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Navigating stability amid pressures

H2 2026 Nigeria Macroeconomic Outlook



Hidden drivers of Nigeria's inflation resurgence

Nigeria's recent inflation resurgence reflects a combination of elevated global oil prices and domestic supply-side disruptions. Renewed Middle East tensions pushed Brent crude from roughly \$70/bbl toward \$120/bbl, while Bonny Light maintained an additional \$8-\$10/bbl premium, contributing to higher PMS and diesel prices. At the same time, domestic PMS supply declined sharply from 64.9 million litres/day in January 2026 to 39.6 million litres/day in February 2026, while crude production fell by roughly 10% from 1.45mbpd to 1.31mbpd following the Shell Bonga FPSO maintenance shutdown, which removed approximately 225,000 bpd from output alongside weaker Qua Iboe, Bonny, and Forcados loadings. This supply imbalance triggered a sharp rebound in inflation from -2.88% in January to 2.01% in February and 4.18% in March as crude prices simultaneously surged from around \$72/bbl toward \$106/bbl.

Looking ahead, our broader expectation is that inflation dynamics will remain heavily influenced by domestic energy supply stability, refining throughput, and logistics conditions rather than crude prices alone. Although crude production has gradually begun recovering, the February disruption, highlighted how quickly supply shocks can transmit into broader price pressures. Consequently, stable crude production, improved refinery operations, stronger domestic fuel availability, and more efficient transportation networks will remain critical to achieving a more sustained moderation in inflationary pressures over the medium term.

Headline Inflation expected to rise toward 16.79%



Logistics-driven inflation: the dominant role of diesel in food price transmission

Our analysis shows that diesel prices are one of the most important short-term transmission channels into Nigeria's food inflation, with a one month lagged correlation of roughly 0.38, closely following fertilizer at 0.39, while FX pass-through remains lower at about 0.29. This reflects the structurally logistics-driven nature of Nigeria's food system, where inflation is shaped not only by farm-gate production costs but also by the cost of transporting food across long interstate supply chains using diesel-powered haulage. As a result, diesel price shocks quickly feed into transportation, warehousing, refrigeration, and wholesale distribution costs, with a relatively immediate pass-through into final consumer prices compared to fertilizer, which operates with longer production-cycle lags.

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Economic Forecast Revised (2026)	
GDP	4.2%
Inflation (year-end)	16.79%
Debt-to-GDP	38-40%
Debt service to revenue	110-115%
Exchange rate (₦/\$)	1,300 - 1,400
NGX ASI (Ytd)	65-70%

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Looking ahead into H2 2026, diesel is expected to remain a key driver of food inflation, supported by persistently elevated oil prices, with our base-case assumption around \$80/bbl. This outlook is reinforced by the International Energy Agency's (IEA) expectations that global oil demand will continue outpacing supply alongside relatively tight inventory conditions across major markets. Additional pressure is also expected from refinery disruptions across parts of the Middle East, slower production growth in several regions, and efforts by major economies to rebuild strategic and commercial crude inventories following recent supply shocks. This remains particularly important given that diesel prices are fully deregulated in Nigeria and remain structurally higher than petrol due to the international middle-distillate premium and costly refining processes. In addition, inelastic demand from manufacturers, transport operators, and generator-dependent businesses means higher costs are consistently absorbed and transmitted across the economy, keeping diesel prices elevated and reinforcing its central role in sustaining inflation pressures.

Fertilizer pass-through remains structurally moderated

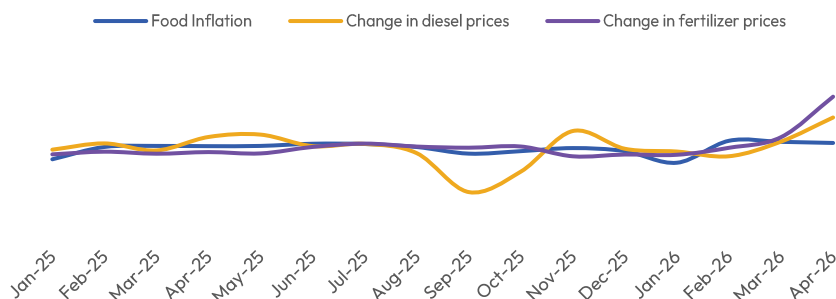
Fertilizer-related inflation pressures remain an important component of Nigeria's food inflation outlook, particularly for key cereal crops such as rice, maize, sorghum, and wheat. However, despite fertilizer prices maintaining the strongest lagged relationship with food inflation in our model, the overall pass-through into aggregate consumer prices is expected to remain structurally moderated by the composition of Nigeria's food basket, where more than 51% of consumption consists of food groups with limited dependence on chemical fertilizers. This includes roots and tubers such as yam and cassava, which account for about 22.1% of the basket and require minimal fertilizer input, alongside legumes, groundnuts, fish, meat, and proteins (around 18.4%) which are more influenced by logistics, transport, and cold-chain costs than agricultural inputs.

