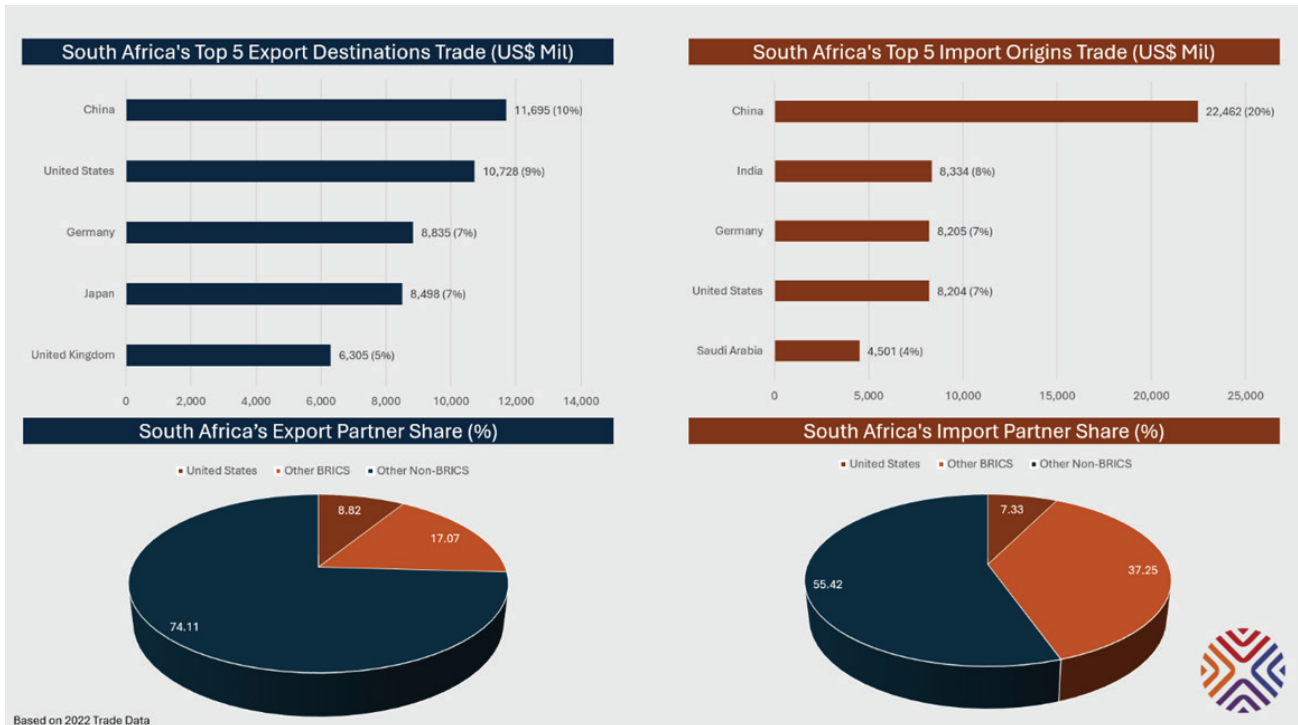
Source: Data Source from World Integrated Trade Solution (WITS).¹¹

10. World Integrated Trade Solution, "Russian Federation Trade Summary 2021," World Bank, accessed 2024, <https://wits.worldbank.org/CountryProfile/en/Country/RUS/Year/2021/Summary>.

11. World Integrated Trade Solution, "India Trade Summary 2022," World Bank, accessed 2024, <https://wits.worldbank.org/CountryProfile/en/Country/IND/Year/2022/Summary>.



Source: Data Source from World Integrated Trade Solution (WITS).¹²



Source: Data Source from World Integrated Trade Solution (WITS).¹³

12. World Integrated Trade Solution, "China Trade Summary 2022," World Bank, accessed 2024, <https://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2022/Summary>.
 13. World Integrated Trade Solution, "South Africa Trade Summary 2022," World Bank, accessed 2024, <https://wits.worldbank.org/CountryProfile/en/Country/ZAF/Year/2022/Summary>.

This dynamic highlights a paradox: the US dollar's global dominance is both its greatest strength and vulnerability. Efforts to enforce dollar hegemony

through economic coercion risk alienating trading partners and undermining confidence in the dollar as a neutral medium of exchange.

7. Implications for the Global Economy

The de-dollarization push is reshaping global trade and finance, with significant implications for investors and businesses. For BRICS nations, trading in local currencies enhances fiscal and monetary autonomy, shielding them from exchange rate volatility and sanctions. For the global economy, this shift signals a gradual transition toward a multicurrency system, reducing the centrality of the dollar. However, these changes come with risks.

A fragmented monetary system could increase transaction costs and complicate international trade. For the US, diminished demand for the dollar could lead to higher borrowing costs and reduced geopolitical influence. Domestically, potential tariffs on BRICS imports could exacerbate inflation and disrupt supply chains, affecting products ranging from Brazilian coffee to Chinese electronics.

8. Looking Ahead: A Multipolar Financial Order

The BRICS bloc, with its expanding membership and economic influence, is laying the groundwork for a multipolar financial order. While a unified currency remains elusive, the emphasis on local currencies and digital innovation reflects a pragmatic approach to reducing dollar dependence. These efforts are attracting interest from other regions, as seen in ASEAN's local currency trade agreements and Africa's Pan-Africa Payment and Settlement System (PAPSS). For investors, the evolving landscape presents both

opportunities and challenges. Diversifying exposure to emerging markets, monitoring currency trends, and adapting to new trade dynamics will be key to navigating this transition.

As BRICS charts its course in the global financial system, the world must grapple with the implications of its rise. Whether through collaboration or competition, the decisions made today will shape the contours of the global economy for decades to come.



CHAPTER 7

BRICS and Gold: Speculation, Strategy, and Skepticism



1. Introduction

The speculation surrounding a gold-backed BRICS currency has captured the imagination of observers worldwide. While there has been no official announcement of such a currency, hints and statements from BRICS leaders have fueled

discussions. At the same time, tangible trends such as gold accumulation by central banks and growing de-dollarization efforts underscore the bloc's evolving monetary strategy.

2. The Origins of the Gold-Backed Currency Rumor

The idea of a gold-backed BRICS currency is rooted in statements from prominent BRICS leaders and the bloc’s broader narrative of reducing dependence on the US dollar. However, BRICS has been cautious in its official posture, emphasizing cooperation and reform rather than confrontation. The Kazan Summit in 2024, for instance, reaffirmed the bloc’s commitment to complementing—rather than opposing—existing global monetary institutions like the Bretton Woods

framework.

BRICS leaders have consistently framed their initiatives as efforts to build alternative financial structures that address the limitations of the current system, particularly for emerging economies. This approach underscores their intent to establish multipolarity in global finance rather than dismantle the dominance of the US dollar outright.

3. Gold Reserves and Central Bank Behavior

The speculation around a gold-backed currency is partly fueled by data on central bank gold reserves. In 2022, data by the World Gold Council shows that global central banks added a record 2,565 tons of gold to their reserves (while total demand reached 1,082 tons, its highest ever), reflecting a shift in

preferences as confidence in the dollar wavers.^{1,2} This trend, however, has moderated, with total net changes in gold reserves declining in 2023. While data for 2024 (up to Q3) still shows higher-than-average accumulation in pre-2022 periods, the pace is less aggressive than media narratives suggest.

Changes in Central Bank’s Gold Reserve Holding



Source: Data Source from World Gold Council (WGC).³

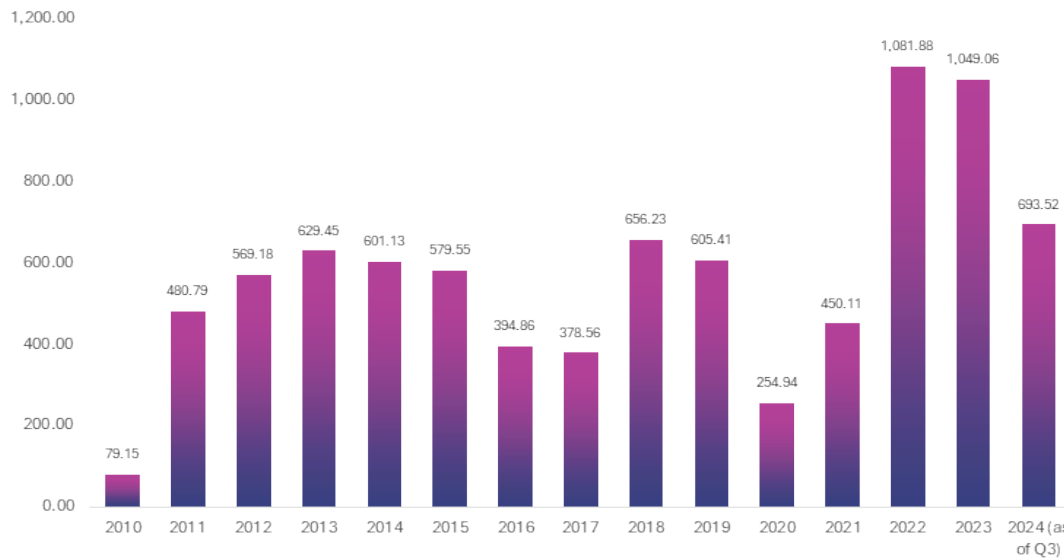
1. World Gold Council, “Gold Reserves by Country,” World Gold Council, accessed 2024, <https://www.gold.org/goldhub/data/gold-reserves-by-country>.
2. World Gold Council, “Gold Demand Trends Q3 2024,” World Gold Council, October 30, 2024, <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2024>.
3. World Gold Council, “Gold Reserves by Country.”

Changes in BRICS Central Bank’s Gold Reserve Holding (Tonnes)



Source: Data Source from World Gold Council (WGC).⁴

Changes in BRICS Central Bank’s Gold Reserve Holding (Tonnes)



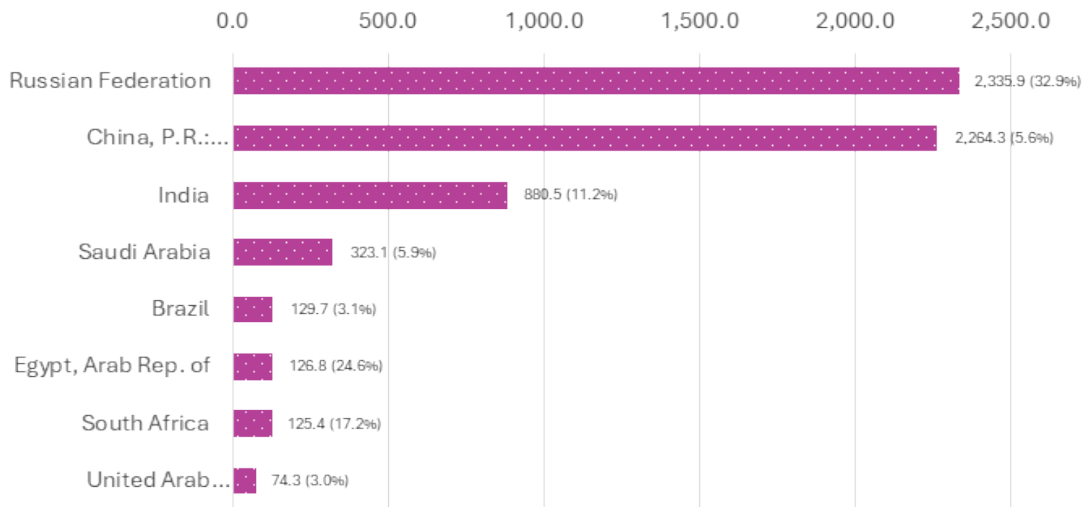
Source: Data Source from World Gold Council (WGC).⁵

Our Correlation Analysis reveals a significant correlation between gold accumulation patterns observed among BRICS Central Banks and those of World Central Banks. This finding points towards a general trend of reserve diversification, not exclusive to the BRICS nations.

4. World Gold Council, "Gold Reserves by Country."
 5. World Gold Council, "Gold Demand Trends Q3 2024."

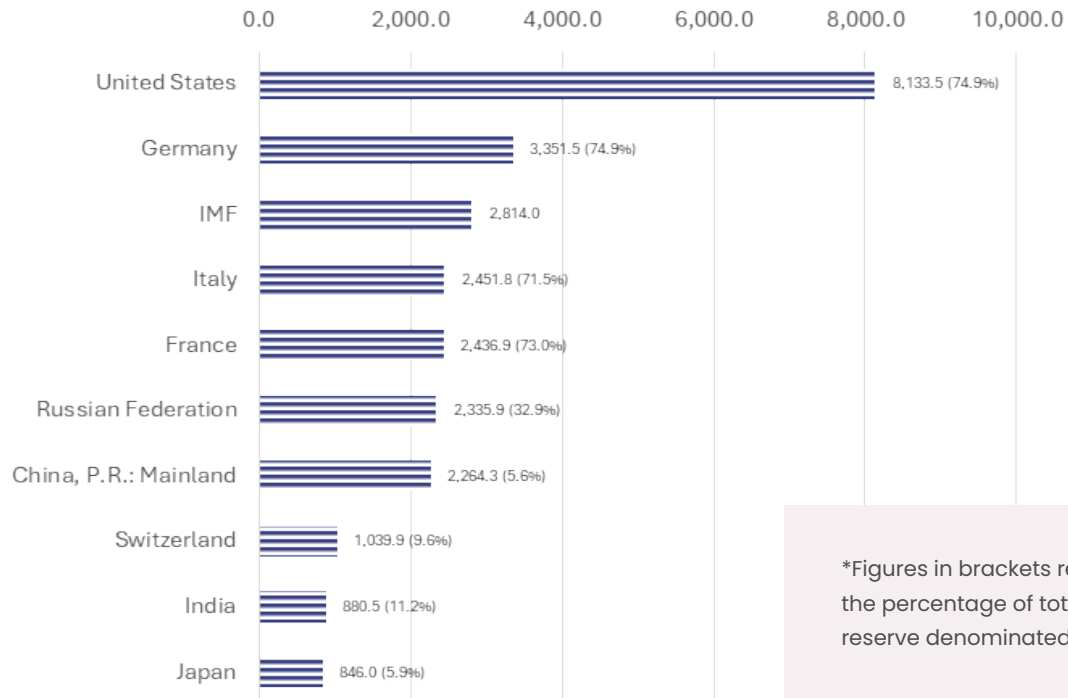


BRICS Members Gold Reserve (Tonnes)



Source: Data Source from World Gold Council (WGC).⁶

Top 10 Gold Holders (Tonnes)



Source: Data Source from World Gold Council (WGC).⁷

6. World Gold Council, "Gold Reserves by Country."

7. Ibid.

Among BRICS nations, gold accumulation has been uneven. Only China and Russia hold substantial gold reserves, while other members like Brazil, India, and South Africa lack comparable stockpiles. Moreover, BRICS nations' collective gold reserves have not grown consistently since the onset of sanctions on Russia in 2022. **This suggests that while gold plays a role in reserve diversification, it is unlikely to serve as the primary foundation for a new currency in the near term.**

4. Challenges of a Gold-Backed Currency

While a gold-backed BRICS currency might provide stability and inspire confidence, it faces significant hurdles. **A fundamental challenge lies in the limited global supply of gold. For a currency to rival the dollar, it would need to be highly liquid and scalable—attributes that a gold-backed system struggles to achieve.**

Additionally, a gold standard imposes rigid constraints on monetary policy. Governments tied to gold reserves would lose the flexibility to expand money supply in response to economic crises. This

lack of adaptability was one of the primary reasons the gold standard was abandoned historically, as it hampered economic recovery during downturns.

Logistical and operational challenges also loom large. **Managing and storing vast quantities of gold would require significant infrastructure, and ensuring transparency and trust in the system would demand robust oversight mechanisms.** These issues complicate the feasibility of a gold-backed currency at the scale required to challenge the US dollar.

5. De-Dollarization and the Role of Gold

While skepticism about a gold-backed BRICS currency remains warranted, the broader trend of de-dollarization is undeniable. The share of global foreign exchange reserves held in US dollars has declined from 70% a decade ago to 60% today, driven by geopolitical tensions, such as the US-China trade war and sanctions that froze \$300 billion of Russia's reserves.⁸ This erosion of confidence in the dollar has accelerated interest in alternative financial systems and reserve assets like gold.

For BRICS, gold plays a dual role: it serves as a reserve diversification tool and a strategic hedge against dollar volatility. However, it is clear that gold alone cannot underwrite the bloc's ambitions for monetary autonomy. The uneven distribution of gold reserves among BRICS members and the logistical complexities of a gold-backed system underscore the limitations of this approach.



8. Gavin Lucas, "Is BRICS' New Gold-Backed Currency Imminent?" CoinGeek, September 30, 2024, <https://coingeek.com/is-brics-new-gold-backed-currency-imminent/>.

6. The Road Ahead: Complementarity, Not Confrontation

BRICS has consistently portrayed its monetary initiatives as complementary to existing systems rather than competitive. **While the idea of a gold-backed currency aligns with the bloc's broader goals of stability and independence, it remains a speculative concept rather than an imminent reality.** Efforts to de-dollarize, diversify reserves, and build digital financial infrastructure are more pragmatic and actionable in the short term.

The evolving role of gold in BRICS' monetary strategy highlights the bloc's nuanced approach to global financial reform. While gold-backed currencies might capture headlines, the real story lies in incremental progress—such as local currency trade and digital settlement platforms—that reshapes the global economy step by step. For now, the dollar remains dominant, but the trajectory of change is clear.



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SECTION B:

Commodities Outlook

CHAPTER 1

Gold in 2025: A Strategic Investment Perspective

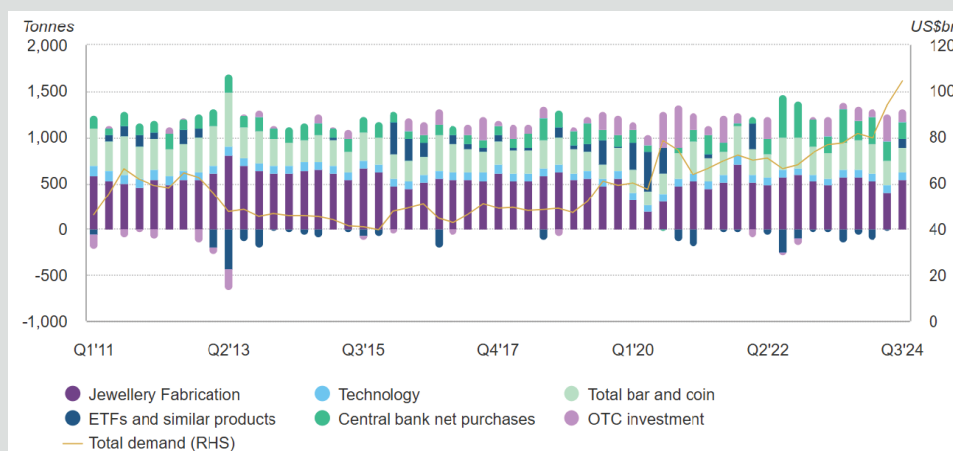


1. Introduction

As we look ahead to 2025, the outlook for gold remains bullish but less frenetic than the speculative surge witnessed in 2024. Anchored by a blend of macroeconomic factors, central bank policies, and

shifting investor sentiment, gold is poised to deliver steady gains. Below, we explore the forces shaping gold’s trajectory and the potential risks investors should consider.

Quarterly total gold demand by sector, tonnes and value*



Source: Data Sourced from World Gold Council (WGC)¹

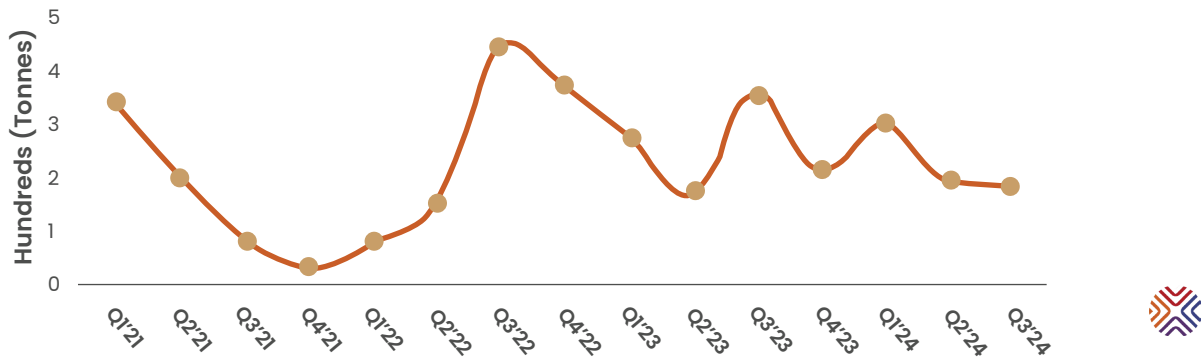
1. World Gold Council, “Gold Demand Trends Q3 2024,” World Gold Council, October 30, 2024, <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q3-2024>. (or World Gold Council, “Gold Demand Trends Q3 2024.”)

2. Central Banks: Anchors of Demand

2.1 The Geopolitical Shift Toward Gold

Central banks have been pivotal in gold’s ascent since 2022. This trend gained traction as nations like Russia sought to insulate themselves from geopolitical risks by diversifying reserves away from the U.S. dollar. The People’s Bank of China (PBOC), Reserve Bank of India (RBI), Saudi Central Bank, and Central Bank of the Russian Federation have joined this movement, significantly boosting global demand for gold.

The Surge in Central Banks Demand for Gold which Picked-up in 2022 will continue to moderate, however, remain elevated



Source: Data Sourced from World Gold Council (WGC).²

2.2 BRICS and the De-Dollarization Movement

The BRICS coalition, advocating for reduced reliance on the dollar, has amplified gold’s role as a strategic reserve asset. As BRICS expands its membership, the bloc’s demand for gold is likely to persist, albeit at a moderated pace. However, the current high price of gold may temper further accumulation, especially if emerging market central banks need to prioritize defending their currencies amid a strengthening U.S. dollar.



2. World Gold Council, “Gold Demand Trends Q3 2024.”

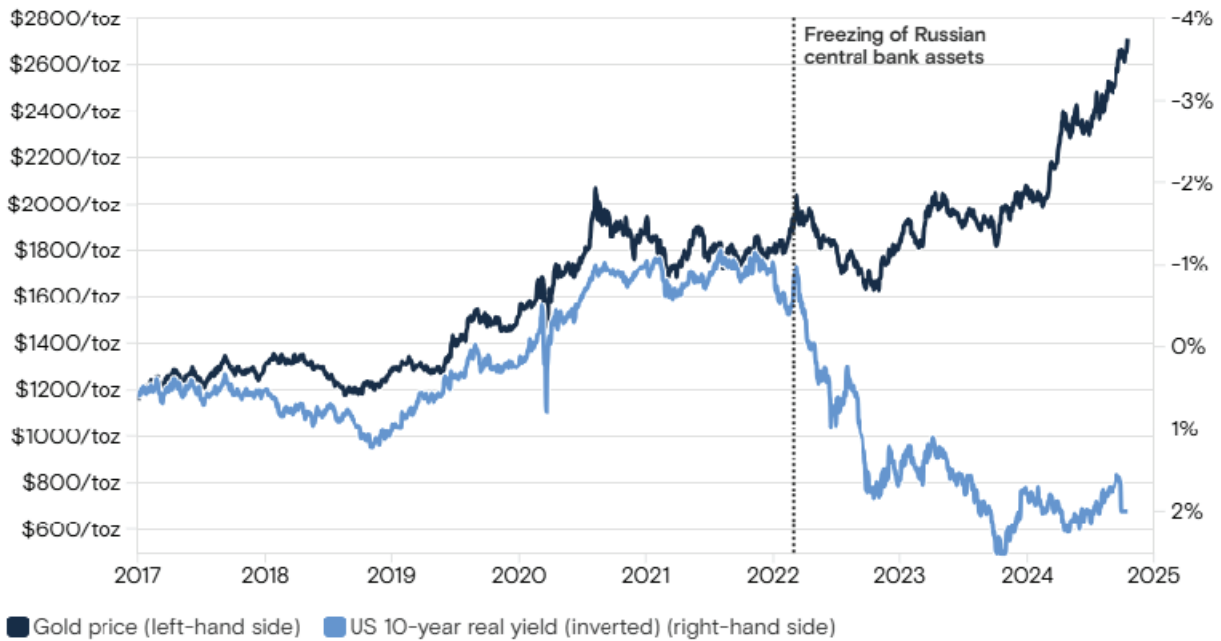


3. The Yield-Gold Dynamic: A Return to Fundamentals

3.1 The Inverse Relationship Revives

Historically, gold’s performance is inversely related to U.S. Treasury yields, a dynamic muted by central bank purchases between 2022 and 2024. As we move into 2025, this relationship is expected to reassert itself. Declining yields, driven by anticipated Federal Reserve rate cuts and subdued inflation expectations, will likely reduce the opportunity cost of holding gold.