Several structural buffers are also expected to limit fertilizer pass-through into inflation through H2 2026. Recent import liberalization measures including the reduction of broken rice tariffs from 70% to 30%, bulk rice tariffs to 47.5%, and crude palm oil tariffs to 28.75% continue increasing the availability of lower-cost imported grains within the domestic market. At the same time, major exporters such as India and Thailand maintain fertilizer subsidy programmes worth approximately \$18.65 billion and \$817 million respectively, helping absorb part of the global fertilizer shock before exports reach Nigeria. Subnational inflation trends further reinforce the logistics-driven nature of inflation, as fertilizer-intensive agrarian states recorded relatively mild inflation increases of around 2.3% in March before easing toward 0.8%–1.5% in April, while Lagos accelerated from roughly 3.1% in February to 4.5%–4.6% during March and April, highlighting the stronger influence of diesel costs, transportation margins, and urban distribution bottlenecks on food price formation over fertilizer costs.

Looking ahead, fertilizer pressures may remain visible during the ongoing wet-season planting cycle between May and July as Urea and NPK application intensifies across major grain-producing states. However, improving grain imports, lower tariffs, subsidy-supported foreign supply, and increasing substitution toward lower-cost farming practices are expected to cushion the broader inflation impact over the medium term. Insecurity also remains an important upside risk to the food inflation outlook as disruptions across farming regions and transportation corridors continue affecting supply efficiency and logistics costs, although improving military

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coordination could gradually ease some pressure on food distribution networks over time. Overall, our broader expectation remains that diesel prices, logistics efficiency, transportation costs, and insecurity will continue playing a more dominant role in shaping Nigeria's food inflation trajectory through the remainder of 2026.



Source: NBS, NMDPRA, World bank commodities price data (Pink Sheet), Zedcrest Research

Diesel, electricity failures, and core inflation stickiness

Core inflation is expected to remain more structurally persistent than food inflation as its transmission mechanism is directly embedded within Nigeria's industrial operating structure rather than agricultural cycles. Our modelling framework shows diesel prices exhibit one of the strongest unlagged relationships with core inflation, reflecting the fact that large-scale manufacturers rely heavily on diesel for turbines, generators, industrial cooling systems, and heavy machinery, allowing cost increases to be passed through almost immediately via ex-factory price adjustments in order to preserve margins, unlike food inflation which typically transmits with transport and inventory lags. This pressure is further reinforced by Nigeria's ongoing electricity constraints, where the national grid remains under significant strain from debt causing low gas supply availability, aging transmission infrastructure, and recurring disruptions along key corridors such as the Shiroro-Mando network. The severity of this fragility was evident during the January 2026 grid collapse, when generation reportedly fell sharply from around 3,800MW to just 39MW within minutes, forcing industrial users to rely almost entirely on self-generated diesel power.

As a result, core inflation is likely to remain structurally sticky through H2 2026, with elevated diesel costs and grid instability continuing to embed persistent cost-push pressures across manufacturing, construction, transportation, and wider retail activity. Even as FX conditions gradually improve, sustained dependence on diesel-powered self-generation means production and operating costs are unlikely to normalize meaningfully in the near term, limiting the pace of disinflation in core components of the CPI basket. Additionally, base effects from the unusually weak inflation environment recorded in December 2025 may exaggerate year-on-year inflation prints in Q4 2026, potentially making underlying price pressures appear stronger than their month-on-month trajectory would otherwise suggest.

Pre-election fiscal expansion may complicate the H2 inflation trajectory

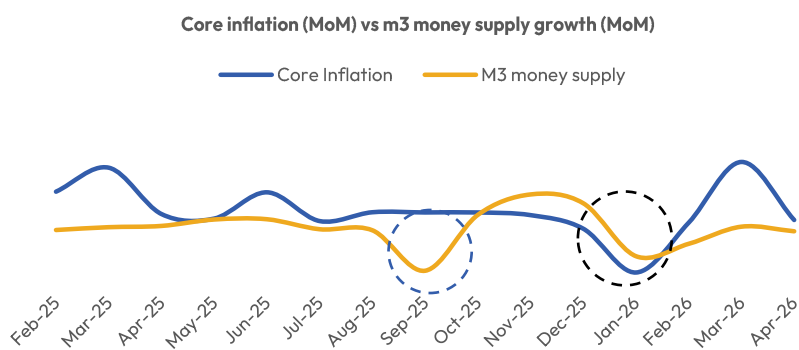
Historical evidence suggests that Nigerian pre-election inflation cycles become materially more inflationary when supported by elevated oil revenues capable of financing aggressive fiscal expansion and politically driven spending. The 2011 election cycle, where crude prices traded around \$95/bbl and inflation accelerated toward roughly 12.8%, contrasts sharply with the 2015 period when oil prices collapsed toward the \$40-\$50 range, limiting fiscal spending capacity and moderating inflation pressures despite similar political conditions.