Central banks have been resetting the relationship between gold prices and interest rates



Source: Goldman Sachs Research, Federal Reserve Board
As of October 18, 2024



Source: Goldman Sachs.³

3.2 Gold’s Resilience in High-Yield Periods

Gold demonstrated remarkable resilience during the high-yield environment of 2022–2024. This underscores robust demand, particularly from institutional players and central banks. With the yield on the 10-year Treasury note expected to decline, the stage is set for a resurgence of traditional market dynamics favoring gold.

3. Goldman Sachs, “Gold Predicted to Climb Higher than Expected as Records Shatter,” Goldmansachs.com, October 29, 2024, <https://www.goldmansachs.com/insights/articles/gold-predicted-to-climb-higher-than-expected-as-records-shatter>.

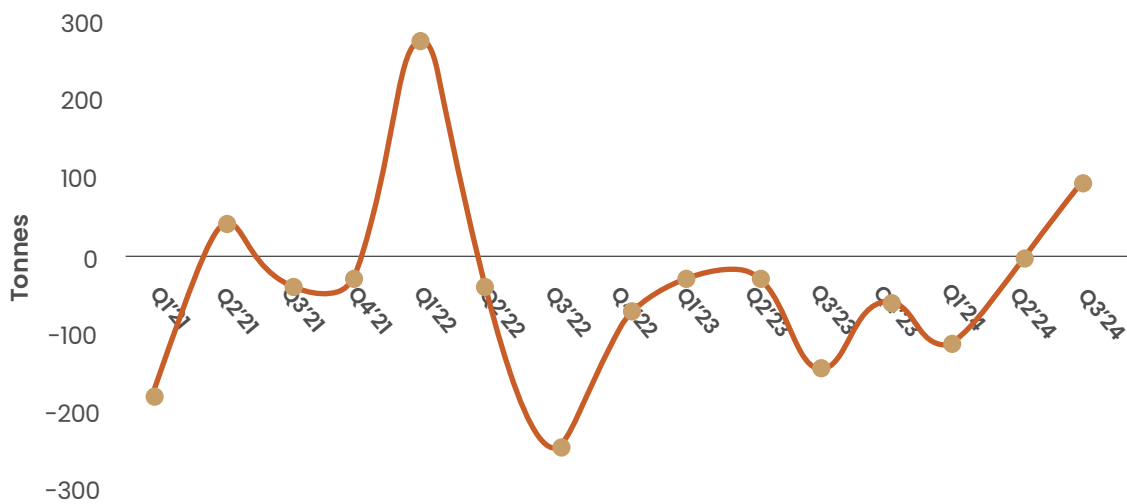


4. ETFs and Retail Demand: A Renewed Haven Appeal

4.1 ETF Inflows on the Rise

After three years of net outflows, gold-backed ETFs turned the tide in 2024, coinciding **with a stellar 27% appreciation in gold prices in 2024**. The World Gold Council’s October report highlighted this shift, signaling a renewed appetite for safe-haven investments. In 2025, geopolitical tensions, potential trade disruptions under the Trump administration, and inflationary concerns could catalyze further inflows into gold-backed ETFs.

ETFs Demand for Gold is Rising



Source: Data Sourced from World Gold Council (WGC).⁴

4.2 Retail and Investment Demand Trends

Investor interest is expected to remain strong, with gold ETFs benefiting from reduced real yields and rising global uncertainties. However, persistently high prices may deter retail buyers, particularly jewelers, who might pivot to more affordable alternatives.



⁴ World Gold Council, "Gold Demand Trends Q3 2024."



5. Risks to the Bullish Case

While the outlook for gold is optimistic, several factors could dampen its rally:

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6. Our Projection for Gold in 2025

Considering these dynamics, we forecast gold to comfortably reach **\$3,000 per ounce** by the end of 2025. This projection reflects sustained demand from central banks, favorable macroeconomic conditions, and heightened geopolitical risks. While risks remain, the balance of probabilities favors gold as a cornerstone of diversified investment portfolios.

7. Conclusion: A Steady Bullish Path

A healthy and sustainable pace of appreciation will likely characterize gold’s performance in 2025. As central banks recalibrate their reserves and investors seek shelter from geopolitical and economic uncertainties, gold remains an asset of choice. By maintaining a strategic allocation to gold, investors can hedge against volatility and preserve wealth in an increasingly complex global landscape.



CHAPTER 2

Oil Market Outlook for 2025



1. Introduction

The global oil market in 2025 is set to be a theater of complexity and volatility, where the forces of supply and demand converge under the shadow of geopolitical tensions and macroeconomic uncertainties. While the industry often thrives on its cyclical nature, the

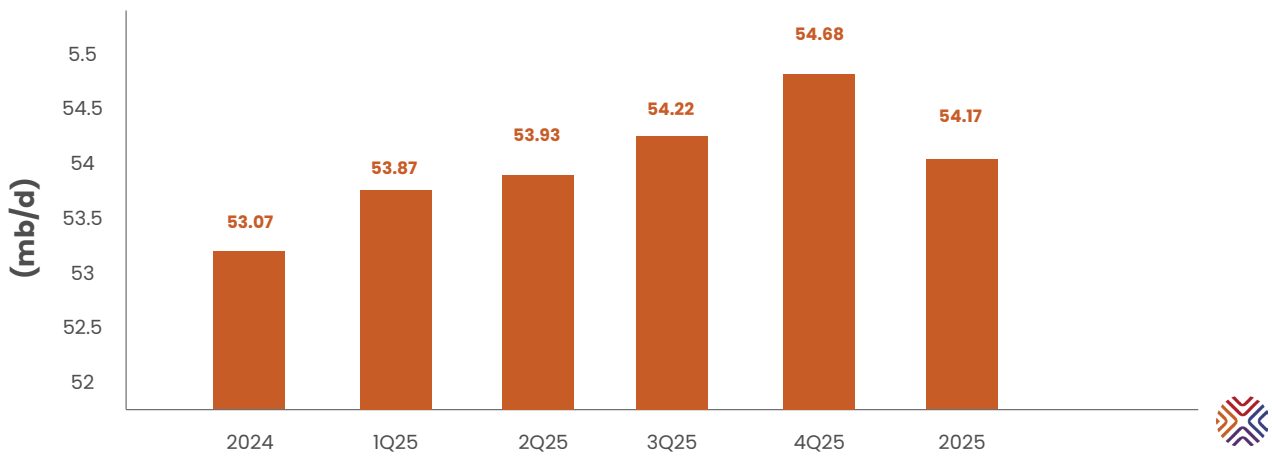
year ahead promises an intensification of bearish themes that could reshape price expectations and test the resilience of producers and consumers alike.

2. Supply Dynamics: The Oversupply Challenge Looms Large

A pivotal factor shaping the 2025 oil market will be the unwinding of OPEC+ voluntary production cuts, releasing an estimated 2.2 million barrels per day (bpd) into an already saturated market. This decision reflects OPEC's shifting priorities. After years of ceding market share to agile non-OPEC producers, such as U.S. shale drillers, OPEC seems poised to pivot,

betting on higher volumes to offset weaker prices. Yet, this strategy comes with inherent risks. A full-scale return of this supply could intensify competition, potentially sparking a price war reminiscent of past downturns, particularly as countries like the United States, Canada, and Brazil continue expanding their production capabilities.

Total Non-DoC Liquids Production in 2025 is Expected to Jump by 2.08%



*NB: Non-DoC liquids supply mean. liquids supply from countries not participating in the DoC (Declaration of Cooperation)

Source: Data Sourced from OPEC.¹

Moreover, the substantial investments made by OPEC+ members to boost their production capacities cannot be ignored. With some nations holding 5 to 6 million bpd in spare capacity, these investments demand returns. For member states like Saudi Arabia and Iraq, the prospect of prolonged voluntary cuts seems increasingly untenable. This shift in strategy could lead to short-term marginal revenue gains, but at the expense of a dramatic weakening in global oil prices.



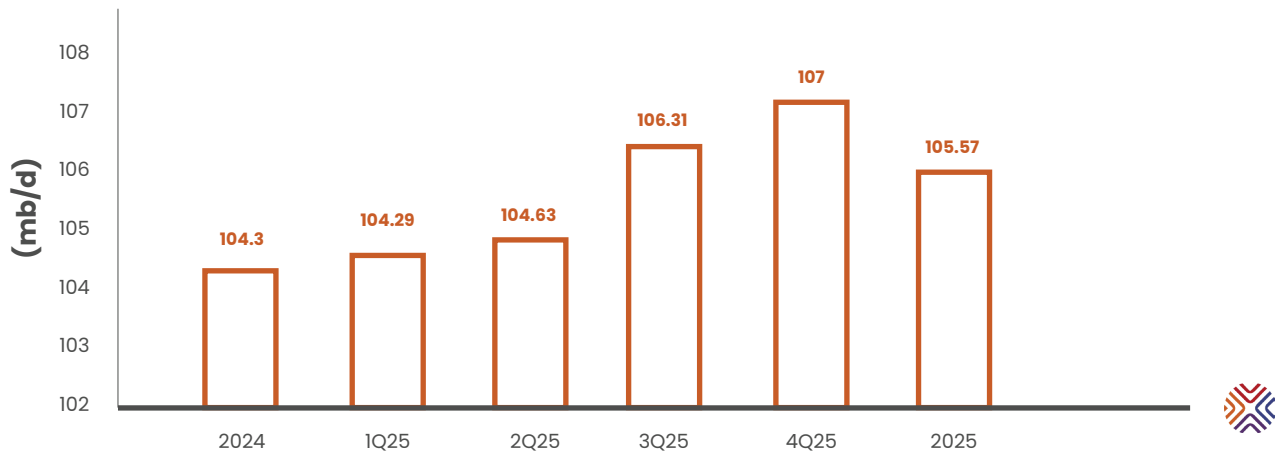
3. Demand-Side Realities: Modest Growth in a Fragile Economy

On the demand front, the outlook remains tepid at best. China, traditionally a cornerstone of global oil demand growth, is grappling with persistent economic malaise. Structural issues in its real estate sector, weaker industrial output, and sluggish domestic consumption have collectively eroded

its appetite for oil. Both OPEC and the International Energy Agency (IEA) have accordingly revised their 2025 oil demand growth projections downward, with estimates hovering between 998,000 bpd and 1.5 million bpd.

1. Organization of the Petroleum Exporting Countries, OPEC Monthly Oil Market Report, November 12, 2024.

Total Global Oil Demand is Projected to Grow by Just 1.48% in 2025



Source: Data Sourced from OPEC.²

This modest demand growth is unlikely to counterbalance the deluge of supply expected from both OPEC+ and non-OPEC producers. Compounding this issue, geopolitical uncertainties and potential macroeconomic shocks could further dampen global consumption. **A potential U.S.-China trade war,**

reignited by Donald Trump’s proposed 60% tariffs on Chinese goods, could disrupt supply chains and economic activity across multiple regions. Given that the world is still recovering from the scars of the COVID-19 pandemic, any further economic slowdown would weigh heavily on oil demand.

4. The Trump Factor: A Catalyst for U.S. Production

Donald Trump’s return to the U.S. presidency in 2025 adds another layer of complexity to the oil market narrative. Throughout his previous tenure and during his recent campaign, Trump championed domestic energy independence under the banner of “drill, baby, drill.” His administration is likely to encourage

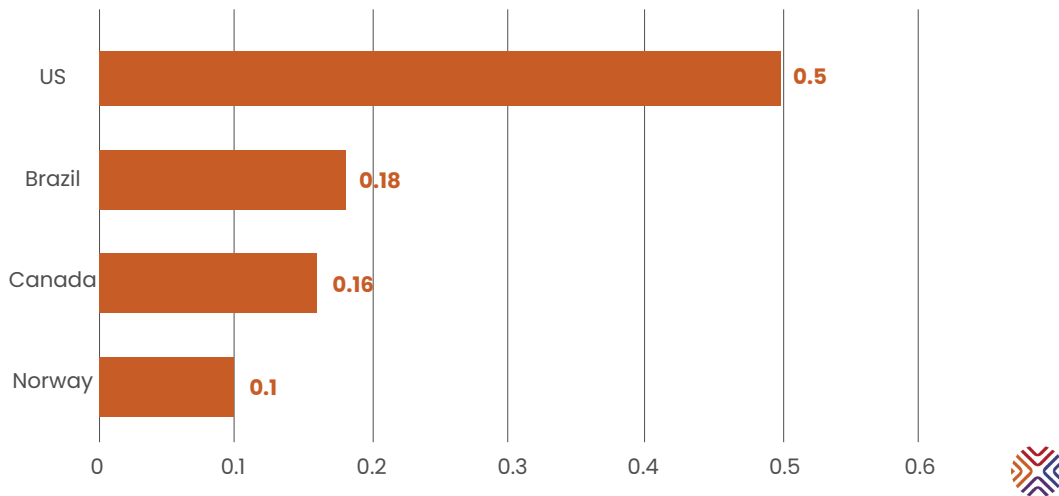
increased U.S. shale production, leveraging favorable policies and tax incentives to stimulate output. This surge in U.S. production could exacerbate the supply glut, particularly as shale producers have historically been quick to respond to market opportunities.



2. Organization of the Petroleum Exporting Countries, OPEC Monthly Oil Market Report. (or Ibid.)



Projected Annual Oil Production Changes YoY in 2025



Source: Data Sourced from OPEC.³

Trump’s push for lower energy costs to boost Americans’ living standards could give him some headroom for his broader potential inflationary policies. However, the implications for the global oil market are stark: increased U.S. production will not only compete with OPEC+ volumes but could also drive prices downward as global supply outpaces demand.

5. Geopolitical Themes: Stability Amid Tensions?

Geopolitical dynamics, a perennial wildcard in the oil market, will remain influential in 2025, albeit in nuanced ways. The re-election of Donald Trump could potentially ease the Russia-Ukraine conflict. His perceived alignment with Vladimir Putin may facilitate negotiations, reducing one of the significant upward pressures on oil prices seen in recent years. Conversely, the Middle East remains a hotspot of uncertainty. The ongoing conflict involving Israel, Palestine, Lebanon, and Iran has escalated, yet critical oil infrastructure appears to be spared. Israel’s pledge not to target Iran’s oil and nuclear facilities, likely under pressure from its allies such as the US, suggests that these tensions may not significantly disrupt supply chains in the near term.

Nonetheless, the Strait of Hormuz, a vital chokepoint for global oil shipments, remains a strategic vulnerability.

Should hostilities in the Middle East intensify to the point where Iran threatens maritime traffic through this critical passage, the implications for global oil prices could be severe. While this scenario remains a low-probability event, its potential impact warrants attention.



3. Ibid.

6. Temporary Price Stabilizers: Sanctions and Compliance

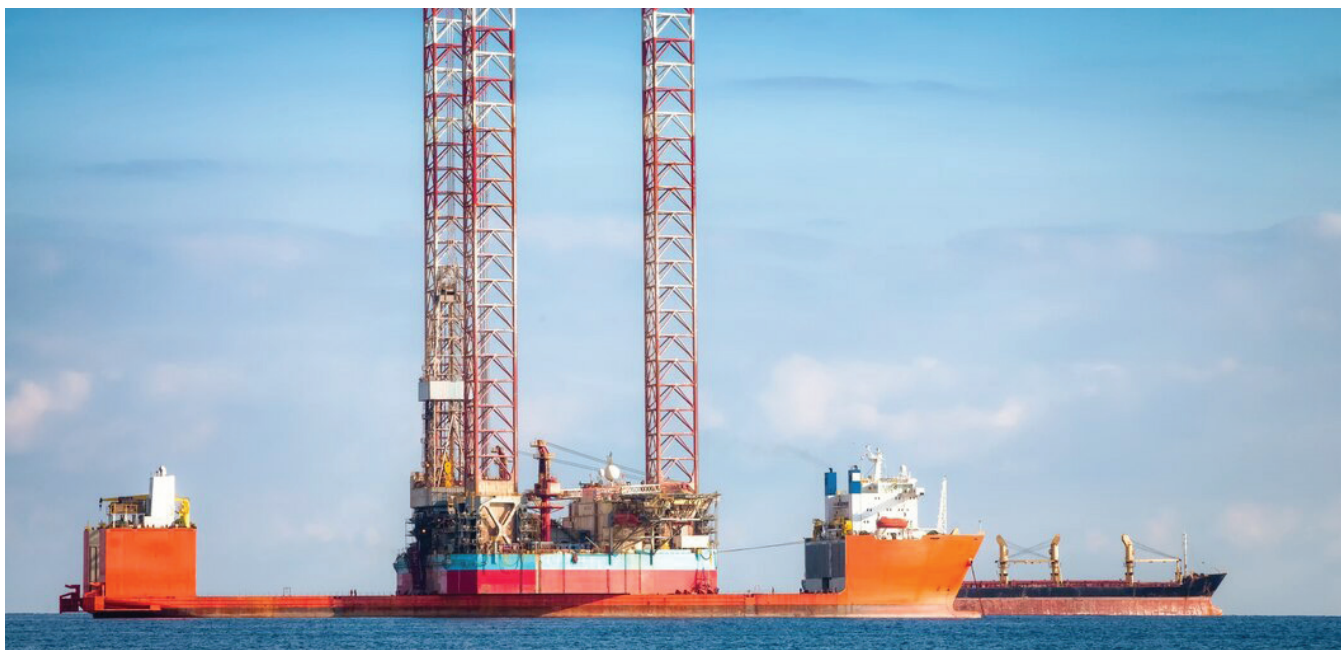
While the overall narrative leans bearish, several factors could provide temporary support to oil prices in 2025. A key consideration is the potential for expanded U.S. sanctions on Iran and Venezuela under Trump's leadership. Such measures could disrupt these nations' oil exports, tightening supply in specific

markets. Additionally, improved compliance among OPEC+ members, particularly Iraq and Kazakhstan, in adhering to production quotas could create some room for a gradual easing of voluntary cuts. This would mitigate, though not eliminate, the risk of an oversupplied market.

7. Price Outlook: The Path Ahead

Given the confluence of these factors, our analysis suggests that oil prices could fall to as low as **\$65 per barrel** in 2025. This scenario assumes a full-scale unwinding of OPEC+ production cuts and sustained


increases in non-OPEC supply, coupled with subdued demand growth. However, should geopolitical disruptions or stricter sanctions materialize, prices could see short-term upward volatility.



8. Conclusion: A Year of Transition

The oil market in 2025 will likely be defined by its transitional nature. For producers, the challenge lies in balancing market share ambitions against the risk of eroding revenues. For consumers, lower prices could provide economic relief, albeit at the expense of industry stability. Navigating this environment

will require adaptability, foresight, and a keen understanding of the multifaceted forces at play. While the road ahead appears fraught with challenges, it is within these challenges that opportunities often arise for those prepared to seize them.



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SECTION C:

Eurobond

CHAPTER 1

SSA Eurobond Market Outlook in 2025: A Complex Year Ahead

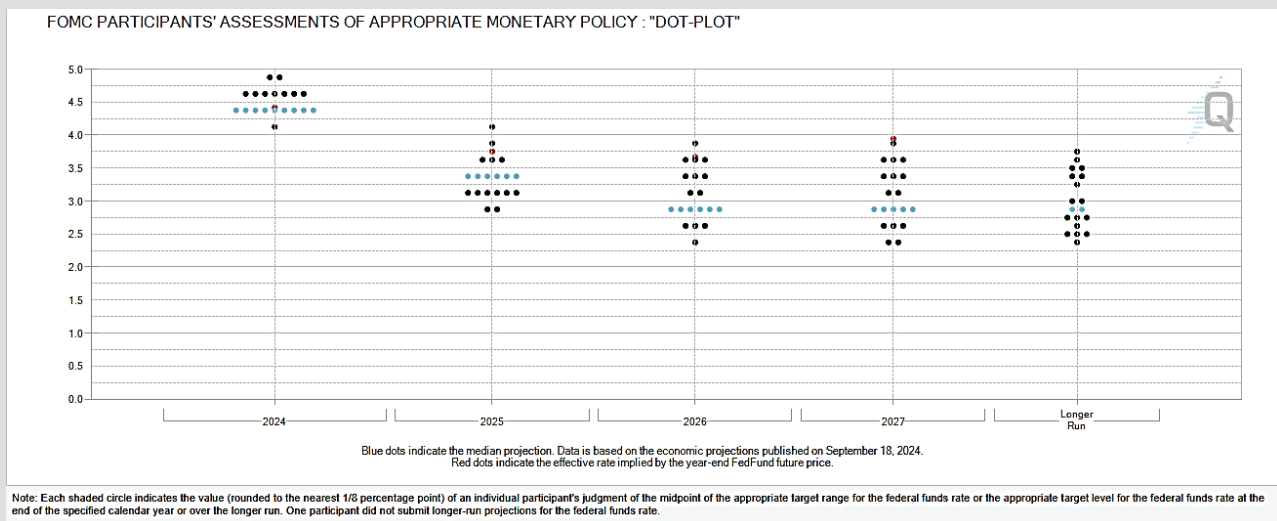


1. Introduction

The global Eurobond market, particularly dollar-denominated issuances, faces a challenging and uncertain year in 2025. The anticipated policy

direction of the U.S. Federal Reserve will be a critical determinant of the market's trajectory, influencing liquidity, risk appetite, and yield dynamics.

Fed's September Dot Plot and Market Expectation After the November Election



Source: CME FedWatch Tool.¹

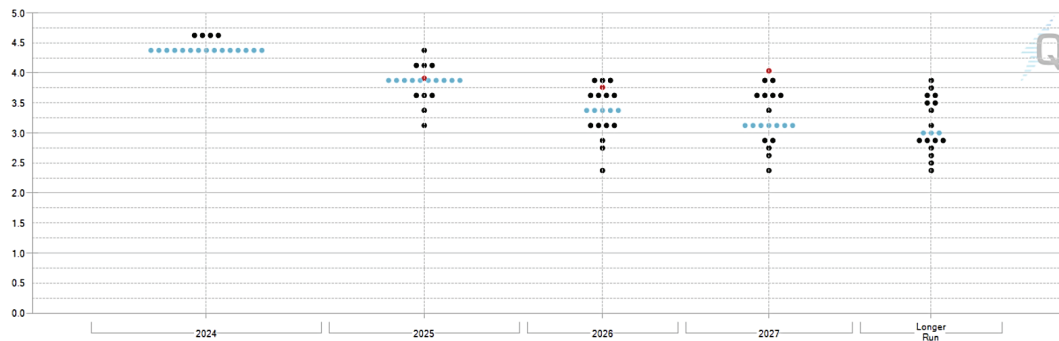
1. CME Group, "CME FedWatch Tool - CME Group," @CMEGroup, 2024, <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>.



In September 2024, Federal Reserve policymakers, as reflected in the dot plot, projected a full percentage-point rate cut in 2025, aligning with market expectations. However, following the November Presidential Election results, markets quickly adjusted their outlook, reducing their 2025 rate cut expectations to 60 basis points. The election of Donald Trump as U.S. president, coupled with persistent inflationary pressures, prompted a shift in the Federal Reserve’s narrative.

Fed’s December Dot Plot and Market Expectations as at the end of 2024

FOMC PARTICIPANTS’ ASSESSMENTS OF APPROPRIATE MONETARY POLICY : “DOT-PLOT”



Blue dots indicate the median projection. Data is based on the economic projections published on December 18, 2024. Red dots indicate the effective rate implied by the year-end FedFund future price.

Note: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant’s judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

Source: CME FedWatch Tool.²

During the December 2024 meeting, the Federal Open Market Committee (FOMC) reassessed its 2025 monetary policy outlook, lowering its anticipated rate cuts to just half a percentage point. This revision underscores the Fed’s cautious stance, signaling less confidence in inflation moderating significantly in 2025. In response, market participants recalibrated their expectations to align more closely with the Fed’s projections, igniting cautious but bullish sentiment among fixed-income investors, albeit with reduced optimism compared to September.

By 2024, the Fed had already trimmed rates by a full percentage point in preparation for 2025. **Should the Fed maintain a more restrained dovish approach, the Eurobond market could underperform relative to our optimistic forecasts.** The interplay between persistent inflation, economic growth, and the Fed’s monetary policy will be critical in shaping market performance across emerging markets, particularly in Sub-Saharan Africa (SSA).

2. Nigeria’s Eurobond Outlook: Resilience Amid Global Uncertainty

Nigeria’s dollar-denominated Eurobonds enter 2025 on a cautiously optimistic note. While global macroeconomic dynamics exert significant influence, the country’s domestic reforms and improving fundamentals provide a supportive backdrop for debt sustainability and investor confidence.

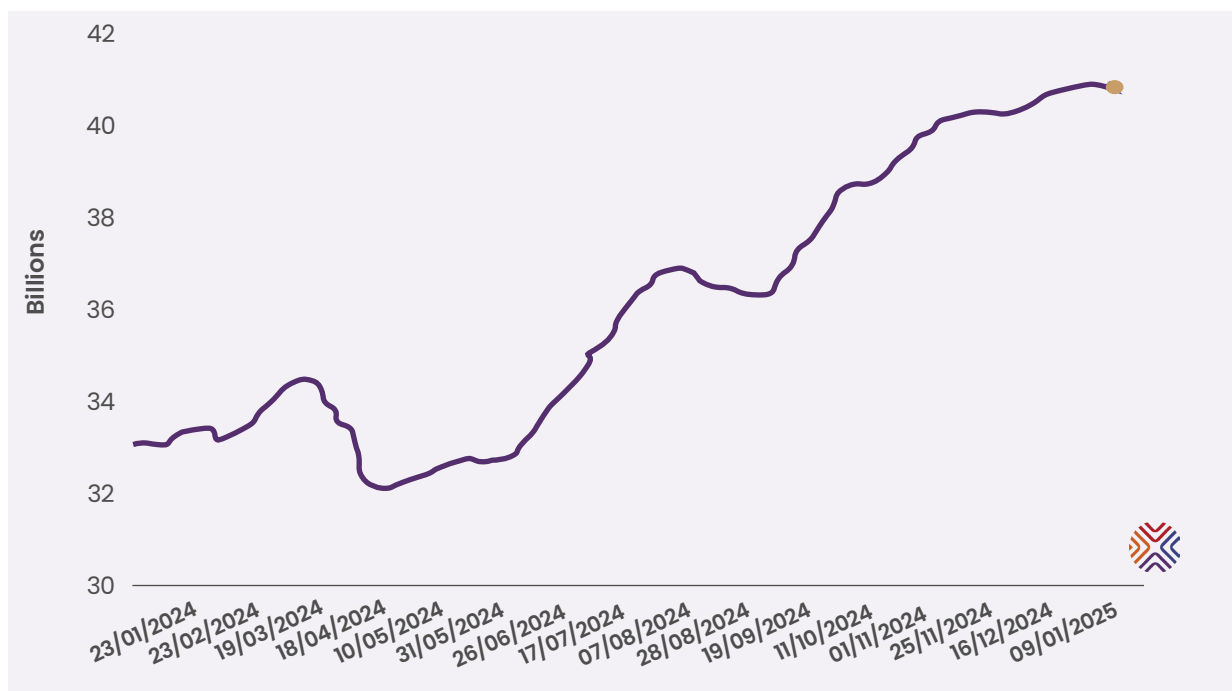


2. CME Group, “CME FedWatch Tool – CME Group,”

2.1. Strengthened Foreign Reserves Bolster Credibility

Nigeria’s foreign reserves have risen significantly, surpassing \$40 billion in late 2024 from mid-year lows of \$32.1 billion. This improvement is attributed to multiple factors: increased portfolio inflows, higher remittances, and enhanced trade balances, factors that will improve if the Dangote Refinery ramps up in production. With a projected capacity of 650,000 barrels per day by mid-2025, the Dangote Refinery has started reducing Nigeria’s reliance on imported refined products. This shift alleviates pressure on foreign reserves, providing the Central Bank of Nigeria (CBN) with greater flexibility to meet external obligations, including Eurobond servicing.

Nigeria’s Gross Foreign Reserve Have Generally Been on an Upward Trajectory Since the Adoption of a More Flexible Exchanger Rate Policy



Source: Central Bank of Nigeria.³

Additionally, Nigeria’s move to liberalize its foreign exchange market, despite ongoing volatility, has reduced the CBN’s intervention in the market. The high-interest rate environment also attracted higher foreign portfolio investment inflows, which totaled \$3.48 billion in the first half of 2024 compared to \$756.1 million during the same period in 2023. This trend reflects growing investor confidence in the country’s ability to manage its external debt burden, a positive signal for Nigeria’s Eurobonds.



3. Central Bank of Nigeria, “The Movement in Reserves,” Cbn.gov.ng, 2025, <https://www.cbn.gov.ng/IntOps/Reserve.html>.

2.2. Fiscal Reforms Drive Revenue Growth

Nigeria's fiscal position has also improved, supported by a combination of tax reforms and the phasing out of costly fuel subsidies. We expect general government revenue as a share of GDP to grow through the next 5 years, owing to the new tax reform and potential progress in the oil and non-oil sectors. Non-oil revenues, particularly from value-added taxes (VAT) and customs, have shown steady improvement. These gains are instrumental in narrowing the budget deficit and creating a stronger fiscal buffer for servicing external debt obligations.

Nigeria's fiscal reforms have yielded a favorable credit outlook. Below are the major rating actions taken on Nigeria this year

Date	Rating Agency	Rating Action
February 2	S&P	Nigeria Ratings Affirmed At 'B-/B'; Outlook Remains Stable
May 3	Fitch	Revised the Outlook on Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Positive from Stable, and affirmed the IDR at 'B-'
June 21	Moody	Affirms Nigeria's Caal ratings and maintains the positive outlook.
November 1	Fitch	Affirmed Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B-' with a Positive Outlook.

2.3. Monetary Policy Stability: Managing Inflation and FX Liquidity

Inflation remains a significant challenge, with consumer prices reaching 34.6% in October. The CBN's aggressive tightening, which raised the monetary policy rate (MPR) by a cumulative 875 basis points to 27.50% in 2024, was a move to anchor inflation expectations. The high policy rate, which is expected to extend through 2025, albeit some rates cut within H1 of the year, could attract more foreign portfolio investors to the country's fixed-income market, which offers juicy yields. While inflationary pressures persist, especially from fuel price deregulation and exchange rate adjustments, the overall trajectory suggests potential gradual improvement. This macroeconomic stabilization supports Nigeria's ability to attract foreign investors to its Eurobond market.

At the end of 2024, Nigeria leveraged its improved economic fundamentals to re-enter the Eurobond market, seeking to address its fiscal deficit. The move marked the country's return to the international debt market in November after a two-year absence. In a dual-tranche Eurobond issuance, investor demand surged, with subscriptions exceeding \$9 billion. Despite the strong interest, the government chose to raise \$2.2 billion. The issuance included \$700 million in 6.5-year bonds set to mature in 2031, carrying a 9.625% coupon rate, and \$1.5 billion in 10-year bonds with a coupon rate of 10.375%.

2.4. External Debt Servicing: Meeting Obligations with Reduced Liquidity Risk

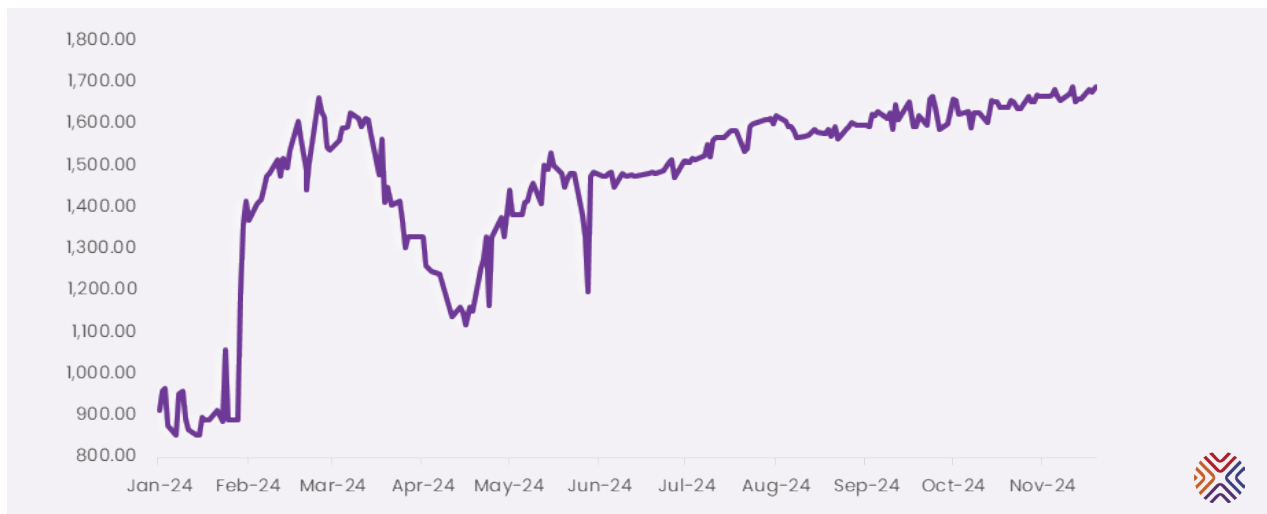
Nigeria faces significant external debt servicing requirements in 2025, before the 2024 Eurobond issuance, the country’s external debt servicing requirements for 2025 totaled \$5 billion, including a \$1.1 billion Eurobond repayment in November. The government plans to meet these obligations through a mix of multilateral loans, syndicated facilities, and potentially new Eurobond issuances. While there are uncertainties over the size of net reserves—owing to FX swaps with local banks—the country’s gross reserves provide an estimated 9 months of imports, well above the median for peers in the ‘B’ rating category.



2.5 Key Challenges: Volatility and Governance Constraints

Despite progress, risks remain. While the exchange rate is becoming more flexible, it continues to experience volatility that could deter some investors.

USD/Naira Exchange Rate Movement in 2024

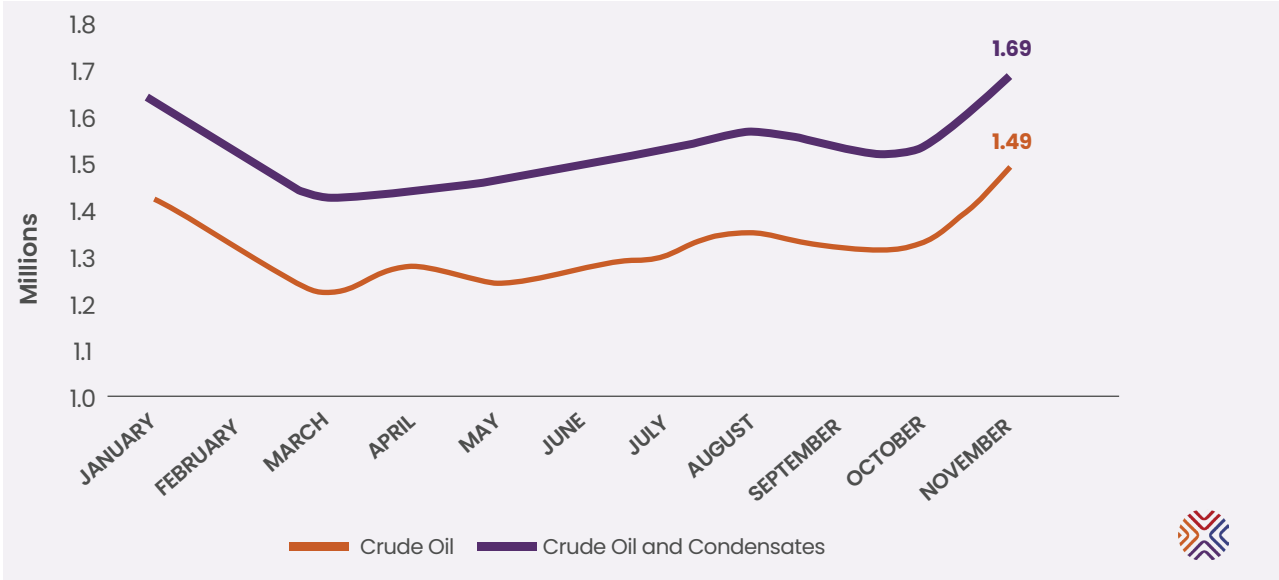


Source: Central Bank of Nigeria.⁴

4. Central Bank of Nigeria, "Exchange Rates | Central Bank of Nigeria," Cbn.gov.ng, 2024, <https://www.cbn.gov.ng/rates/ExchRateByCurrency.html>.

The country’s ongoing security challenges, particularly in oil-producing regions, could undermine efforts to boost crude production, which could average 1.4 million barrels per day in 2025—still below pre-pandemic levels.

Nigeria’s Daily Oil Production in 2024



Source: Nigerian Upstream Petroleum Regulatory Commission (NUPRC).⁵

2.6. Conclusion: A Fragile Balance for Nigeria’s Eurobonds

Nigeria’s Eurobond performance in 2025 will hinge on a delicate balance between domestic improvements and global monetary conditions. The country’s strengthening foreign reserves, improving fiscal revenues, and progress in structural reforms provide a robust foundation for managing its external debt. However, global headwinds, particularly a potentially hawkish Federal Reserve amid rising U.S. inflation, could weigh on market sentiment.



If the Fed maintains restrictive rates, investor appetite for emerging-market assets, including Nigeria’s Eurobonds, may weaken, pushing yields higher. On the other hand, continued reform momentum and effective management of external liquidity risks could offset some of these pressures, ensuring that Nigeria’s Eurobonds remain a relatively attractive option within the SSA space. For now, the outlook is cautiously optimistic, contingent on both domestic policy coherence and external economic developments.

5. Nigerian Upstream Petroleum Regulatory Commission, “Oil Production Status Report – Nigerian Upstream Petroleum Regulatory Commission,” nuprc.gov.ng, 2024, <https://www.nuprc.gov.ng/oil-production-status-report/>.



3. South Africa's Eurobond in 2025

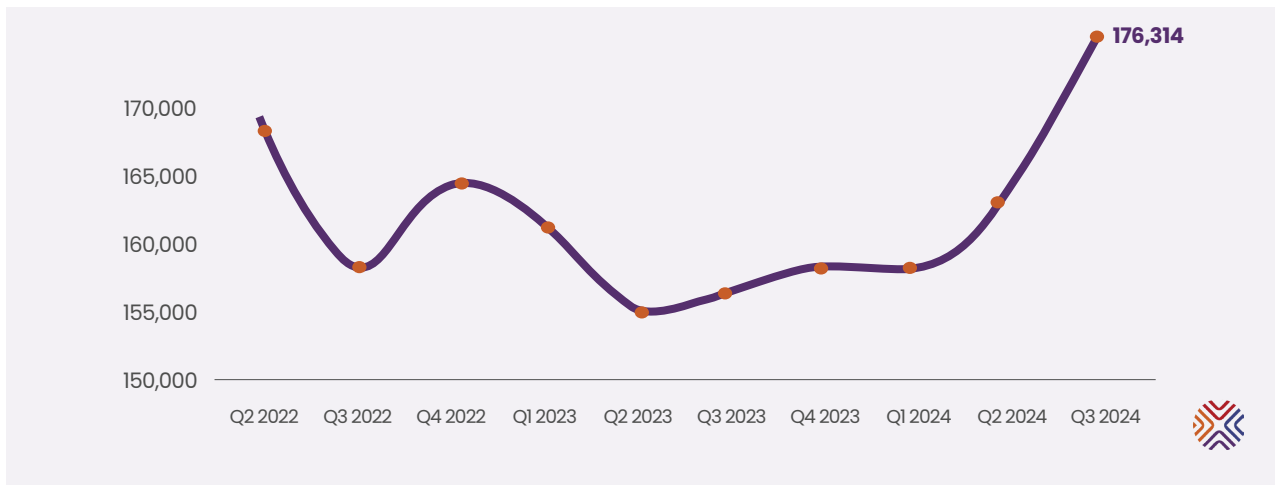
South Africa's Eurobond performance in 2025 will be influenced by a confluence of domestic reforms and external economic factors, particularly the monetary policies of the United States Federal Reserve.



3.1 Domestic Economic Reforms and Fiscal Outlook

Domestically, South Africa has embarked on significant economic reforms aimed at enhancing growth and fiscal stability. The formation of a Government of National Unity (GNU) comprising 11 political parties has fostered political stability and renewed commitment to structural reforms. S&P Global Ratings acknowledged this progress by recently revising South Africa's outlook to positive from stable, citing the potential for accelerated reforms to boost private investment and GDP growth.

SA's Gross External Debt (\$ Million)



Source: Data sourced from the South African Reserve Bank (SARB).⁶

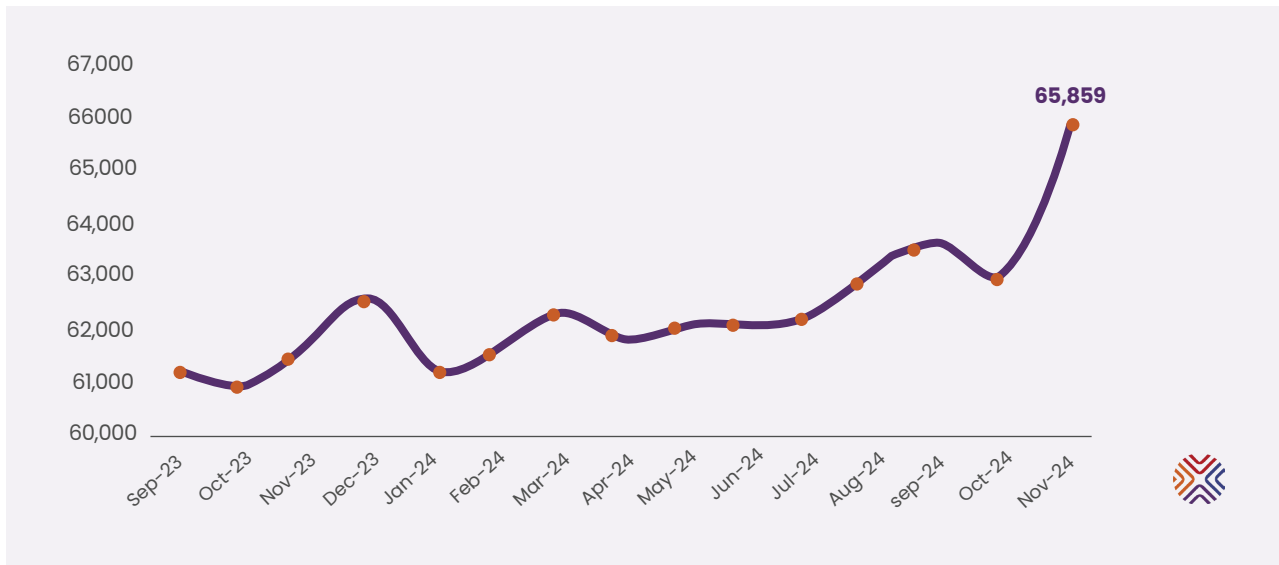
The government's Medium Term Budget Policy Statement (MTBPS) outlines efforts toward fiscal consolidation, targeting a reduction in the fiscal deficit to 3.2% of GDP by fiscal 2027. However, challenges persist, including expenditure pressures from wages, social spending, and support for state-owned enterprises (SOEs). Gross general government debt is projected to rise significantly, underscoring the need for sustained fiscal discipline. Also, it is worth noting that the country's gross external debt has been on an upward trend since Q2 2023.

6. South African Reserve Bank, "Gross External Debt – Third Quarter 2024," Resbank.co.za (South African Reserve Bank, 2024), <https://www.resbank.co.za/en/home/publications/publication-detail-pages/gross-external-debt/2024/GrossExternalDebtThirdQuarter2024>.

3.2 External Factors and Investor Sentiment

Due to South Africa’s Government strategy of achieving fiscal sustainability, and supporting economic growth, while reducing significant fiscal and economic risk, we believe the economy is poised to expand in 2025. **Nonresident holdings of local currency government debt have stabilized at approximately 26%, reflecting renewed interest from portfolio investors following the elections.** This factor partly contributes to the country’s growing external reserve, which reflects the country’s ability to meet its growing external debt.

Gross reserves of the SA Reserve Bank and open position in foreign currency (US\$m)



Source: Data sourced from the South African Reserve Bank (SARB).⁷

However, geopolitical considerations, such as South Africa’s stance on international conflicts and relations with key trade partners, could impact investor sentiment and, consequently, Eurobond yields.

3.3 Inflation and Monetary Policy

Inflation trends are favorable, with consumer price increases falling to a four-year low of 2.8% in October 2024 before marginally inching up to 2.9% in November. The South African Reserve Bank (SARB) responded by reducing interest rates by 25 basis points in November to 7.75%. We expect inflation to remain contained in 2025 giving the SARB more headroom to cut rate further, aligning with the SARB’s target range of 3%-6%. Stable inflation and prudent monetary policy could support lower domestic borrowing costs and encourage more foreign investment while positively influencing Eurobond’s performance.

7. South African Reserve Bank, “International Economic Data,” www.resbank.co.za, 2024, <https://www.resbank.co.za/en/home/what-we-do/statistics/releases/selected-statistics>.

3.4 Political Stability and Renewed Market Confidence: A Catalyst for South Africa's Eurobond Revival

The political stability ushered in by South Africa's May 2024 elections has proven instrumental in restoring investor confidence, a critical factor for the country's re-entry into the Eurobond market after over 30-month hiatus. The formation of a Government of National Unity (GNU), comprising 11 political parties led by the African National Congress (ANC), has not only stabilized the nation's political environment but also renewed optimism about South Africa's reform agenda and governance.

South Africa Yields Narrow After May Election



Source: Bloomberg.⁸

This newfound political cohesion has had a tangible impact on the performance of South Africa's existing Eurobonds. Yields on longer-dated securities, like the bond maturing in 2052, have narrowed considerably, falling from pre-election levels of around 9% to approximately 7.3% in October before rebounding to 8.2%. This movement reflects a notable improvement in market sentiment compared to the pre-election period. This spread compression reflects investor recognition of South Africa's enhanced fiscal predictability and reform trajectory, as highlighted by S&P's decision to revise the country's outlook to positive.

Buoyed by this confidence, South Africa's fiscal authorities seized the opportunity to issue 2-tranche bonds of 12-year and 30-year, raising a total amount of \$3.5 billion in the Eurobond market in November 2024. The two bonds pay a coupon of 7.1% and 7.95% respectively. Yields at issuance of less than 8% for these notes underscore the pricing advantage South Africa now enjoys due to improved perceptions of creditworthiness and governance. The reform momentum post-election has bolstered market appetite, with institutional investors willing to give the government "the benefit of the doubt" as reforms begin to materialize.

8. Bloomberg LP, "South Africa 2052 Eurobond," Bloomberg Terminal, accessed January 20, 2025.

The return to the Eurobond market underscores South Africa's strategic use of improved market conditions to meet its external financing needs. The issuance is not merely a fundraising exercise but a signal of confidence in the country's trajectory. By leveraging reduced funding costs and capitalizing on a window of emerging-market resilience, South Africa's Treasury aims to lock in favorable terms while reaffirming its commitment to fiscal and structural reforms.

The GNU's steady leadership and focus on structural improvements have thus paved the way for this significant milestone. By demonstrating that political stability can translate into tangible economic and market benefits, South Africa has not only enhanced the credibility of its fiscal authorities but also set a positive precedent for how governance reforms can reinvigorate sovereign credit markets. This progress positions South Africa's Eurobonds for continued resilience in 2025, provided the reform momentum remains intact and global funding conditions remain supportive.



3.5. Conclusion

In summary, South Africa's Eurobond performance in 2025 will be shaped by the interplay of U.S. monetary policy and domestic economic reforms. While potential shifts in U.S. interest rates could influence borrowing costs, South Africa's commitment to structural reforms, fiscal consolidation, and maintaining macroeconomic stability positions it favorably. Sustained implementation of these reforms, coupled with prudent fiscal and monetary policies, will be crucial in enhancing investor confidence and optimizing Eurobond's performance in the coming year.

4. Kenya’s Eurobond Outlook in 2025: Struggles Amid Fiscal and Debt Challenges

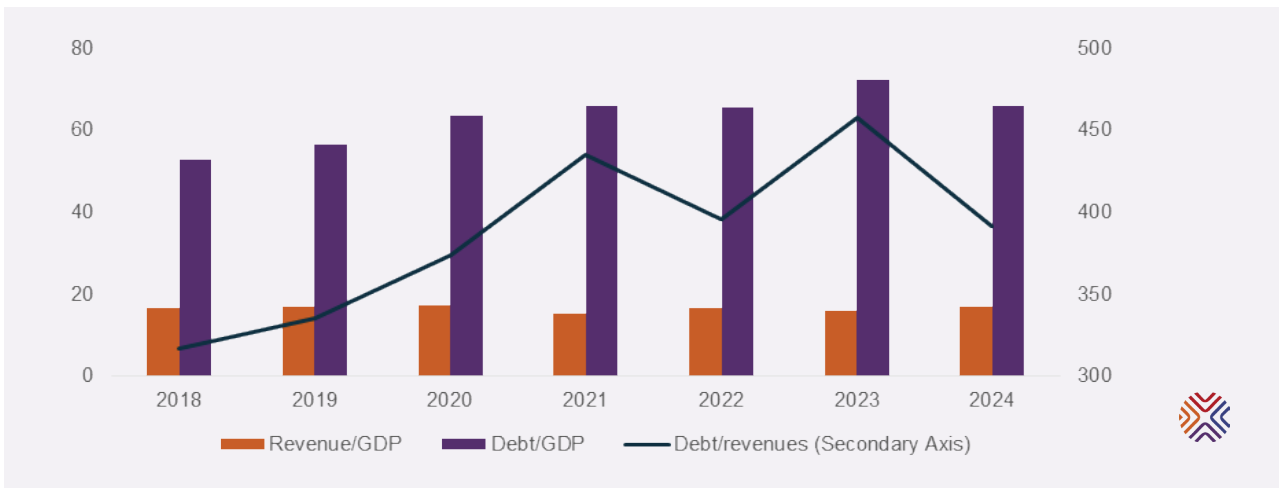
Kenya’s Eurobond performance in 2025 is likely to face significant pressure due to its weakened fiscal and debt trajectory. The country’s recent credit downgrades by all three major rating agencies—S&P, Moody’s, and Fitch—reflect growing concerns about fiscal slippage, high debt servicing costs, and structural external imbalances. While Kenya’s strong economic growth and continued access to concessional financing provide some buffer, these factors are unlikely to fully offset the elevated risks in the international bond market.



4.1. Fiscal Challenges: Mounting Debt and Slower Consolidation

The repeal of Kenya’s 2024/2025 Finance Bill following widespread protests has derailed the government’s fiscal consolidation efforts. The budget deficit for fiscal year 2025 may widen to 4.6% of GDP, up from an earlier estimate of 3.3%, driven by lower-than-expected revenue and rising interest costs. Revenue measures included in the bill, such as higher fuel taxes and mandatory housing levies, were expected to generate about 1.5% of GDP in additional revenue. Their withdrawal has forced the government to rely more heavily on domestic borrowing, raising debt servicing costs further.

Key Indicators Shows Kenya’s Weakness



Source: Data sourced from S&P.⁹

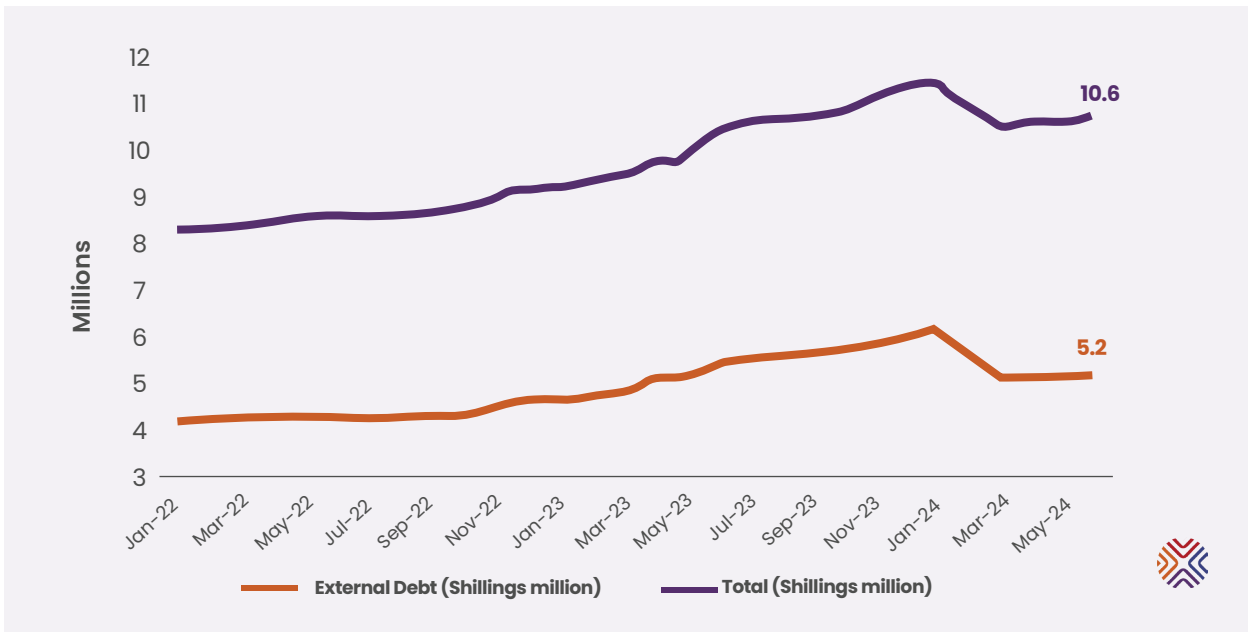
Debt servicing remains a critical challenge for Kenya, with costs expected to exceed 25% of government revenue for the next few years—one of the highest ratios among rated sovereigns globally. With the current state, government interest payments alone could account for over 28% of revenue in 2025, reflecting Kenya’s growing reliance on expensive domestic and external commercial borrowing. This elevated debt burden, coupled with limited fiscal space, undermines the country’s ability to attract favorable terms in the Eurobond market.

9. S&P Global, “Kenya Downgraded to ‘B-’ on Weaker Fiscal and Debt Trajectory; Outlook Stable,” Spglobal.com, 2024, <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3236458>.

4.2. External Financing Risks: High Dependency on Foreign Borrowing

Kenya’s external debt, which constitutes roughly 50% of total government debt, exposes the country to foreign exchange and refinancing risks. The government faces annual external debt amortizations of approximately \$2 billion over 2025–2027, including \$300 million in Eurobond repayments due in May each year. These repayments will test Kenya’s ability to raise funds in an increasingly risk-averse global environment, particularly as elevated global interest rates and tighter financial conditions push up borrowing costs for emerging markets.

Kenya’s Debt Still on an Upward Trajectory



Source: Data sourced from the Central Bank of Kenya.¹⁰

Despite Kenya’s history of accessing concessional financing from the IMF and World Bank, these sources alone may not suffice to meet its significant external financing needs. Kenya’s plans to raise bonds from commercial creditors in fiscal 2025 might be constrained by the country’s downgraded credit profile and rising global borrowing costs. This could result in limited credit or high interest rates on the debt.

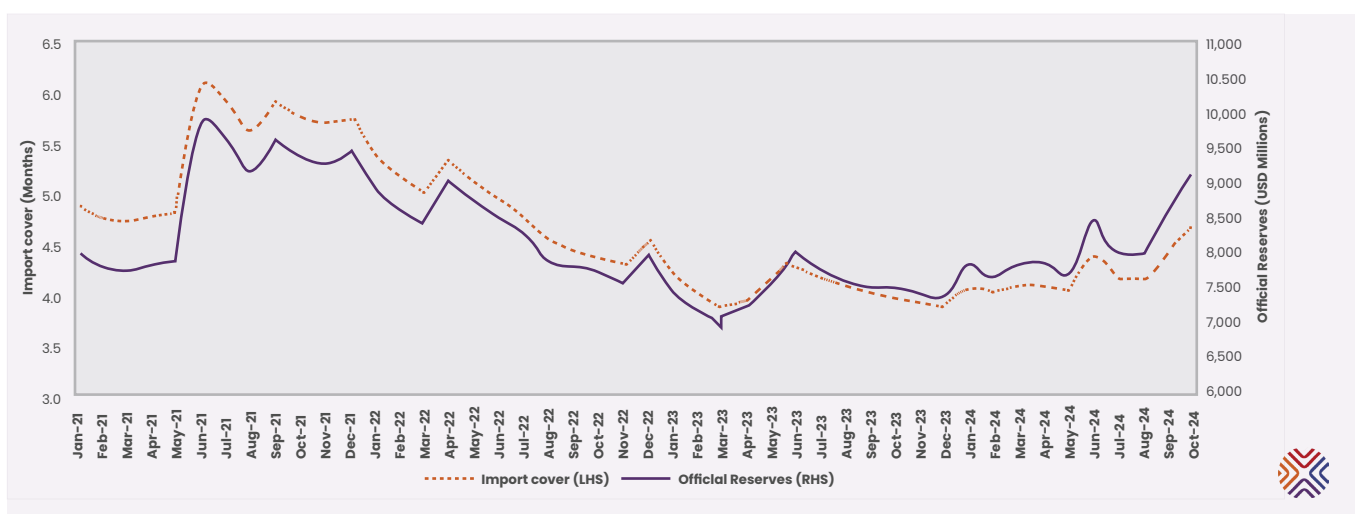


10. Central Bank of Kenya, “Government Finance Statistics | CBK,” [www.centralbank.go.ke, 2024, https://www.centralbank.go.ke/statistics/government-finance-statistics/](https://www.centralbank.go.ke/statistics/government-finance-statistics/).

4.3. Structural Vulnerabilities: High External Debt and Persistent Current Account Deficit

Kenya is a country with large external liabilities (both trade and debt), coupled with its limited foreign exchange earnings, the country's ability to finance its obligations can be highly questioned. The country's current account deficit may average 5% of GDP over the next few years, sustained by elevated import costs and modest export growth.

Chart 1: Official Reserves and Months of Import Cover



Source: Central Bank of Kenya¹¹

Foreign exchange reserves are expected to hover around \$8 billion in 2025, providing coverage for close to four months of imports. The Central Bank of Kenya (CBK) has historically intervened in the foreign exchange market to smooth volatility, but its ability to do so may be constrained by limited reserves and external funding challenges.

4.4. Positive Factors: Economic Growth and Concessional Financing

Kenya's relatively dynamic services-led economy and strong GDP growth provide some mitigation against fiscal and external risks. Real GDP growth is expected to remain robust and be supported by resilient agricultural exports, tourism, and diaspora remittance inflows. This growth rate exceeds the median for similarly rated sovereigns and reflects Kenya's diversified economic base.

Additionally, continued access to concessional financing from multilateral and bilateral lenders remains a key strength. The IMF approved the disbursement of the \$600.1 million loan to the Eastern nation on October 31st. With the disbursement being under Kenya's current program, which expires in March 2025, discussions for a new program are likely to follow. These funds, along with project-specific loans, could help alleviate short-term liquidity pressures.

11. Central Bank of Kenya, "Monthly Economic Indicators | CBK," www.centralbank.go.ke, November 2024, <https://www.centralbank.go.ke/monthly-economic-indicators/>.



4.5 Political and Social Stability: A Double-Edged Sword

Political and social unrest stemming from the repeal of the Finance Bill and ongoing fiscal challenges remain risks to investor sentiment. However, the formation of a broader-based government, including members of the opposition, could help reduce tensions and improve policy coordination. The success of such political reforms, though uncertain, would be critical in rebuilding market confidence.

4.6 Conclusion: A Bearish Outlook with Limited Upside

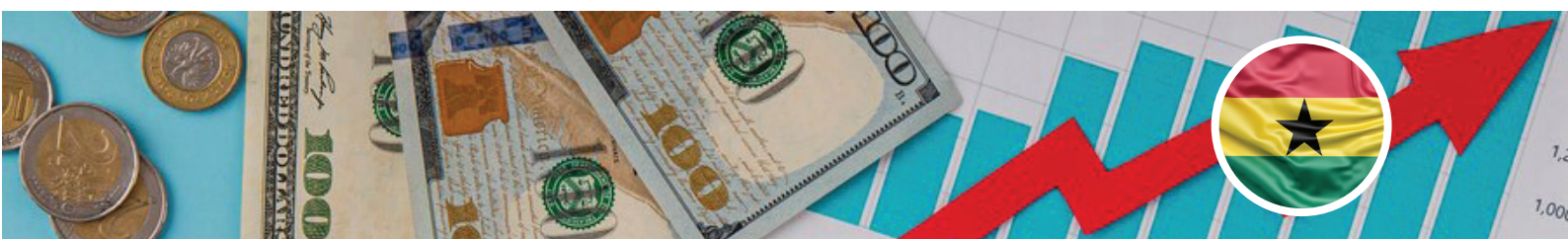
Kenya's Eurobond outlook for 2025 is largely bearish, driven by its deteriorating fiscal and debt metrics, high external financing needs, and dependency on commercial borrowing in a challenging global environment. Investors are likely to demand higher yields to compensate for increased risk, pushing up borrowing costs further.

However, Kenya's robust economic growth and access to concessional financing could provide some stability, particularly if the government demonstrates progress in fiscal consolidation and revenue enhancement. Political stability and effective policy reforms will be crucial in bolstering investor confidence and mitigating downside risks. Without significant improvement in these areas, Kenya's Eurobonds are likely to remain under pressure in the year ahead.



5. Ghana's Eurobond Outlook for 2025: Challenges Amid Debt Restructuring and Fiscal Consolidation

Ghana's Eurobond market faces a turbulent 2025 as the country navigates the aftermath of its comprehensive debt restructuring and works to restore investor confidence. While significant progress has been made in addressing unsustainable debt levels through the restructuring of \$13.1 billion in Eurobonds and a broader economic stabilization program under the IMF, the road to recovery remains fraught with challenges. These include high liquidity risks, ongoing fiscal pressures, and the lingering impact of its recent selective default (SD) status.



5.1. Debt Restructuring: Short-Term Relief, Long-Term Challenges

Ghana's successful debt restructuring has provided temporary relief by reducing the country's external debt burden and easing cash-flow pressures. The exchange, which involved a 37% nominal haircut on most Eurobonds, extended maturity dates, and reduced interest payments, has lowered Ghana's cost of debt from over 47% of revenues in 2022 to an estimated 20% in 2025. This improvement reflects a restructuring program aimed at achieving \$4.4 billion in cash-flow relief over the IMF Extended Credit Facility (ECF) period, which runs through 2026.

Despite these gains, debt servicing costs are projected to rise post-2025 as higher step-up coupons and resumed borrowing push Ghana's interest expenditure above 25% of revenues. Public debt remains high, at over 60% of GDP, with foreign currency debt accounting for 66% of total government liabilities. This heavy reliance on external debt leaves Ghana vulnerable to exchange rate volatility and global financial conditions.

5.2. Impact of Federal Reserve Policy and Global Conditions

The Federal Reserve's monetary policy will continue to shape Ghana's Eurobond performance in 2025. While markets anticipate rate cuts of up to 50 basis points, the potential for persistent U.S. inflation under a Donald Trump presidency may limit the pace of easing. This scenario would maintain elevated global borrowing costs, challenging Ghana's ability to tap international markets on favorable terms. With a history of distressed debt exchanges and high-risk ratings, Ghana may face a steep risk premium, further constraining its access to affordable financing.



5.3 Domestic Fiscal Consolidation and Economic Reforms

On the domestic front, fiscal consolidation remains a cornerstone of Ghana's economic recovery strategy. Under the IMF program, the government achieved a primary surplus of 1.3% of GDP in 2023 and aims to sustain this momentum in 2025. Revenue performance has improved, but liquidity risks persist due to heavy reliance on short-term domestic debt, which carries interest rates aligned with the central bank's 27% policy rate.

Inflation, which stood at 23.8% at the end of 2024, declined until August before a resurgence began in September. This limits Ghana's ability to reduce local borrowing costs significantly. The combination of expensive domestic financing and constrained access to external markets perpetuates liquidity pressures, challenging Ghana's debt sustainability efforts.



5.4. Reserves and External Financing

Ghana's foreign reserves have seen moderate improvement, supported by robust gold exports, remittances, and concessional funding from multilateral institutions. Foreign currency reserves are projected to cover approximately 4.6 months of imports in 2025 compared to Nigeria's 9 months, offering a modest buffer against external shocks. However, gross external financing needs remain high. This exposure highlights Ghana's dependence on sustained concessional financing and stable commodity prices to manage its external obligations.

5.6. Structural Reforms and Institutional Credibility

While Ghana's institutional capacity has weakened in the wake of financial difficulties, the government's relatively swift and transparent handling of the debt restructuring process lends some credibility to its reform agenda. Programs to strengthen tax compliance, improve public financial management, and streamline debt servicing have shown initial promise. However, significant governance and fiscal challenges remain, including political risks and limited domestic revenue mobilization.

5.7. Conclusion: A Challenging Path to Recovery

Ghana's Eurobond performance in 2025 will likely remain troubled as the country grapples with elevated liquidity risks, high debt levels, and constrained market access. While progress in fiscal consolidation and debt restructuring has provided some breathing room, these efforts are insufficient to fully restore investor confidence. Elevated global interest rates and political uncertainties add further headwinds, making Ghana's bonds less attractive compared to peers with stronger credit fundamentals.

Nevertheless, positive developments, including improved reserves, disinflation, and ongoing IMF support, could temper downside risks if sustained. To enhance market confidence, Ghana must demonstrate consistent fiscal discipline, maintain external financing stability, and deliver on structural reforms. Without these measures, the country's Eurobonds will likely face continued pressure, with investors demanding higher yields to compensate for perceived risks.

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SECTION D:

US Stock Market Outlook

CHAPTER 1

2025 US Stock Market Outlook: Unveiling the AI Revolution's Next Chapter



1. Introduction: From Early Champions to Expanding Horizons

As we enter 2025, the AI revolution is poised to broaden its impact, extending beyond the well-documented success of early leaders such as NVIDIA and Microsoft. While these giants have captured much of the market's attention, the evolution of AI adoption reveals significant untapped opportunities across less-highlighted segments of the AI value chain and new use cases.

This outlook dives into the transformative themes shaping AI's role in the markets next year, examining overlooked sectors, emergent applications, and the new frontiers of AI integration. Analyzing data and trends, we aim to uncover investment opportunities with compelling risk-adjusted returns for portfolio managers and institutional investors.

2. The AI Revolution Expands: Beyond Megacaps and GPUs

McKinsey estimates that AI could generate an annual financial impact of at least \$2.6 trillion, with applications stretching far beyond generative AI chatbots and image synthesis.¹ The rapid growth of AI adoption, from healthcare to logistics, underscores its transformative potential.

The market for AI technologies is projected to grow from \$200 billion in 2023 to over \$1.8 trillion by 2030.² This exponential growth highlights the breadth of AI's applications across industries, suggesting a secular trend that will drive value creation for years.

1. Debangshu Chanda, "Top 10 Possible AI Trends of 2025," IdeaUsher, November 21, 2024, <https://ideausher.com/blog/top-10-possible-ai-trends-of-2025/>.
2. McKinsey, "Economic Potential of Generative AI," McKinsey, www.mckinsey.com, June 2023, <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier#business-value>.

While Nvidia’s 2024 rally (+173%) showcased the market’s enthusiasm for hardware plays, some overlooked areas—like software, edge computing, and supply chain optimization—are poised to emerge as equally compelling opportunities. These segments integrate AI into operations, offering companies transformative efficiency gains and positioning them for significant growth in 2025.



3. Emerging Use Cases: Leveraging AI in New Domains

A
Healthcare: Transforming Diagnostics and Patient Care

AI is revolutionizing healthcare by enabling precision diagnostics, robot-assisted surgeries, and personalized medicine. The integration of AI-powered tools such as virtual nursing assistants and drug discovery algorithms is improving efficiency and patient outcomes. Companies offering AI-integrated solutions are set to outperform.

Data Analytics:
Firms providing AI-driven analytics tools for hospitals and pharmaceutical companies will see surging demand.

Collaborations:
Partnerships between tech giants and healthcare companies—like Microsoft’s foray into AI healthcare tools—underscore the sector’s potential.

Why It Matters:
The healthcare sector’s complexity and vast data needs make it an ideal candidate for AI-driven disruption. AI applications can reduce operational inefficiencies, enhance diagnostic accuracy, and lower costs.

Challenges:
Data security and integration with existing medical systems remain hurdles to AI’s widespread adoption in healthcare.

Case Study: Quantipi’s Cognitive Document Processing

Quantipi, a leader in AI-based cognitive document processing, automates the classification of unstructured data for healthcare and financial services. It processes over 12,000 documents per hour with an 80% accuracy rate, reducing operational costs by 40%.³

Investment Opportunity: Although Quantipi is private, its applications exemplify the broader adoption of AI in healthcare. Investors should focus on publicly traded companies like **UnitedHealth Group (UNH)** and **CVS Health (CVS)**, which are leveraging AI to streamline operations and enhance patient care.

3. Grand View Research, “Artificial Intelligence Market Size, Share | AI Industry Report, 2025,” Grand View Research, 2024, <https://www.grandviewresearch.com/industry-analysis/artificial-intelligence-ai-market>.

B Supply Chain Optimization: AI as an Efficiency Multiplier



The integration of AI in supply chains is transforming demand forecasting, inventory management, and logistics.



Why It Matters: Supply chain disruptions over the past few years have heightened the need for real-time visibility and predictive analytics. AI's ability to optimize logistics and inventory positions companies for operational excellence.



Challenges: Adoption costs and the integration of AI systems with legacy supply chain infrastructure remain key barriers.

Case Study: ClearMetal's AI-Driven Platform

ClearMetal uses AI to provide real-time visibility and predictive analytics in supply chains, improving inventory accuracy by up to 90%.⁴ Its parent company, **Project44**, is gaining attention as a disruptor in logistics optimization.

Broader Implications: Public companies such as **FedEx (FDX)** and **UPS (UPS)** are implementing similar technologies to remain competitive. These firms, alongside logistics technology providers, stand to benefit as supply chains increasingly rely on AI-driven insights.



4. Grand View Research, "Artificial Intelligence Market Size."

C Retail: Enhancing Personalization and Customer Engagement



Retailers are leveraging AI for hyper-personalized marketing, inventory management, and fraud detection. Generative AI tools are enabling companies to create bespoke customer experiences at a scale.



AI Startups:
Small-to-mid-sized enterprises offering AI-driven solutions for predictive analytics and demand forecasting present attractive investments.



Logistics Innovators:
Firms like ClearMetal, which leverages AI for real-time supply chain insights, stand to disrupt traditional operations.



Why It Matters:
AI-powered tools can enhance customer loyalty by delivering tailored experiences while optimizing back-end operations.



Challenges:
Data privacy regulations and consumer trust are potential roadblocks.

Case Study: Scalenut’s Content Creation Tools

Scalenut, an AI-powered content marketing platform, has demonstrated how AI enhances digital marketing efficiency. While Scalenut itself is private, companies like **Adobe (ADBE)** and **Salesforce (CRM)** provide analogous services.

Investment Angle: Adobe’s AI-infused Creative Cloud Suite and Salesforce’s Einstein AI platform position these companies to capture a growing share of enterprise spending on AI-powered customer engagement solutions.

D Edge Computing and Real-Time Data Processing



AI’s growth is creating unprecedented demand for real-time data analytics, driving the adoption of edge computing technologies. Edge computing enables real-time data processing closer to the source, reducing latency and enhancing responsiveness. Companies like FogHorn Systems are pioneering this space, making them prime candidates for growth in 2025.

Collaborative platforms enabling multiple users to harness AI capabilities in real time are gaining traction. Startups like Harvey, targeting legal professionals, exemplify the trend.

Case Study: FogHorn Systems

FogHorn Systems specializes in edge intelligence software for real-time analytics in industrial applications. The reduction in latency by up to 90% compared to traditional cloud-based systems highlights its transformative potential.⁵

Public Market Proxy: FogHorn’s private status leaves room for investment in parent company **Honeywell (HON)**, which has integrated similar edge computing solutions in its industrial automation portfolio.

5. Grand View Research, “Artificial Intelligence Market Size.”

4. The Overlooked Giants: Semiconductor and Infrastructure Innovators

A

ASML: The Lithography Leader

Dutch-based ASML is a critical player in the semiconductor value chain, manufacturing the lithography machines that produce cutting-edge AI chips. Its extreme ultraviolet (EUV) technology is unrivaled, and as semiconductor demand surges in 2025, ASML is poised to benefit significantly.

- **Exclusive Technology:** ASML remains the only company capable of producing EUV machines, making it a linchpin in advanced chip manufacturing.
- **Foundry Boom:** With companies like TSMC, Samsung, and Intel expanding their fabs, ASML's tools are indispensable.
- **China's Restrictions:** While restrictions on exporting advanced equipment to China may pose challenges, ASML's diverse customer base and technological edge provide insulation.
- **Current Challenges:** ASML is underperforming due to industry cyclicality, reduced demand for semiconductors in 2024, and export restrictions on advanced machines to China.
- **Future Prospects:** Demand is expected to recover in 2025 as the semiconductor industry enters a new growth phase. Expansion in foundries by TSMC, Intel, and Samsung will further boost ASML's revenues.

At a forward P/E of 38 based on 2025 estimates⁶, ASML offers an attractive combination of growth and valuation compared to headline-grabbing AI stocks.



B

Applied Digital: Purpose-Built AI Data Centers

As the AI ecosystem demands unprecedented computational power, data center operators like Applied Digital are stepping into the spotlight. The company's specialized infrastructure caters specifically to AI workloads, making it a prime beneficiary of rising demand.

- **AI-Ready Facilities:** Purpose-built high-performance computing (HPC) centers position Applied Digital to capitalize on AI's growth trajectory.
- **Strategic Partnerships:** NVIDIA's investment in Applied Digital underscores its strategic importance.
- **Revenue Growth Potential:** Despite operating at a loss, the company's expanding client base and niche focus signal strong long-term upside.
- **Why It Matters:** Purpose-built high-performance computing (HPC) centers cater specifically to AI workloads, offering significant efficiency advantages over retrofitted facilities.

6. Seeking Alpha, "ASML Holding N.V. (ASML) Stock Price, Quote, News & Analysis | Seeking Alpha," Seeking Alpha, 2025, <http://seekingalpha.com/symbol/ASML>.

5. AI Value Chain Opportunities: Beyond the Spotlight



A Utilities: The Energy Backbone of AI

AI-driven data centers are energy-intensive, with electricity demand projected to more than double by 2026 compared to 2022 levels⁷. This creates substantial opportunities in the utilities sector.

Key Players:

- **NextEra Energy (NEE):** Leading in renewable energy solutions for AI-powered data centers.
- **Duke Energy (DUK):** Expanding infrastructure to meet the surge in electricity demand from data centers.

Utilities with a focus on renewable energy will play a critical role in supporting sustainable AI growth, offering a defensive yet growth-oriented investment avenue.



B The “Picks and Shovels” Approach: Component Suppliers

AI’s computational demands rely on a robust ecosystem of hardware components, from GPUs to connectivity solutions.

Case Study: Credo Technology Group (CRDO)

Credo supplies high-speed Ethernet cables essential for AI data centers, with AI-driven revenue projected to double in 2025.

Other Key Players:

- **Celestica (CLS):** Focused on storage controllers and switching modules.
- **Applied Digital (APLD):** Building purpose-built data centers optimized for AI workloads.

These companies represent critical nodes in the AI value chain, providing the tools and infrastructure required for scaling AI applications.

6. The Core of the Boom: Why NVIDIA and Mega-Cap AI Stocks May Still Thrive

NVIDIA: Dominance in AI Hardware and Expanding Horizons

NVIDIA’s growth trajectory in 2024 underscores its pivotal role in the AI revolution. The company’s GPUs have become indispensable in powering generative AI models, driving data centers, and accelerating research across industries. Despite concerns about its trillion-dollar valuation, NVIDIA remains well-positioned to benefit in 2025 for several reasons:



With big tech companies like Microsoft and Amazon set to **exceed \$250 billion in AI-related capital expenditures**, NVIDIA’s GPUs and software are in high demand.⁸



The introduction of new chips, such as the **GH200 “Superchip,”** ensures NVIDIA remains at the forefront of AI acceleration.



Competitors like **AMD and Intel** are launching competing products, but NVIDIA’s ecosystem of hardware, software, and partnerships provides a significant moat.

7. International Energy Agency, “Electricity 2024 – Analysis and Forecast to 2026,” IEA, 2024, <https://www.iea.org/reports/electricity-2024/executive-summary>.

8. Mark Bergen and Lynn Doan, “Tech Giants Are Set to Spend \$200 Billion This Year Chasing AI,” Bloomberg, November 1, 2024, <https://www.bloomberg.com/news/articles/2024-11-01/tech-giants-are-set-to-spend-200-billion-this-year-chasing-ai>.

While NVIDIA's growth may moderate, its role in the broader AI ecosystem cements its place as a cornerstone for investors. However, the outsized gains it delivered in 2024 may give way to opportunities in less celebrated segments of the AI economy.

7. Risks and Challenges: Navigating AI's Growing Pains

A

Valuation Concerns

The market's enthusiasm for AI stocks, particularly mega-caps, has led to elevated valuations. For example, the S&P 500's top 10 companies now trade at valuations way higher than the broad index.

B

Geopolitical Risks

Rising trade tensions, particularly between the US and China, could impact semiconductor supply chains. Especially with the emergence of Donald Trump, his proposed tariff hike could impact our bullish projection. Companies like ASML and TSMC face uncertainties over export restrictions, necessitating careful analysis of geopolitical developments.

8. Conclusion: A Diversified Approach to AI Investing

As AI adoption accelerates, 2025 presents investors with opportunities beyond the usual suspects. While mega-cap companies like NVIDIA remain foundational to AI infrastructure, the most compelling investment cases often lie in the less-celebrated segments of the AI value chain.

From edge computing to healthcare applications, and from utilities to supply chain optimization, the breadth of AI's impact creates diverse investment

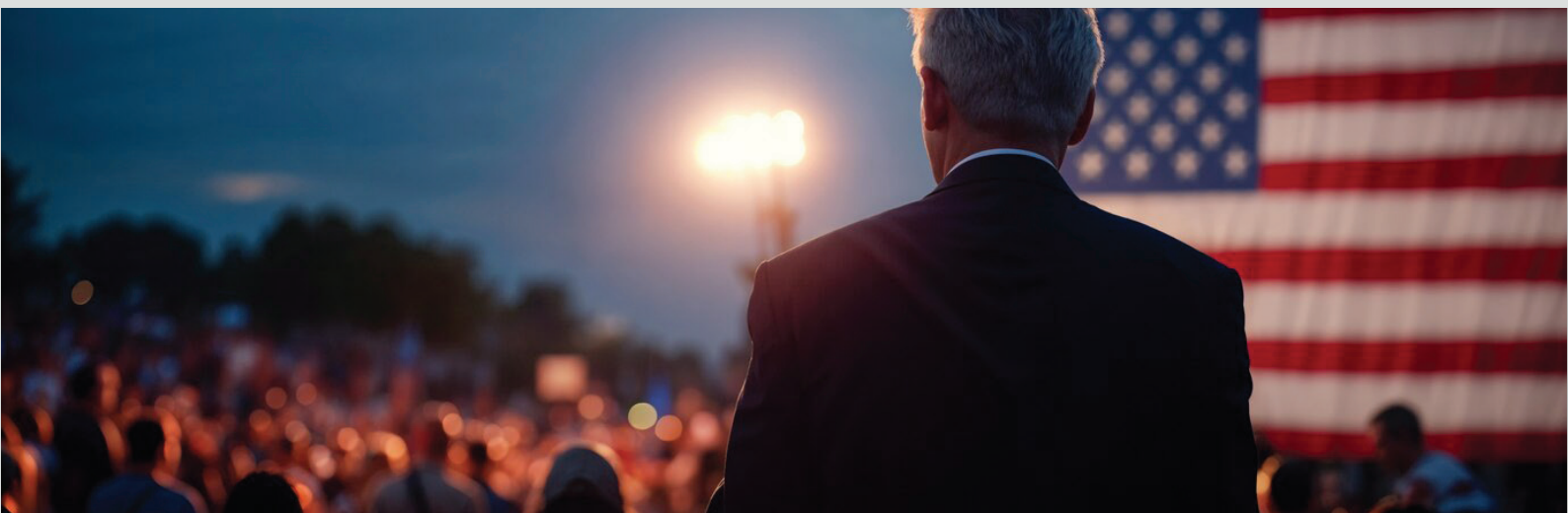
opportunities. By leveraging data-driven insights and focusing on established players and emerging innovators, investors can position themselves for robust growth while navigating the complexities of a rapidly evolving market.

A nuanced and diversified allocation strategy will be essential to capturing the full potential of the AI revolution, ensuring investors are poised for success in 2025 and beyond.



CHAPTER 2

2025 US Stock Market Outlook: Insights Based on Trump's Potential Policies



1. Introduction: The Return of Trumponomics

As Donald Trump prepares to begin his second term in 2025, markets are bracing for the resurgence of “Trumponomics”—a policy mix of tax cuts, deregulation, protectionism, and an “America First” economic agenda. His return to the White House carries implications for various sectors, shaped by

both his proposed policies and the performance of industries during his first administration (2017–2021). This report aims to provide investment recommendations for 2025, grounded in an analysis of Trump’s likely economic priorities and their sectoral impacts.

2. Tax Policies: Fueling Short-Term Gains Amid Long-Term Risks

Trump’s plan to extend and expand the Tax Cuts and Jobs Act (TCJA) is expected to lower corporate taxes further, potentially increasing corporate profits and valuations. During his first administration, these cuts were instrumental in boosting earnings in capital-intensive sectors like technology and defense. By reducing the corporate tax rate to 21%, the TCJA

enhanced profitability and spurred record share buybacks, lifting equity valuations across the board. In 2025, similar tax cuts would likely benefit corporations by reducing their tax burdens, driving higher earnings per share, and increasing shareholder returns in the short term.

However, the long-term fiscal implications of such policies are concerning. A higher federal deficit could put upward pressure on interest rates and reduce the government’s flexibility to implement expansionary fiscal policies during economic downturns. However, the reinstated US debt limit might complicate Trump’s move.

However, if the tax cuts become a reality, the dynamics may temper market enthusiasm in the latter half of Trump’s term, particularly for sectors reliant on capital markets.



Investment Implications: Sectors such as technology, which thrive on high valuation multiples, and financial services, which benefit from increased profitability, are positioned for near-term growth. However, sectors sensitive to inflation, such as consumer discretionary, may face headwinds as deficits grow.

3. Deregulation: Opportunities and Risks Across Industries

Trump’s pro-deregulation stance was a hallmark of his first administration and is expected to persist. Sectors such as energy, financial services, and pharmaceuticals stand to gain significantly from reduced regulatory burdens.



3.1 Energy: A Double-Edged Sword

In 2017–2021, Trump’s fossil fuel-friendly policies boosted drilling activity and opened more federal lands for energy exploration. However, these measures often led to overproduction, causing price instability that hurt profitability. In 2025, Trump is expected to prioritize increased fossil fuel production, including accelerating permits for drilling and natural gas pipelines. While this may reduce energy prices, it could compress margins for oil and gas companies.



Renewable energy firms and electric vehicle (EV) companies could face challenges due to reduced subsidies and regulatory scrutiny. However, Tesla, a leading EV manufacturer, may avoid significant harm, given Elon Musk’s reported alignment with Trump’s policies. Nuclear energy, a sector Trump supports, could see moderate growth, benefiting from bipartisan backing for its role in energy diversification.



Investment Implications: Traditional energy firms may face mixed results, while select nuclear energy companies could see gains. Investors should be cautious about renewable energy and EV stocks, though Tesla may remain resilient.

3.2 Financial Services and Cryptocurrency

In his first term, Trump’s rollback of Dodd-Frank regulations benefited banks by easing compliance costs and enabling higher profitability. For 2025, a similar deregulatory wave is anticipated, with added support for cryptocurrency innovation. Trump’s pledge to make the U.S. a global crypto hub by replacing restrictive policies and appointing crypto-friendly regulators could attract capital flows into blockchain and crypto-related equities.



Investment Implications: Banks and fintech companies stand to gain from deregulatory policies. Cryptocurrency-related stocks and blockchain technologies could emerge as key growth areas.

3.3 Pharmaceuticals

Trump’s emphasis on lowering drug prices during his first term had a limited impact on pharmaceutical profitability due to incomplete legislative action. In 2025, while deregulation may benefit R&D-driven biotech firms, efforts to impose price transparency and international reference pricing could pressure margins, particularly for companies heavily reliant on Medicare reimbursements.





Investment Implications: Investors should focus on innovative biotech firms rather than pharmaceutical giants with extensive exposure to government pricing pressures.

4. Trade and Tariffs: Manufacturing and Technology at a Crossroads

Trump’s aggressive trade stance shaped his first administration, marked by tariffs on Chinese goods that bolstered U.S. manufacturing but strained global supply chains. In 2025, proposed tariffs on imports—especially from China—could exacerbate inflationary pressures by raising input costs for manufacturers and tech firms.

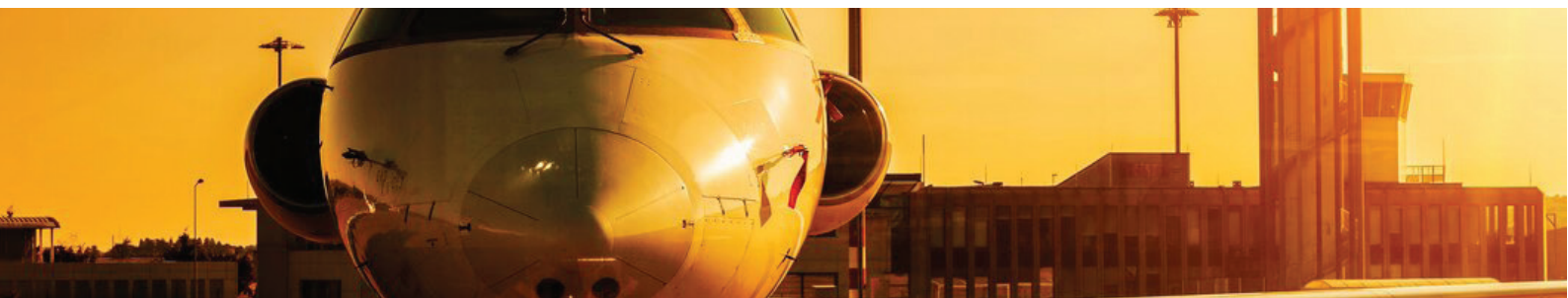


4.1 Manufacturing: Domestic Resurgence

Trump’s “Made in America” policies, including a proposed 15% tax rate for domestic manufacturers, are designed to incentivize U.S. production. These measures could revitalize traditional manufacturing industries such as auto production and aerospace, which were bolstered by increased government defense spending during Trump’s first term.




Investment Implications: Domestic manufacturing stocks, including industrial goods and aerospace companies, are likely beneficiaries of Trump’s policies.



4.2 Technology: A Tale of Two Outcomes


While Trump’s first term saw technology giants thrive due to tax cuts and deregulation, new tariffs on Chinese imports could disrupt supply chains for hardware producers. However, domestic tech firms specializing in AI, cloud computing, and cybersecurity may benefit from government incentives aimed at reducing reliance on foreign technology.

Investment Implications: Investors should favor tech firms with robust U.S.-based supply chains and minimal exposure to Chinese imports.

4.3 Defense: A Mixed Outlook


Defense spending surged during Trump’s first term, benefiting contractors like Lockheed Martin and Northrop Grumman. In 2025, defense spending is expected to remain a priority, albeit with potential shifts. Reduced military aid to Ukraine could limit international defense expenditures, but increased funding for domestic modernization and space exploration may offset these reductions. Trump has threatened to reduce military support to NATO members who don’t meet the regulation of spending 2% of GDP on military-related spending; he has even touted to increase the benchmark to 3%. This pressure could likely push NATO members to increase their defense spending. In addition, defense contractors often benefit from Republican administrations.

Investment Implications: Focus on defense contractors aligned with U.S. modernization efforts, such as advanced weapon systems and space exploration.

4.4 Healthcare: Challenges on the Horizon


Despite significant R&D investments and innovation during Trump’s first term, the healthcare sector faced headwinds from attempts to repeal the Affordable Care Act (ACA). In 2025, similar policies could exacerbate uncertainties, particularly for insurers and providers reliant on government programs. Lower Medicaid spending and increased price transparency mandates may further challenge the sector.

Investment Implications: Investors should prioritize biotech firms and avoid companies with significant exposure to Medicaid or ACA-related revenues.

4.5 Consumer Discretionary: Inflationary Headwinds

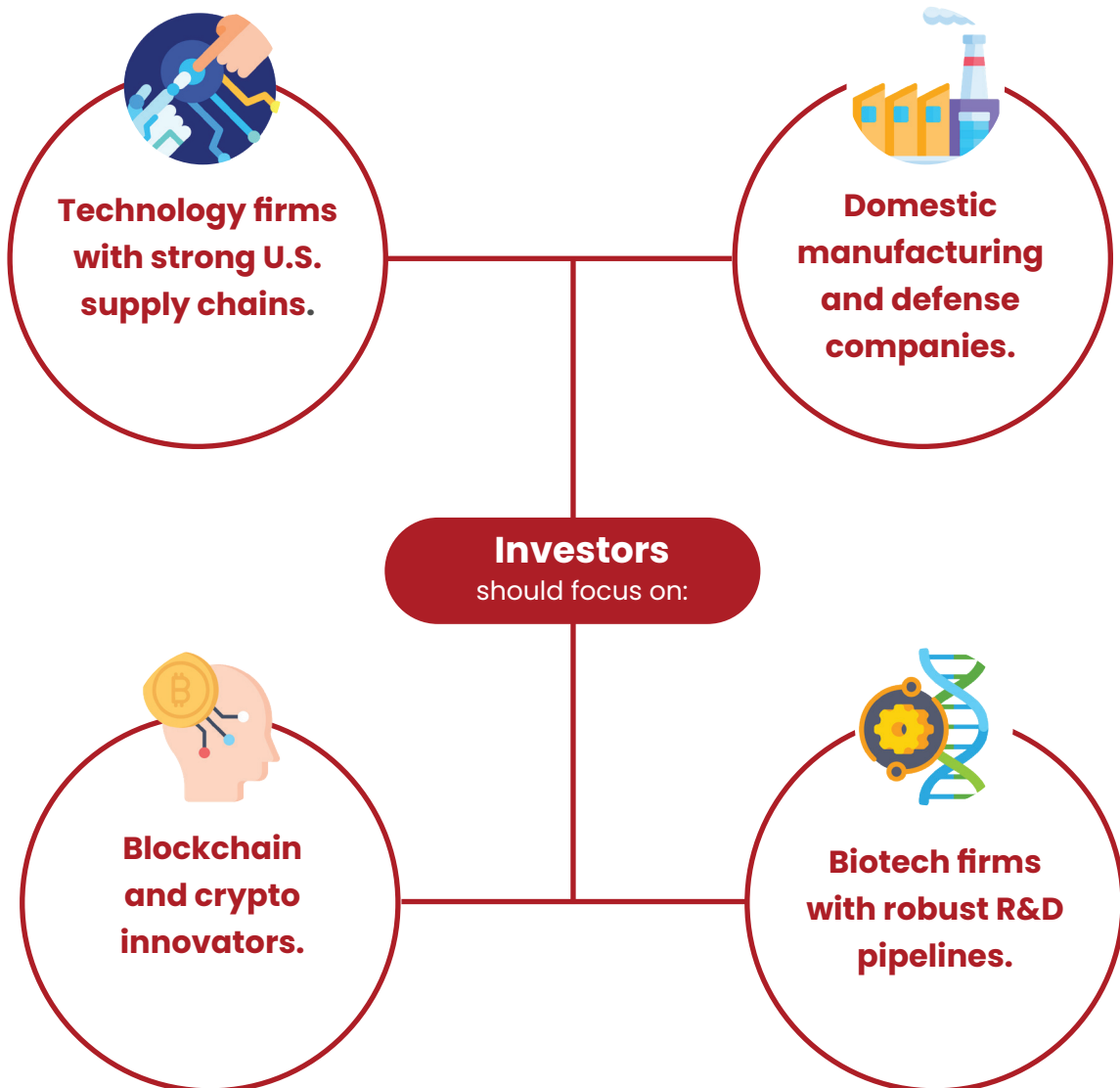
Trump’s proposed tariffs and protectionist policies could raise prices for imported goods, reducing consumers’ purchasing power. While lower income taxes may offset some of these pressures, inflationary risks remain a concern. During his first term, consumer-focused companies benefited from increased disposable income, but rising input costs could dampen this trend in 2025.

Investment Implications: Focus on high-margin consumer brands with pricing power to navigate inflationary pressures.

5. Conclusion: Strategic Sectoral Positioning for 2025

Trump’s potential policies present a complex landscape for investors. Tax cuts and deregulation create short-term opportunities for growth in sectors like technology, financial services, and defense. However, risks such as inflation, supply chain disruptions, and growing deficits underscore the need for selectivity.



Conversely, caution is advised in sectors exposed to government pricing pressures (healthcare), reliant on imports (consumer discretionary), or vulnerable to energy price volatility (fossil fuels). By aligning investment strategies with Trump’s policies, investors can navigate the opportunities and risks of the 2025 U.S. stock market effectively.

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SECTION E:

Nigeria Macro-economic Outlook

CHAPTER 1

Beyond The Headlines: Unpacking Nigeria's Macro Trends And Growth Story



1. Introduction

If you were to ask the average Nigerian about the economy's performance in 2024, the overwhelming sentiment would likely paint the year as tough and challenging. Yet, the GDP data tells a different story, one of consistent growth. This disparity between macroeconomic indicators and lived realities highlights a persistent challenge: while the economy technically grew, this growth failed to translate into meaningful development for most Nigerians. In essence, the progress measured in numbers did not resonate with the average citizen, underscoring a gap between economic growth and economic well-being.

The year 2024 brought several transformative events and policies that redefined Nigeria's economic landscape. Among these was the complete removal of the fuel subsidy, which drove fuel prices up by over 500% from May 2023, an aggressive 875 basis-point hike in interest rates, and the shift to a floating exchange rate regime in mid-2023. These policies, while aimed at correcting structural inefficiencies, unleashed inflationary pressures and tested the resilience of businesses and households alike.

2. The Inflation Conundrum: Fuel, Currency, and Costs

The transition to a floating exchange rate was a bold step designed to address market inefficiencies, but it came at a significant cost. The naira depreciated by approximately 230% by the close of 2024, sparking inflationary spirals across the economy. As an import-dependent nation, Nigeria found itself grappling with the rising cost of goods and services, especially in food and energy.

The removal of the fuel subsidy further exacerbated these inflationary pressures. With energy costs skyrocketing, businesses faced higher operational expenses, which were inevitably passed on to consumers. This cascading effect saw inflation hit historic levels, straining household budgets and reducing purchasing power.

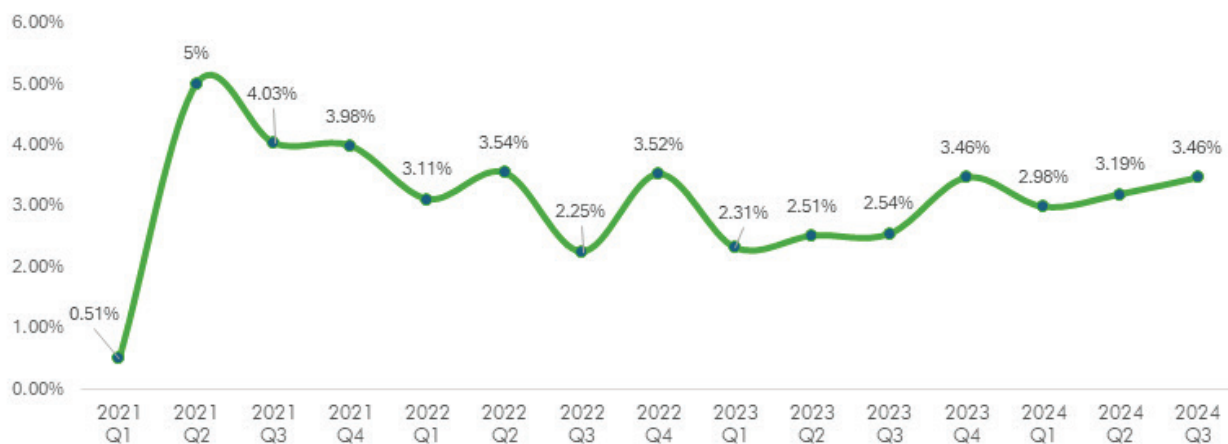
In response, the Central Bank of Nigeria (CBN) raised interest rates to an unprecedented 27.5% by year-end—a measure aimed at curbing inflation. This rate was significantly higher than that of neighboring countries such as Ghana (27%) and Cameroon (5%). While the policy did little to curtail the rise in the general price level, it also increased borrowing costs, stifling business expansion and consumer spending. The elevated interest rate environment increased borrowing costs, making it more expensive for businesses to access capital. Consequently, the high cost of capital became a formidable barrier for businesses, dampening economic activity and innovation.

3. GDP Growth vs. Economic Reality: A Tale of Contradictions

While Nigeria’s GDP figures continue to reflect growth and resilience, this economic expansion contrasts starkly with the lived realities of the average Nigerian. The Hanke Misery Index, which measures economic hardship through inflation, unemployment, and

lending rates offset by growth, paints a grimmer picture. In 2023, Nigeria ranked as the 27th most miserable country globally, with inflation as the leading driver of economic discomfort.

Nigeria Economy Expands Despite Hardship

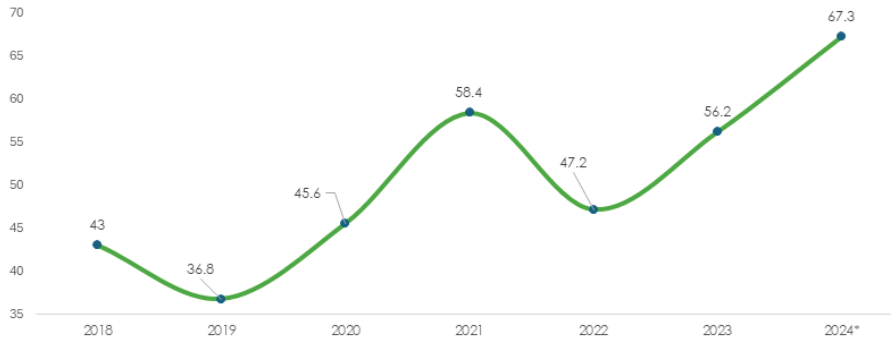


Source: Data Sourced from Trading Economics ¹

1. Trading Economics, "Nigeria GDP Grows 1.94% YoY in Q2," Trading Economics, September 3, 2019, <https://tradingeconomics.com/nigeria/gdp-growth-annual>.



Nigeria’s Hanke Misery Index Shows a Drop in Living Standard



Source: Data sourced from National Review: Steve H. Hanke ²



*2024 Index was computed using the latest available data.

By 2024, the Misery Index climbed further, increasing by 19% to reach 67.26%, underscoring a deepening struggle for everyday Nigerians. Soaring inflation, driven by currency devaluation and energy price surges, eroded purchasing power and compounded

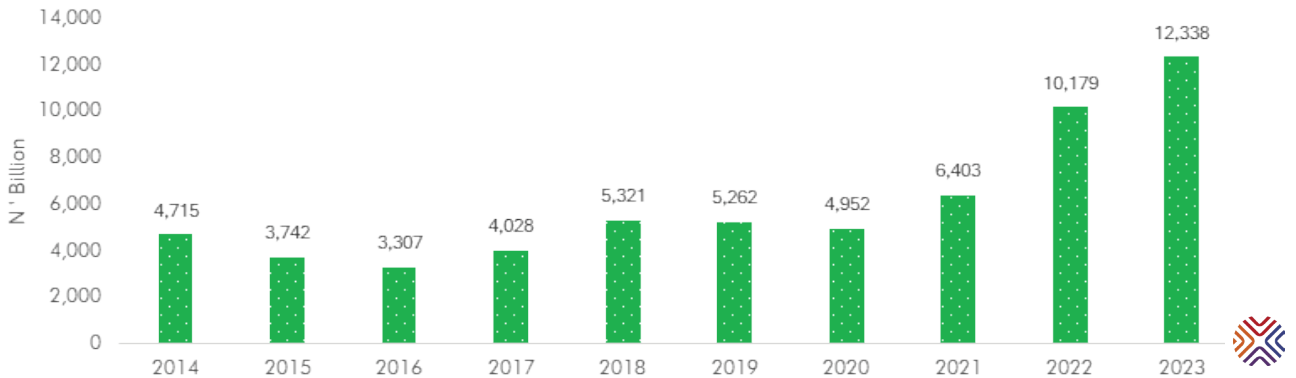
living expenses. Despite GDP growth, these metrics highlight the disconnect between macroeconomic success and the well-being of the population, emphasizing that growth in numbers does not always equate to improved livelihoods.

3. Tax Revenue: A Silver Lining Amid Challenges

Amidst these macroeconomic headwinds, Nigeria’s tax revenue offered a glimmer of hope. Nigeria’s tax revenue has been on an upward trajectory, a trend likely maintained in 2024. Both Corporate Income Tax (CIT) and Value-Added Tax (VAT) collections saw

significant increases in 2024. Using the VAT disbursed by the Federation Account Allocation Committee (FAAC) as a proxy, Nigeria’s VAT revenue for the first three quarters of 2024 has increased by 98% compared to the same period in 2023.

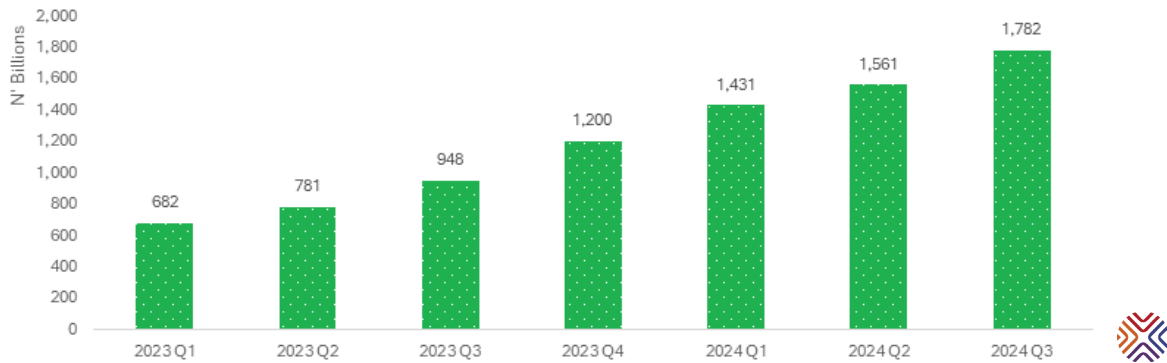
Nigeria’s Tax Revenue Climbing Higher



Source: FIRS Tax and Statistics Report ³

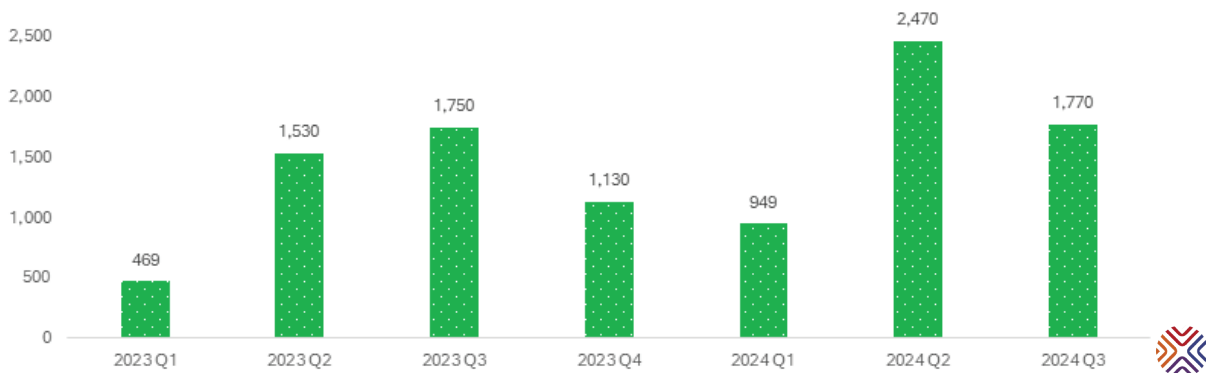
2. Hanke, Steve. "Hanke's 2023 Misery Index." National Review. March 2024. <https://www.nationalreview.com/2024/03/hankes-2023-misery-index/>.
 3. Federal Inland Revenue Service (FIRS), "Tax Resources & Statistics," January 2025, <https://www.firs.gov.ng/tax-resources-statistics>.

Total VAT Disbursed by FAAC



Source: FAAC Report – Office of the Accountant General of the Federation⁴

Nigeria’s Company income Tax



Source: National Bureau of Statistic⁵

The rise in VAT, despite maintaining the rate at 7.5%, was driven by higher prices, which expanded the tax base. Similarly, CIT rose 38.4% in the first 3 quarters of 2024 compared to the corresponding period in 2023. However, this growth in tax revenue came against

the backdrop of rising public debt and persistent fiscal deficits. While the numbers reflect improved government earnings, they also highlight the strain on businesses and consumers, who bore the brunt of higher tax liabilities.

4. Economic Headwinds of 2024: Will They Persist in 2025?

The macroeconomic challenges of 2024, high inflation, elevated interest rates, and significant currency depreciation—shaped the year’s narrative.

But as we look ahead, will these trends continue into 2025?

4. Office of the Accountant General of the Federation (OAGF), “FAAC Report,” accessed January 22, 2025, <https://oagf.gov.ng/publications/faac-report/>.
 5. National Bureau of Statistics, “Company Income Tax Revenue,” accessed December 28, 2025



4.1 Inflation: A Path to Moderation

Inflation is expected to ease significantly in 2025, driven by several factors. A higher base effect, stabilization of exchange rates, and the normalization of energy prices post-subsidy removal are anticipated to moderate price pressures. The rebasing of Nigeria's Consumer Price Index (CPI) to 2024 will also create statistical effects that lower headline inflation figures.

The expansion of local refining capacity, notably

from the Dangote Refinery, is anticipated to reduce the exchange rate's influence on energy prices. By increasing the reliance on locally refined petroleum, energy price volatility is expected to decline significantly. This stabilization, coupled with more predictable exchange rates, will likely lead to lower production and transportation costs, generating a positive ripple effect throughout the broader economy.

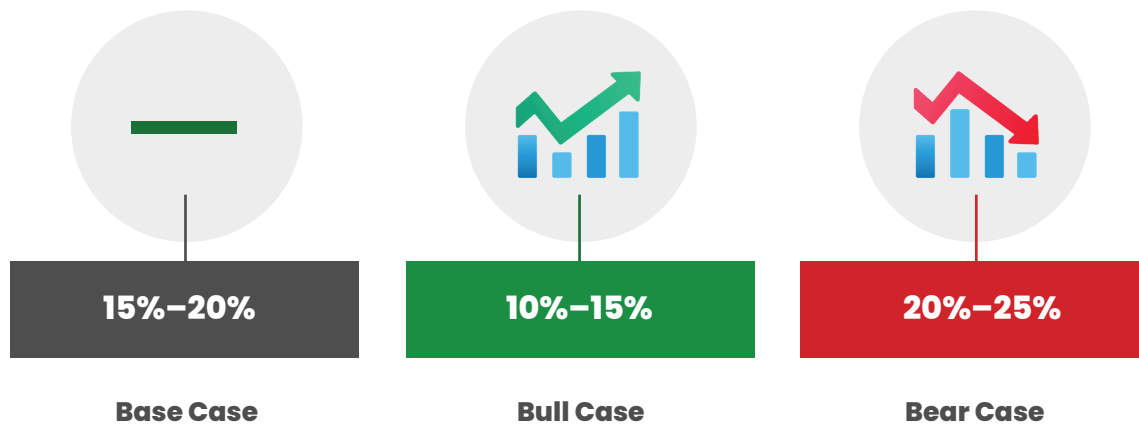


4.1.1 CPI Rebasing: A Turning Point for Inflation Metrics

The National Bureau of Statistics (NBS) has announced plans to update the base year for computing the Consumer Price Index (CPI) from 2009 to 2024. At first glance, this adjustment is expected to lower headline inflation figures, but a closer analysis reveals a more nuanced picture. While the base effect from the rebasing will reduce the CPI for 2025, it will also revise the 2024 figures downward. The resulting direction and magnitude of Year-on-Year (YoY) inflation will hinge on the price changes within each commodity basket over the two periods.

Given that 2024 recorded one of Nigeria's highest inflation rates, the updated base year is likely to make subsequent Price Index figures appear relatively lower. With no immediate catalysts for a significant inflation spike in 2025, this statistical adjustment aligns with expectations of declining inflation trends. Additionally, the reduced weightings for key inflation drivers, particularly food and energy, reinforce the likelihood of a substantial drop in inflation. This strengthens our case for the forecast of Nigeria's inflation dropping significantly by mid-2025.

Our projections suggest that headline inflation could drop to as low as 15% in the first half of 2025, signaling a gradual return to economic stability.



5. Nigeria’s Growth Prospects for 2025

Despite 2024’s challenges, Nigeria’s economy demonstrated resilience. This momentum is expected to carry into 2025, supported by several key drivers:

5.1 Strengthening the Balance of Payments

Nigeria was able to maintain a positive balance of payments in 2024, this momentum is expected to continue and strengthen in 2025, driven by a strategic shift toward self-sufficiency in petroleum product supply. A significant contributor to this improvement is the anticipated reduction in the importation of Premium Motor Spirit (PMS), historically one of the largest drains on the country’s foreign exchange reserves.

The commissioning of the Dangote Refinery, alongside the refurbishment of state-owned refineries in Warri, Port Harcourt, and Kaduna, is expected to dramatically increase domestic refining capacity, especially as Dangote moves to operate at full capacity by Q2 2025. This transition will not only satisfy local demand but may also position Nigeria to export refined petroleum products to neighboring countries, enhancing foreign exchange inflows.

While the reduced reliance on PMS imports will alleviate pressure on foreign reserves, this is a

complementary benefit to the broader impact of minimizing import dependency. The Nigerian National Petroleum Company Limited (NNPCL) has reiterated its commitment to maximizing local sourcing of petroleum products, further solidifying the foundation for a more robust and sustainable balance of payments in the coming year.

Complementing these developments is the Central Bank of Nigeria’s (CBN) introduction of the Diaspora Account for non-resident Nigerians⁶. This platform simplifies the process for Nigerians abroad to remit funds into the country for consumption, investment, or other commitments. By facilitating increased inflows of foreign currency, this initiative is expected to bolster Nigeria’s balance of payments position and contribute to the growth of foreign reserves. Together, these measures lay a strong foundation for a more robust and resilient external sector in 2025.

6. Central Bank of Nigeria (CBN), “TEDFEM Guidelines,” accessed January 22, 2025, <https://www.cbn.gov.ng/Out/2025/TED/TEDFEMPUBFPC001002.pdf>

5.2 Reviving Consumer Spending: A Catalyst for Economic Growth in 2025

Consumer spending in Nigeria is expected to rebound in 2025, driven by a combination of stabilizing macroeconomic policies and improving economic conditions. The inflationary pressures of 2024, fueled by the removal of fuel subsidies and the transition to a floating exchange rate, are anticipated to ease as the economy adjusts to these structural shifts. As inflation moderates, purchasing power is projected to recover, providing a much-needed boost to household consumption.

A key driver of this recovery will be the implementation of a newly revised minimum wage, which is set to enhance disposable income for workers, thereby encouraging greater personal expenditure. Additionally, a projected decline in interest rates will make borrowing more accessible and affordable,

enabling consumers to leverage credit for consumption and investment purposes.

The combined effect of these factors—eased inflation, increased wages, and lower borrowing costs—is expected to reignite consumer confidence and spending. This renewed activity in the consumer sector will serve as a significant engine for economic growth, fostering a more dynamic and resilient economy in 2025.

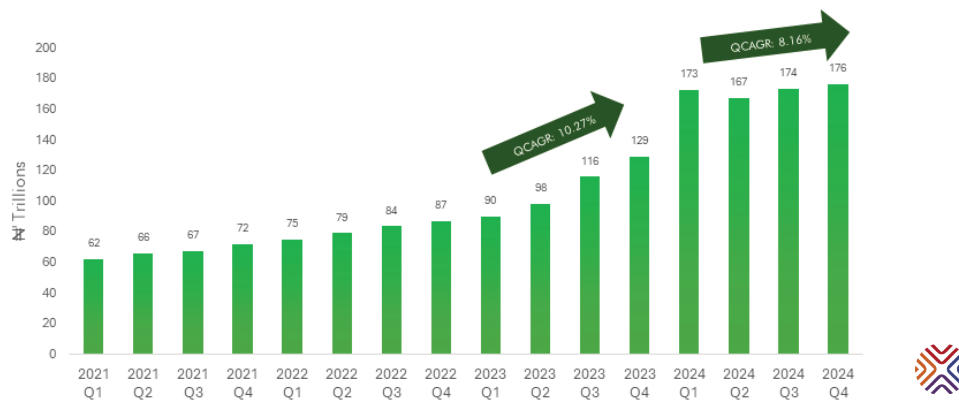


5.3 Corporate Investment on the Rise

The investment climate for businesses in Nigeria is set to improve significantly in 2025 as economic policies stabilize and interest rates decline. The reduction in borrowing costs will make financing more accessible and affordable, allowing companies to expand operations, invest in capital projects, and drive growth.

This anticipated wave of corporate investment will mark a departure from the constraints of 2024, a year in which surging interest rates severely limited businesses’ access to credit and stifled expansion plans.⁷

Nigeria’s Deposit Money Banks’ Credit to the Private Sector



Source: CBN Statistics ⁷

7. Central Bank of Nigeria. “Sectoral Analysis of Deposit Money Banks Credit.” In Financial Statistics > Financial & Monetary Statistics. Accessed January 2025. <https://statistics.cbn.gov.ng/data-browser>.

The data on Deposit Money Banks' (DMBs) credit reveals a consistent upward trajectory over the years, reflecting increased financial intermediation. However, Q2 2024 marked the first drop in total credit since 2021, likely driven by the sustained interest rate hikes, which may have deterred borrowing activity.

The sharp rise in credit during Q1 2024 can be attributed to companies struggling to manage operations amid tighter economic conditions, prompting higher credit uptake to sustain cash flows and operations. However, the continuous interest rate increases eventually impacted borrowing costs, resulting in a slowdown in credit growth.

Notably, the Quarterly Compound Annual Growth Rate (QCAGR) declined from 10.27% in 2023 to 8.16% in 2024, reflecting a moderation in the pace of credit expansion. This slowdown underscores the interplay between tightening monetary policy and credit demand, signaling lending activities.

Compounding these challenges in 2024 was the sharp devaluation of the naira, which significantly

increased the cost of imported raw materials, machinery, and other inputs. For businesses reliant on international suppliers, this created operational hurdles and inflated costs. Furthermore, multinational companies operating in Nigeria faced substantial foreign exchange losses when repatriating profits and converting financial statements to their reporting currencies.

In 2025, the stabilization of the exchange rate, easing global inflation, alongside more predictable economic conditions, is expected to provide much-needed relief to businesses. Lower currency volatility and declining operational costs will create a more conducive environment for corporate resilience and growth. As companies regain confidence in the market, their investments will not only strengthen their operations but also serve as a vital driver of broader economic recovery and development.

5.4 Government Expenditure: A Deficit-Fueled Boost to Economic Activity

Nigeria has proposed a deficit budget for the 2025 fiscal year, signaling plans to spend significantly more than its projected revenue. The ₦49.74 trillion budget represents a 41.9% increase from the previous year, highlighting the government's commitment to stimulating economic activity through expansive fiscal measures⁸.

This substantial allocation will focus on critical sectors such as defense and security, infrastructure, education, and healthcare. **By directing trillions of naira toward these areas, the government aims to drive development, create jobs, and enhance public services, positioning fiscal expenditure as a key driver of economic growth in 2025.**

5.5 Government Expenditure: A Deficit-Fueled Boost to Economic Activity

The National Bureau of Statistics (NBS) has announced its plan to rebase Nigeria's Gross Domestic Product (GDP), shifting the base year from 2010 to 2019. This recalibration is aimed at capturing the evolving dynamics of the Nigerian economy, including emerging and informal sectors that were either

underrepresented or omitted entirely in the previous base year framework. By aligning with more recent economic trends, the rebased GDP will offer a more accurate and relevant representation of the country's economic structure and activities.

8. Budget Office of the Federation, "2025 Appropriation Bill," January 2025, <https://budgetoffice.gov.ng/index.php/2025-appropriation-bill/2025-appropriation-bill/viewdocument/985>.

The updated 2019 base year will leverage data from comprehensive surveys such as the National Business Sample Census (NBSC) and the 2022 National Agricultural Sample Survey, which provide detailed insights across various economic sectors. Additionally, critical inputs from the 2019 Nigeria Living Standard Survey (NLSS), which highlights household income and poverty trends, will ensure that the new GDP figures reflect the realities of both formal and informal economic activities nationwide.

Historically, GDP rebasing has significantly altered Nigeria's economic narrative. For example, the 2014 exercise resulted in an 89% increase in GDP, elevating Nigeria to the status of Africa's largest economy. Such adjustments highlight the extent to which previously overlooked sectors can reshape national economic metrics when properly accounted for.

The mechanics of rebasing involve adjusting Nominal GDP using a GDP deflator—a measure of price changes over time—to derive Real GDP. The deflator's value depends on the base year chosen; a longer timeframe, such as 2010 to 2025, captures more price movements and results in a higher deflator compared to a shorter period, like 2019 to 2025. Consequently, a smaller deflator increases the Real GDP figure. However, to assess growth accurately, past GDP

figures must also be retrospectively adjusted to the new base year. This recalibration can make historical GDP figures appear larger, potentially reducing growth rates unless the current GDP outpaces these adjustments.

While GDP rebasing typically boosts absolute figures, its impact on growth rates is contingent on the economy's actual performance relative to the updated historical data. Beyond the numbers, rebasing provides a clearer and more precise economic picture, better capturing underrepresented sectors and activities. **With the rebasing process in place, Nigeria's GDP is projected to grow by approximately 5% in 2025, driven by structural reforms, easing inflation, and increased local economic activity.**

Looking ahead, the updated GDP figures generated through rebasing are expected to reflect robust economic dynamics, particularly in previously overlooked sectors. However, the true measure of progress will depend on how effectively this statistical growth translates into tangible improvements in living standards and economic development.

6. Conclusion: Bridging Growth, Challenges, and Opportunities in Nigeria's Economic Journey

Nigeria's economic story in 2024 was a tale of contrasts—a year marked by bold structural reforms, staggering inflation, and undeniable resilience. The nation grappled with the gap between macroeconomic indicators and the lived realities of its citizens. GDP growth signaled resilience and recovery, yet the challenges of soaring inflation, currency depreciation, and high borrowing costs revealed the stark disconnect between statistical growth and the average Nigerian's quality of life.

The inflationary pressures brought on by policy shifts, such as the removal of the fuel subsidy and the

floating of the naira, tested the resilience of businesses and households alike. While these measures aimed to correct structural inefficiencies, they underscored the cost of transformative economic decisions. The soaring Misery Index and the struggles faced by everyday Nigerians highlighted the urgent need for growth strategies that prioritize equitable outcomes and tangible improvements in livelihoods.

Amid these headwinds, Nigeria's tax revenue emerged as a silver lining. The substantial growth in VAT and CIT collections underscored the government's ability to mobilize domestic resources, even in a

challenging economic environment. However, this progress came at the cost of rising public debt and increased pressure on businesses and consumers—a reminder of the delicate balance required in fiscal policymaking.

Looking ahead, the prospects for 2025 offer cautious optimism. Inflation is projected to moderate as exchange rates stabilize, and local refining capacity expands, providing much-needed relief for consumers and businesses. Consumer spending and corporate investment are expected to rebound, buoyed by easing inflation, a revised minimum wage, and declining interest rates. The government’s commitment to expansive fiscal measures, alongside the rebasing of GDP and the strengthening of the balance of payments, provides a solid foundation for

sustained growth.

However, the ultimate success of these measures lies in their ability to translate into meaningful improvements for Nigerians. GDP rebasing, while offering a more accurate picture of the economy, serves as a reminder that statistical growth must align with improved living standards and reduced inequality.

As Nigeria enters 2025, the nation stands at a crossroads: armed with the lessons of 2024, the challenge will be to build an economy where growth and development converge, and the headlines of resilience and reform become lived realities for all its citizens.



CHAPTER 2

The Impact of Euro-Dollar Bond Issuance on Nigeria's Exchange Rate: A 2025 Outlook



1. Introduction: Temporary Relief Amid Structural Challenges

In December 2024, Nigeria's exchange rate experienced a significant, albeit temporary, boost following the issuance of a \$2.2 billion Eurobond. The naira appreciated from ₦1,661/\$ to ₦1,535/\$ by the end of the year, driven by speculative optimism and temporary inflows from Foreign Portfolio Investments

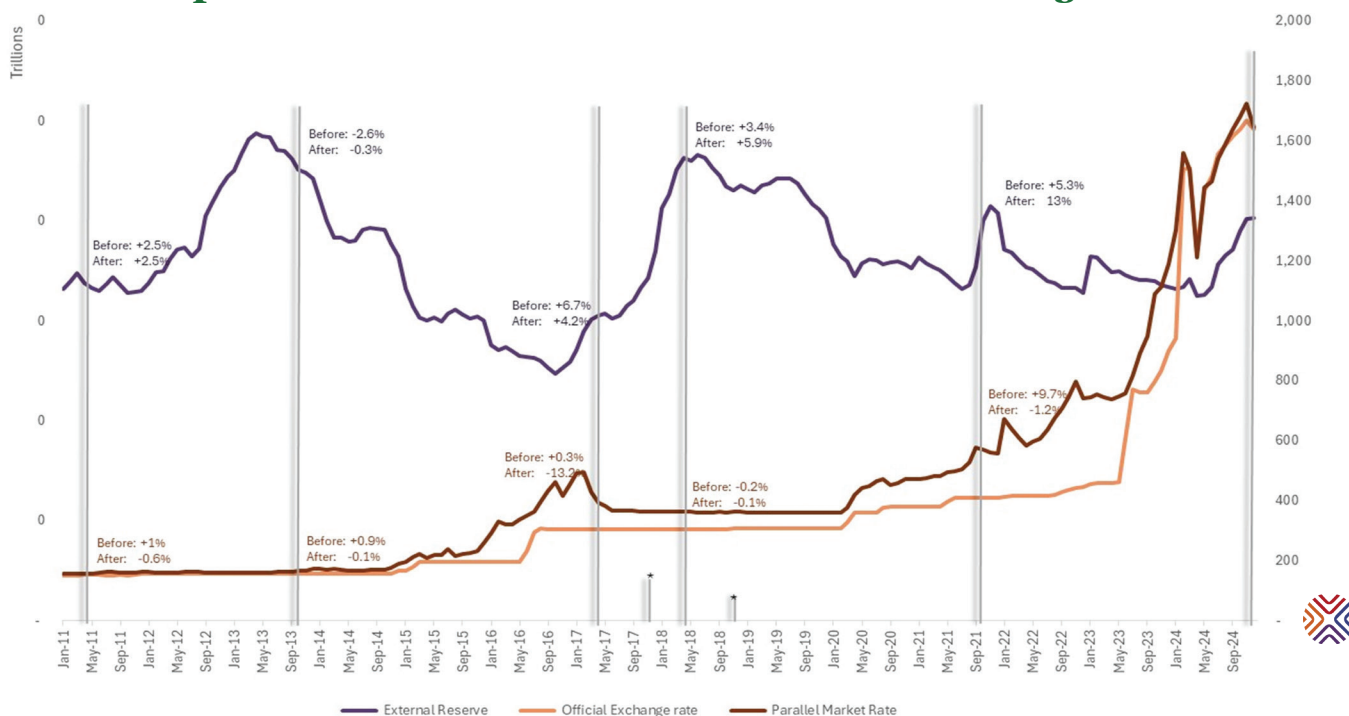
(FPIs) and Eurobond proceeds. Despite this relief, the naira remains shackled by structural economic issues that continue to undermine sustained currency stability.

2. Eurobond Issuances and Their Short-Lived Impact

Nigeria's history of Eurobond issuances reveals a consistent pattern: brief periods of naira appreciation followed by inevitable declines. While some argue that the Central Bank of Nigeria (CBN) might have been drawing from the reserves to defend the naira's value in the parallel market after every issuance, this however remains unconfirmed. Notably, the external reserves have generally remained robust despite

the naira's periodic appreciation following these issuances. Moreover, since the extent of dollar supply by the CBN to Bureau De Change (BDC) operators is unclear, it is unlikely to expect a significant depletion of reserves. It is also worth noting that BDC operators have claimed on multiple occasions that most of their dollar inflows come from customers rather than directly from the Apex bank.

Impact of Euro-dollar Bond Issuance on the Exchange Rate



Source: Data sourced from CBN¹, and Rate Captain²

*The graph excludes November 2017 and November 2018 Issuances.

Between 2011 and 2024, the government raised over \$17 billion through eight Eurobond issuances. Yet, during the same period, the naira dropped by about 900% in the official market.

In 2017, for instance, the naira appreciated by 13.2% after a February Eurobond issuance. The appreciation which lasted until July of that year was supported by

proactive monetary interventions from the Central Bank of Nigeria (CBN), including enhanced foreign exchange supply and reduced forward sales tenors. However, the lack of structural economic reforms meant the appreciation could not be sustained, echoing a recurring trend observed with each issuance.

- Central Bank of Nigeria, "Exchange Rate by Currency," accessed December 12, 2024, <https://www.cbn.gov.ng/rates/ExchRateByCurrency.html>.
Central Bank of Nigeria, "Nigeria's External Reserves," accessed December 12, 2024, <https://www.cbn.gov.ng/IntOps/Reserve.html>.
- RateCaptain, "Cash Rates," accessed December 12, 2024, <https://ratecaptain.com/cash-rates/>.

2.1 The Role of CBN Interventions in Stabilizing the Naira

The Central Bank of Nigeria has played an active role in mitigating the naira's volatility during Eurobond-related inflow periods. After the 2017 Eurobond issuance, the CBN deployed targeted measures to increase foreign exchange liquidity. These included augmenting funding for Personal Travel Allowance (PTA), Business Travel Allowance (BTA), medical expenses, and tuition fees, as well as shortening forward sales tenors from 180 days to 60 days to improve immediate FX availability.³ Additionally, the

apex bank increased dollar allocations to Bureau de Change (BDC) operators, further enhancing supply.⁴

Despite these efforts, the interventions provided only temporary relief. While external reserves tend to rise after Eurobond issuances, they often deplete within months, exposing the underlying fragility of Nigeria's economic fundamentals. This cycle highlights the limited impact of monetary interventions without complementary structural reforms.

3. EFEMS and the Temporary Rally of Late 2024

In December 2024, the introduction of the Electronic Foreign Exchange Matching System (EFEMS) coincided with the Eurobond issuance, temporarily bolstering market sentiment. The EFEMS initiative aimed to enhance transparency, reduce speculative activity, and promote a more market-driven exchange rate.⁵ This optimism led to a brief rally, with the naira

strengthening to ₦1,532/\$. However, the cracks in this rally quickly became evident as speculative pressures reemerged, reflecting the inability of such measures to address deeper economic challenges. However, we believe that the EFEMS will be instrumental in the country achieving a stable currency.

4. Structural Deficiencies Underpinning Currency Volatility

Nigeria's reliance on fuel imports has remained one of the primary drivers of dollar demand, placing persistent pressure on the naira. The economy's limited capacity to generate sustainable dollar inflows through exports further exacerbates currency instability. Moreover, fiscal policy often fails to align with monetary efforts, creating a fragmented approach to economic management. These structural deficiencies limit the effectiveness of short-term measures and contribute to the naira's vulnerability to external shocks.



3. Central Bank of Nigeria, "New FX Market Rules: Press Release", accessed December 20, 2024, [Press release-New FX Market Rules.pdf](#)
4. Central Bank of Nigeria, "Increase in Forex Sale to BDCs", accessed December 20, 2024, <https://www.cbn.gov.ng/Out/2017/CCD/increase%20in%20Forex%20sale%20to%20BDCs.pdf>.
5. Central Bank of Nigeria, "Implementation of BMATCH", accessed December 20, 2024, <https://www.cbn.gov.ng/Out/2024/FMD/IMPLEMENTATION%20OF%20BMATCH.pdf>.

5. 2025: A Year of Optimism and Stabilization Potential

The year 2025 holds promise for Nigeria's exchange rate, driven by several transformative developments. One of the most critical factors is the expected reduction in fuel importation. With the Dangote refinery nearing full operational capacity, alongside the emergence of modular refineries and the Nigerian National Petroleum Corporation's (NNPC) commitment to local refining, the need for imported refined petroleum products could decline significantly. This would alleviate pressure on foreign reserves and provide a more stable foundation for the naira.

The anticipated impact of President Tinubu's economic policies also offers reasons for optimism. Recent positive credit ratings and market confidence in the government's reform agenda are likely to attract Foreign Direct Investment (FDI). Furthermore, with developed economies expected to continue easing monetary policies and cutting interest rates, Nigeria's high-yield debt instruments will remain attractive to investors, bolstering Foreign Portfolio Investment inflows.

5.1 Monetary and Fiscal Alignment as a Path to Sustainability

The Central Bank of Nigeria is expected to continue its efforts to stabilize the naira through interventions in the foreign exchange market, competitive yield offerings on Open Market Operations (OMO) bills, and a measured adjustment of policy rates. However, these interventions, while effective in the short term, cannot replace the need for structural economic reforms. Sustained currency stability requires a coordinated approach between monetary and fiscal authorities.

Fiscal policies must focus on promoting export-oriented growth, supporting local industries, and reducing dependency on imports. Enhancing institutional transparency, improving governance, and fostering political stability are essential to attracting long-term Foreign Direct Investment. Without these foundational changes, the naira will remain subject to cyclical depreciation, irrespective of temporary inflows from Eurobond issuances or CBN interventions.

6. Conclusion: Bridging Short-Term Gains with Long-Term Solutions

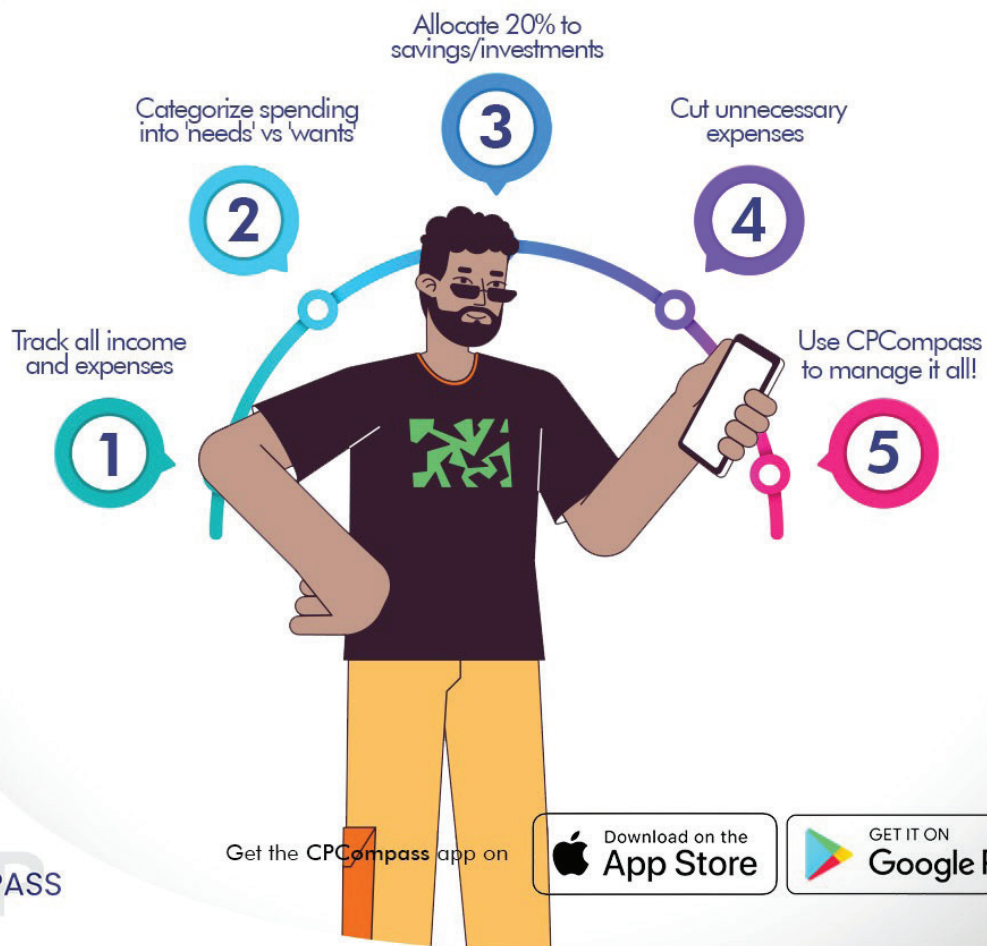
While Eurobond issuances provide temporary relief to Nigeria's exchange rate challenges, their impact is fleeting in the absence of structural economic reforms. The CBN's interventions, including EFEMS and rate adjustments, demonstrate the potential for short-term stabilization but fall short of addressing the naira's underlying vulnerabilities. As Nigeria moves into 2025, the combination of reduced fuel imports, improved investor confidence, and high-

yield investment opportunities creates a pathway for stability.

We project that the naira will close the first half of 2025 N1,700–N1800 per dollar in the first half of 2025.

However, only a holistic, coordinated effort between monetary and fiscal authorities can ensure sustained currency appreciation and broader economic resilience in the years ahead.

5 Simple steps to build a **solid budget**



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SECTION F:

Nigeria Equity Market Outlook 2025

Equity Market 2025 Outlook – Nigeria



1. Introduction

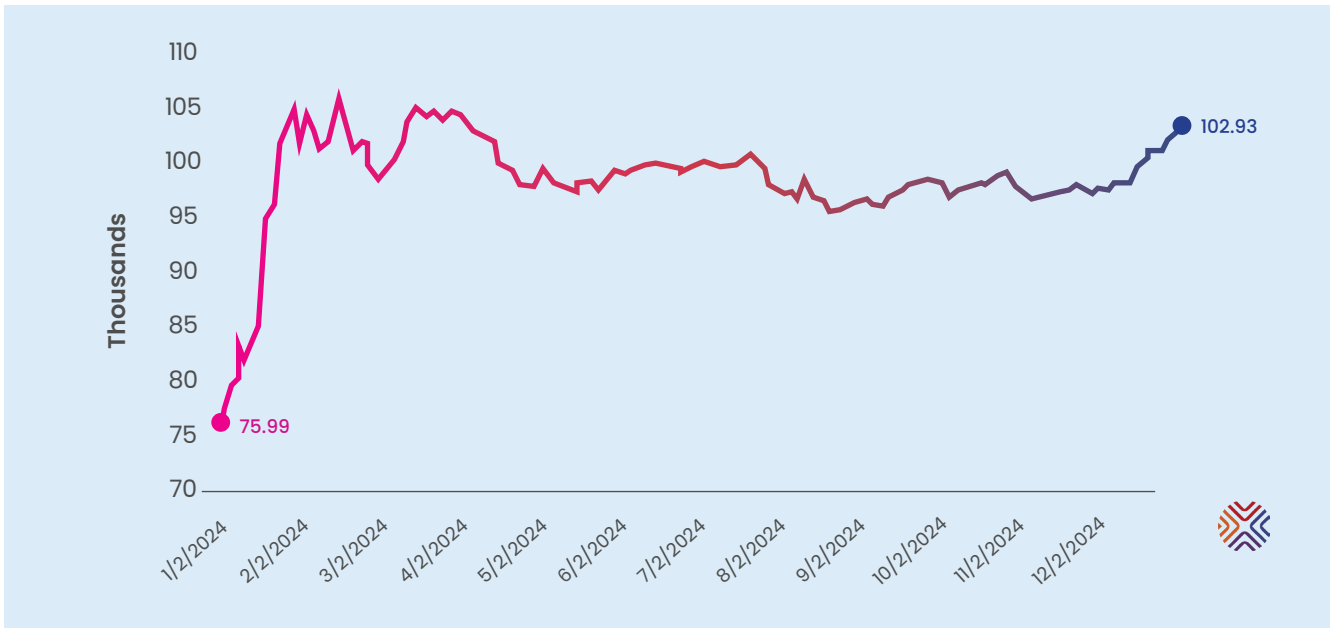
The Nigerian equity market in 2024 navigated a shifting macroeconomic landscape influenced by monetary tightening, currency adjustments, and fiscal reforms. Despite volatility, the NGX All-Share Index (ASI) closed the year at 102,926.4, delivering a total return of 37.65%.

Market rallies in 2020, 2023, and early 2024 were supported by strong corporate fundamentals and investor sentiment. However, the fixed-income space became more attractive following an interest rate hike in February 2024, leading to higher yields and a shift in investor preference toward bonds and treasury bills. This dynamic created mixed interest in equities, with periods of rotation between asset classes.

Looking ahead to 2025, equity market performance will be shaped by corporate earnings, strategic corporate actions, and macroeconomic conditions. The trajectory of interest rates, inflation, and fiscal policies will influence capital allocation between equities and fixed-income securities, determining the overall market direction.



NGX All Share Index Performance in 2024



Source: Nigerian Exchange Group.¹

2. What to Expect from the Equity Market in 2025

To get a clearer picture of what to expect in the equity market in 2025, it is important to examine each sector.

2.1. Consumer Goods Sector Outlook

In 2024, the consumer goods sector experienced significant pressure from rising prices fueled by high inflation. Companies passed on these additional costs to consumers, which boosted revenues but strained profitability due to heightened cost pressures. The devaluation of the naira further exacerbated losses, particularly for firms heavily reliant on imported raw materials. This has prompted many companies to consider backward integration strategies to mitigate risks associated with currency fluctuations and import dependency. Additionally, rising fuel prices, foreign exchange volatility, and elevated interest rates further tightened cost margins for consumer goods firms.

Looking ahead to 2025, cost pressures are expected to persist in the early part of the year, driven by a sustained high-interest rate environment. However, a projected interest rate cut early in the year is expected to ease financial pressures and improve cost margins. Stabilizing geopolitical tensions, particularly under the new U.S. administration, could reduce global supply chain disruptions, limiting sharp price increases for imported raw materials. Fuel prices are also expected to remain relatively stable, potentially alleviating logistics and transportation costs.

1. Nigerian Exchange Group, "NGX All Share Index," NGX, 2024, <https://ngxgroup.com/>.

As interest rates decline in 2025, signaling a shift away from the current tight monetary policy, consumption loans are expected to become more accessible, reducing the opportunity cost of spending. This, combined with easing inflation, should provide relief to consumers' wallets and enhance purchasing power, driving increased consumer spending on goods and services. The anticipated economic recovery and improved consumption environment are expected to bolster the performance of the consumer goods sector during the year.

Moreover, the Central Bank of Nigeria's rate cuts later in 2025 are likely to further stimulate economic activity by lowering borrowing costs, enabling consumers to access credit more affordably. With disposable incomes gradually recovering, companies in the consumer goods sector are expected to face reduced cost pressures, although some of these costs may still be passed on to end consumers. Stable exchange rates are also likely to reduce the volatility faced by these firms, providing a more predictable operating environment and contributing to the sector's overall recovery.

In summary, the consumer goods sector presents a mixed outlook for 2025. While the high-interest rate environment may initially weigh on performance, potential rate cuts in the year could alleviate some of these pressures. Cost margins are not expected to see significant increases throughout most of the year. Additionally, improved foreign exchange conditions, reduced cost escalations, revenue growth, and better finance income are expected to support a return to profitability for many consumer goods companies in 2025.



2.2. Oil and Gas Sector Outlook

2.2.1 Transforming Refining Dynamics

In 2024, Nigeria's oil and gas sector embarked on a transformative journey, reducing its dependence on imported refined products by prioritizing domestic refining. This shift was catalyzed by the Dangote Refinery, with a 650,000 barrels per day (bpd) capacity, and the revival of state-owned refineries

in Port Harcourt and Warri. These milestones marked a new era of energy self-sufficiency, supported by policies such as the "Naira for Crude" initiative, which enabled local refineries to source crude oil without relying on foreign exchange.

By operationalizing these refineries, Nigeria has stabilized its downstream supply chain. This will minimize exchange rate volatility and improve cost predictability, as fuel has always been one of the country's major imports. Notable deals, such as bulk purchasing agreements between the Dangote Refinery and marketers like MRS Oil, have ensured localized access to refined products, reducing import dependency.

Following its much-needed revitalization, the Port Harcourt refinery's old plant is expected to reach an initial capacity of 60,000 bpd by Q3 2025.² The Kaduna refinery is also expected to join soon.

However, the global oil price environment and government pricing interventions remain critical determinants of future fuel price stability. While these changes offer growth opportunities for sector players, margins will depend on how these variables play out in 2025.

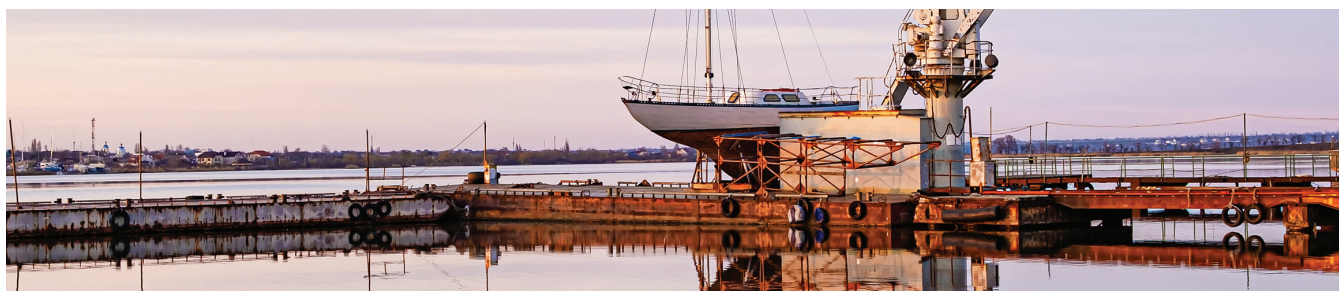


2.2.2 Offshore Expansion: Big Bets on Deepwater Prospects

Major oil companies are ramping up offshore activities, positioning Nigeria as a critical player in global oil markets. ExxonMobil announced a \$10 billion investment to expand offshore operations, aiming to drive higher production levels.³

Shell Nigeria also committed \$5 billion to the Bonga North project, which is expected to deliver 110,000 bpd

at peak production and recover 300 million barrels.⁴ Seplat Energy Plc's acquisition of Mobil Producing Nigeria Unlimited positions (MPNU) will help it to double production by 2025, targeting 120,000 bpd.⁵ This capacity expansion underscores the sector's push toward growth, both in crude oil production and revenues.



2. Victoria Grabenwöger, "Port Harcourt Refinery in Nigeria Starts Operations," Kpler, December 5, 2024, <https://www.kpler.com/blog/port-harcourt-refinery-in-nigeria-starts-operations>.
3. Felix Onuah, "Exxon Plans \$10 Billion Oil Investment in Nigeria, Presidency Says," Reuters, September 26, 2024, <https://www.reuters.com/business/energy/exxon-plans-10-billion-oil-investment-nigeria-presidency-says-2024-09-26/>.
4. Shell Nigeria, "Shell Invests in Bonga North Deep-Water Project, Nigeria," Shell, 2024, <https://www.shell.com.ng/media/2024-media-release/shell-invests-in-bonga-north-deep-water-project-nigeria.html>
5. Seplat Energy Plc, "Seplat Energy Plc ('Seplat Energy' or the 'Company') Publication of Prospectus in Connection with the Acquisition of MPNU," 2024, https://doclib.ngxgroup.com/Financial_NewsDocs/42688_SEPLAT_ENERGY_PLC-ANNOUNCEMENT_ON_UK_PROSPECTUS_PUBLICATION_REGARDING_MPNU_ACQUISITION_CORPORATE_ACTIONS_DECEMBER_2024.pdf

To complement these investments, the government has set a 2025 production target of 2.12 million bpd, including condensates, as outlined in its Medium-Term Expenditure Framework and Fiscal Strategy Paper.⁶

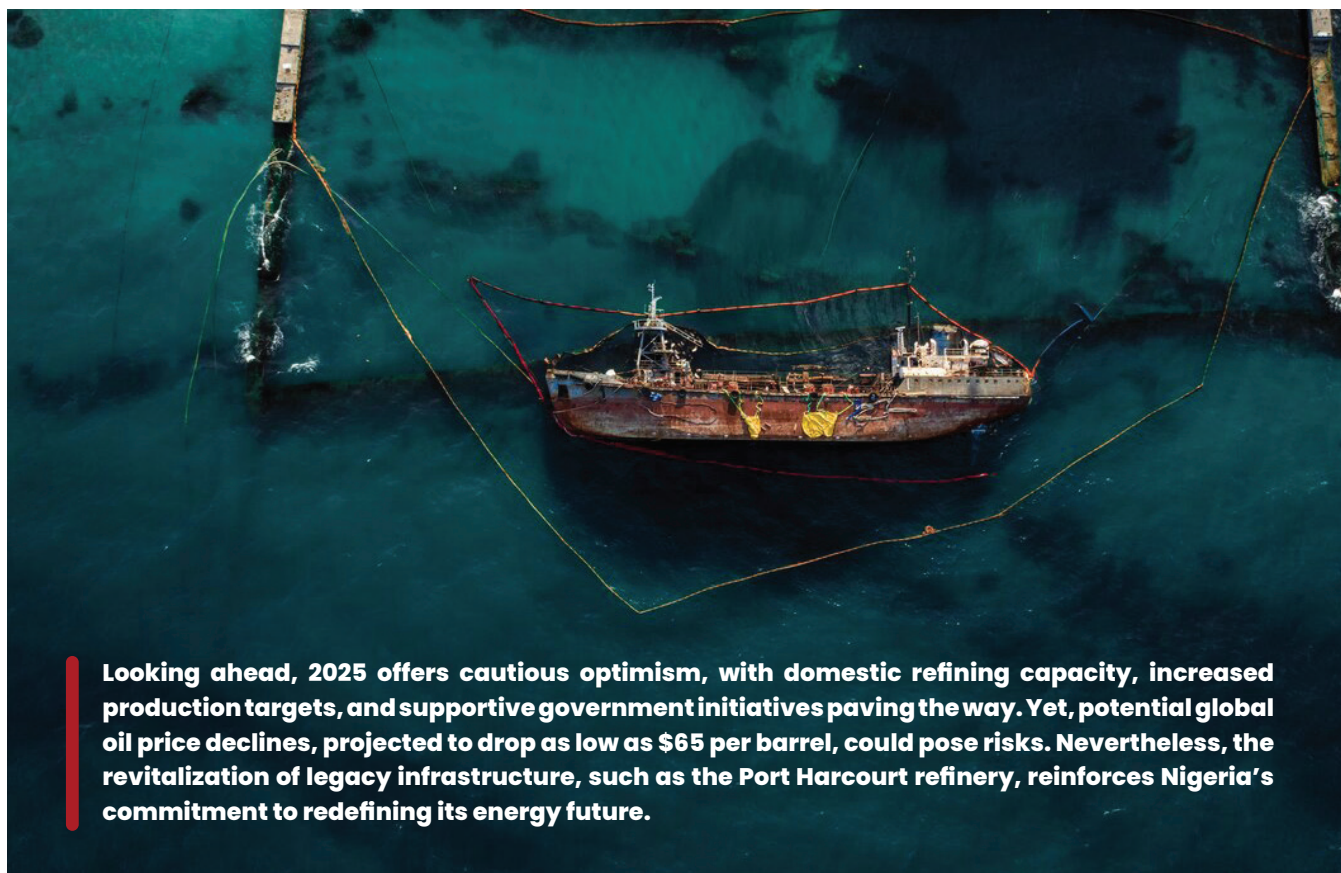
The influx of foreign direct investments and strategic acquisitions reflects growing confidence in Nigeria's

oil and gas sector. However, achieving production targets hinges on regulatory stability and effective project execution, alongside addressing challenges like pipeline vandalism and oil theft. If these issues are resolved, Nigeria could benefit from increased production and higher revenue. Nonetheless, global factors, such as fluctuations in oil prices, remain a key constraint on maximizing revenue growth.

2.2.3 Sector Performance and Policy Shifts

The Nigerian oil and gas sector delivered a strong performance on the Nigeria Exchange Group (NGX) in 2024, led by Seplat Energy's 147% share price gain, closing at N5,700 and achieving a market capitalization of N3.35 trillion. Aradel Holdings entered the market amid volatility, but its prospects for 2025 signal potential stability and growth.

The sector's pivot to domestic refining mitigates the adverse effects of naira devaluation and foreign exchange scarcity. Companies now benefit from a more stable cost environment, enhancing profitability. Strategic policies and partnerships, like direct offtake agreements with the Dangote Refinery, optimize distribution chains, ensuring predictable pricing in a deregulated downstream market.



Looking ahead, 2025 offers cautious optimism, with domestic refining capacity, increased production targets, and supportive government initiatives paving the way. Yet, potential global oil price declines, projected to drop as low as \$65 per barrel, could pose risks. Nevertheless, the revitalization of legacy infrastructure, such as the Port Harcourt refinery, reinforces Nigeria's commitment to redefining its energy future.

6. Budget Office of the Federation, "2025-2027 Medium Term Expenditure Framework & Fiscal Strategy Paper," November 15, 2024, <https://budgetoffice.gov.ng/index.php/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper/2025-2027-medium-term-expenditure-framework-fiscal-strategy-paper/viewdocument/980>.

2.3. Industrial Sector

The Nigerian industrial sector is projected to remain resilient in 2025 despite macroeconomic challenges from the previous year. A major catalyst for this growth is the Federal Government of Nigeria's (FGN) increased capital expenditure in the 2025 budget. The proposed budget is estimated at N47.90 trillion, with N16.48 trillion allocated to capital projects—representing 34.4% of total spending. This marks an 11.2% increase from the 2024 Amended Budget and reflects the government's focus on economic stimulation through infrastructure investment. This spending prioritizes critical infrastructure projects across the country, including roads, bridges, airports, railways, and energy facilities. By investing in infrastructure, Nigeria seeks to enhance connectivity, stimulate economic activities, create jobs, and improve its citizens' overall quality of life.

Additionally, higher capital expenditure is expected to drive industrial demand, particularly in sectors linked to infrastructure development. Cement producers such as Dangote Cement, BUA Cement, and WAPCO stand to benefit from increased construction activity.

Similarly, engineering and construction firms like Julius Berger are positioned to capitalize on government contracts for large-scale infrastructure projects.

Also, key growth drivers include easing inflation, currency stabilization, and lower interest rates, which are expected to create a more favorable operating environment for manufacturers. Additionally, strong domestic demand for cement, ongoing infrastructure expansion, and export growth in key sectors such as cement and construction will further support industrial activity.

Beyond direct sectoral benefits, sustained public investment in infrastructure enhances long-term industrial competitiveness by improving logistics, reducing production bottlenecks, and attracting private sector investment. The combination of fiscal stimulus, policy support, and infrastructure-led growth points to a strategic approach to fostering industrial expansion in 2025.

Challenges such as rising costs, currency depreciation, and regulatory uncertainty are expected to moderate, improving the sector's overall outlook.

For cement producers such as Dangote Cement, BUA Cement, and Lafarge, the stabilization of inflation is likely to ease operational cost pressures, enhancing profit margins. Additionally, cost-saving initiatives such as Dangote's transition to compressed natural gas (CNG) trucks will support profitability. BUA Cement, which experienced a decline in nine-month profitability in 2024 due to expansion-driven foreign exchange borrowings, is expected to benefit from improved transparency and stability in the foreign exchange system, boosting profitability.

The construction sector, represented by companies like Julius Berger, is expected to face reduced input cost pressures on materials such as concrete and steel. However, global price trends for these commodities will continue to influence local costs. A decline in these pressures could lower project costs and positively impact profit margins.

The expected reduction in interest rates by the Central Bank of Nigeria in 2025 is set to lower borrowing costs, benefiting capital-intensive industries such as cement manufacturing and infrastructure development. Easier access to affordable financing will enable major players like Dangote Cement, BUA Cement, and Julius Berger to execute large-scale projects more efficiently. Additionally, increased capital expenditure will act as a catalyst for growth, while improved access to working capital and corporate bond financing will further support expansion in these sectors.



2.4. Banking Sector Outlook for 2025

The Nigerian banking sector is set to navigate another year of a moderated high-interest rate environment, which will continue to bolster revenue growth, albeit at a moderated pace. While elevated rates have significantly contributed to the sector's profitability in recent years, we anticipate some potential rate cuts in 2025 as the government shifts toward stimulating economic activity. However, the impact of these rate adjustments on banks' revenue streams is expected to be minimal, as the effects of sustained high rates would have normalized.



2.4.1. Revenue Growth Expectations

Revenue growth for banks in 2025 is expected to moderate compared to the exceptional levels seen in the previous year. The sharp revenue growth in 2024 was largely driven by the high-interest rate environment, which expanded net interest margins. However, as interest rates remain elevated but begin to cool off, we anticipate that the year-on-year growth in interest income will be minimal. With no further increase in interest rates expected this year, the sector is entering a stabilization phase where the contribution of high rates to margins will plateau. Also, the limit placed on banks' net open position will continue to limit their unrealized earnings on naira depreciation.

The ongoing recapitalization of the insurance and banking sectors, driven by the Nigeria Insurance Industry Reform Bill 2024 and broader regulatory requirements, is expected to reshape the industry. Some banks have been able to raise public offers and rights issues and exceed expectations in their first tranche.

Many companies may struggle to meet the higher capital thresholds, leading to an uptick in mergers and acquisitions (M&A) activity. This trend could generate significant advisory and transaction-related revenues, further contributing to the banking sector's growth. Additionally, M&A announcements may act as a catalyst for share price appreciation within the sector.

The imposition of the 70% windfall tax on foreign exchange gains of banks realized between June 2023 and December 2025, will inevitably compress net profits for banks. This measure underscores the government's intent to capitalize on extraordinary earnings from currency devaluation, but it also introduces headwinds to the profitability of banks.

With the exclusion of retained earnings as a source of capital for recapitalization, banks are expected to adopt aggressive dividend payout policies over the next few years. This strategy will likely appeal to income-focused investors, enhancing the sector's attractiveness. The high-divided yields could provide a counterbalance to regulatory and macroeconomic pressures, sustaining investor confidence in the sector.

We hold an optimistic outlook for the Nigerian banking sector in 2025. Nigerian banks are expected to continue raising capital to meet the Central Bank of Nigeria's (CBN) regulatory requirements. We anticipate that most Tier 1 banks and a few Tier 2 banks like Fidelity, Stanbic, Ecobank, and FCMB, among others, will aim to exceed the minimum required capital by a considerable margin. This strategy will provide a buffer to absorb potential losses, prevent falling below the capital threshold, and prepare for any potential increases in capital requirements.

These developments will enhance the sector's attractiveness, bolster its capacity, and improve its external appeal. The recapitalization efforts will strengthen Nigerian banks, making them more resilient and capable of withstanding unforeseen challenges, including black-swan events.

While we maintain a bullish outlook on the sector, the banks' ability to maintain operational efficiency, particularly their capacity to generate significant interest income or other revenues from their enhanced capital base—will be a key determinant of individual bank performance.



2.5. The Insurance Sector

The Nigerian insurance sector has demonstrated sustained growth despite macroeconomic challenges, with projections indicating continued expansion driven by rising demand for health insurance. The sector has benefited from upward repricing of premium rates and naira devaluation, which inflates foreign currency-denominated premiums upon conversion. As of November 2024, the industrial index recorded a 50.27% year-to-date (YTD) growth.

According to the National Insurance Commission (NAICOM), the sector's gross premium written grew to N1.173 trillion by the third quarter of 2024, reflecting a 60.9% year-on-year and 44.3% quarter-on-quarter increase.⁷

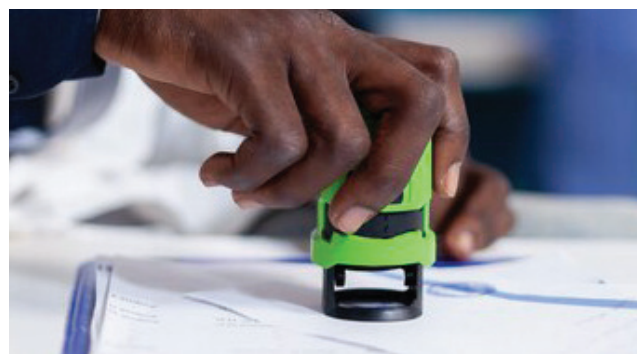
In 2024, the sector delivered a 126% return, driven by robust fundamentals and recapitalization efforts. This growth is expected to stabilize in 2025 as premium rate adjustments and recapitalization efforts continue to influence the sector's trajectory.

The recapitalization initiative mandated new minimum capital requirements: N25 billion for non-life insurance, N15 billion for life insurance, and N45 billion for reinsurance firms.⁸ While not all insurers may meet these requirements, the initiative is expected to drive mergers and acquisitions, improve efficiency, and foster synergies across the sector.

A strengthened capital base is also likely to attract foreign investment, mitigate risks, and enhance the sector's ability to provide coverage for high-risk industries like oil and gas, ultimately contributing to economic growth.

The sector is positioned to capitalize on high-yield investment opportunities in debt and equity markets. Hence, the sector is likely to sustain profitability and reinforce its fundamentals, with growth stabilizing as it adjusts to recapitalization impacts and premium rate normalization.

Despite its strong performance, the insurance sector remains relatively illiquid and holds a low market capitalization compared to other sectors. As such, large-scale investments may not be advisable due to liquidity constraints, even with the sector's promising fundamentals and profitability outlook.



7. National Insurance Commission, "Bulletin of the Insurance Market Performance," 2024, [https://storage.naicom.website/naicom/files/BULLETIN%20-%20%20Q3%202024%20\(1\).pdf](https://storage.naicom.website/naicom/files/BULLETIN%20-%20%20Q3%202024%20(1).pdf).

8. National Assembly of Nigeria, "Nigeria Insurance Industry Reform Bill, 2024," 2024, <https://nass.gov.ng/documents/billdownload/11140.pdf>.

2.6. Telecom Sector Outlook

The telecommunication sector faced significant challenges in 2024, with major players MTN Nigeria and Airtel Nigeria recording substantial losses. MTN stock market return was -20.0%, while Airtel recorded similarly negative performance metrics, signaling a tough year for the industry. These losses were primarily attributed to foreign exchange losses, to the sharp rise in operational costs without a commensurate increase in revenue, exacerbated by a tariff cap that limited the amount telecom companies could charge for their services.

As mentioned earlier, both MTN and Airtel suffered considerable foreign exchange (FX) losses as a result of the naira's significant devaluation which further compounded their challenges, inflating operational expenses and eroding profitability.

Looking ahead, 2025 is poised to mark a turning point for the telecom sector. A potential lift on the tariff cap is anticipated, allowing telecom operators to adjust pricing structures to better reflect rising costs and support investment in infrastructure and service quality. This regulatory shift is expected to drive revenue growth, help balance operational efficiencies and restore profitability across the sector.

Moreover, with expectations of interest rate cuts, companies' borrowing costs are likely to decrease. This will enable telecom operators to secure more favorable financing, facilitating much-needed investments in network expansion, technological upgrades, and service enhancements. These developments will not only strengthen their operational capacity but also position them to meet growing consumer demand for high-quality connectivity services.

The broader macroeconomic environment is also expected to improve, spurred by the anticipated stabilization of the naira and the government's pro-business policies. This will mitigate FX-related losses, which were a significant drag on performance in 2024.

Both MTN and Airtel are expected to report improved return on capital, with strengthened balance sheets and better margins. Additionally, their capacity to

reinvest in infrastructure will further bolster their market positions and competitiveness.

Overall, the outlook for the Nigerian telecom industry in 2025 is one filled with optimism. With strategic reforms, stable macroeconomic conditions, and renewed investment, the sector is well-positioned for a year of recovery and growth.



3. Conclusion

In summary, the Nigerian equity market in 2025 will be shaped by sector-specific dynamics, policy adjustments, and macroeconomic trends. The consumer goods sector is likely to benefit from easing inflation and interest rate cuts later in the year, though cost pressures will remain a challenge. The oil and gas sector is set to consolidate gains from domestic refining and offshore investments, with cautious optimism around global oil prices. The industrial sector will leverage improved macroeconomic conditions, government spending, and cost-saving innovations to sustain growth. Banking sector performance will stabilize as interest rate adjustments balance profitability, while recapitalization efforts strengthen resilience and competitiveness. The insurance sector is poised for continued growth, driven by

recapitalization, rising demand, and operational efficiencies, despite liquidity constraints. Finally, the telecom sector is expected to recover from 2024's challenges, aided by tariff reforms, macroeconomic stabilization, and renewed investments.

Overall, while risks such as inflation persistence, global price volatility, and regulatory uncertainties remain, strategic reforms, sectoral resilience, and policy-driven adjustments provide a foundation for moderate growth and recovery across key sectors. Investors should adopt a selective approach, focusing on companies positioned to capitalize on these opportunities while managing inherent risks effectively.



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