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Current macro conditions increasingly resemble a higher-liquidity framework. With Nigeria’s 2026 budget benchmarked at roughly \$64/bbl while our base-case oil outlook remains closer to \$80/bbl alongside relatively stable FX conditions around ₦1,380/\$, fiscal space is expected to improve heading into the broader pre-election cycle. Consequently, higher government spending, social interventions, and politically sensitive disbursements could reinforce existing diesel and core inflation pressures through H2 2026, likely sustaining the CBN’s hawkish monetary stance as policymakers attempt to offset election-related liquidity expansion.

Liquidity tightening, FX stability and the evolving monetary transmission framework

Our monetary conditions analysis suggests that broad money supply (M3) acts as a leading indicator for inflation dynamics, with an approximate three-month transmission window into price developments. The observed pattern indicates that the moderation in liquidity conditions around September 2025 was followed by easing inflation momentum around January 2026, reinforcing the view that liquidity conditions influence aggregate demand and pricing pressures with a short but observable lag structure. In this context, the historic ₦3.692 trillion single-day liquidity sweep executed on May 21, 2026, highlights the CBN’s commitment to tightening monetary conditions and absorbing excess liquidity. However, its impact on inflation will depend on whether such measures are sustained and reflected in a broader moderation of money supply growth. Given the observed transmission lag within our analysis, the scale of this record-breaking liquidity sterilization operation which significantly exceeded the earlier ₦1.05 trillion threshold observed in January suggests that demand-side inflation pressures could begin moderating more visibly around H2 2026 if current tightening conditions are sustained. This further reinforces the view that the CBN is likely to maintain an increasingly hawkish monetary stance in the near term as policymakers attempt to suppress excess liquidity and stabilize inflation expectations.



Source: CBN, Zedcrest Research

If core inflation continues accelerating faster than the monetary cooling curve, the CBN will likely intensify liquidity sterilization through larger OMO issuances, tighter liquidity corridors, and potentially further hawkish adjustments around the asymmetric corridor framework even without formally hiking the benchmark Monetary Policy Rate (MPR). However, should inflation conditions deteriorate materially, the possibility of an outright rate adjustment toward the 27.0%–28.0% range cannot be fully ruled out.

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Tight monetary conditions continue supporting FX stability

Importantly, our forward-looking FX outlook remains moderately constructive as Nigeria's elevated interest rate environment continues supporting foreign portfolio inflows into the fixed-income market. Sustained high OMO and fixed-income yields are expected to preserve the attractiveness of Nigeria's real carry trade opportunities, particularly as the CBN maintains a relatively hawkish liquidity-tightening stance through H2 2026. Combined with elevated crude oil receipts relative to the federal government's benchmark assumptions, this transmission mechanism should continue supporting medium-term FX stability while improving overall market liquidity conditions within the Nigerian Foreign Exchange Market (NFEM) framework.

Nevertheless, downside risks remain important. A prolonged escalation in Middle East tensions could trigger a broader global risk-off rotation away from emerging and frontier markets toward traditional safe-haven assets such as U.S. Treasuries, particularly within the current high U.S. yield environment, potentially weakening foreign portfolio inflows into Nigeria. However, several structural FX-supportive developments are still expected to provide medium-term stability, including improving external reserves which reached approximately \$50.45 billion during February 2026 (currently at \$49.25 billion as at May 25, 2026), stronger sovereign credit perception following S&P's recent upgrade of Nigeria's rating from B- to B, anticipated inflows linked to the proposed Dangote Refinery IPO, and Nigeria's ongoing FTSE Russell reclassification progress. Consequently, although periods of volatility may persist, our broader expectation remains that the naira should trade within a relatively more stable range through the remainder of 2026.

Economic reforms and improving macroeconomic conditions are expected to drive Nigeria's GDP growth toward the 4% range

Our baseline view is that Nigeria will sustain moderate expansion in H2 2026 as reforms and strong oil revenues cushion the economy. We forecast real GDP growth of around 4.0 to 4.3% in H2, pulling full-year growth to roughly 4.2%. Key growth drivers will include robust services and industrial output, higher oil production, infrastructure spending, a pickup in private investment (as interest rates normalize) and a modest rebound in consumption (as inflation eases).

We expect agriculture to benefit from good weather and credit programs, industrial output to rise on housing and infrastructure projects occurring during the pre-election year, and services to remain the largest growth contributor. Infrastructure projects (roads, ports, power) will add to industrial activity. Overall, we project non-oil GDP to grow around 4.0–4.3% in H2, with the oil sector contributing modestly due to production gains.

Downside risks to this outlook is the fact that domestic demand is constrained. High inflation and tight monetary conditions have kept private consumption and loans subdued. If inflation stays above 15%, consumer spending could slow more than expected. Externally, a renewed drop in oil prices would knock 0.5–1.0% off GDP growth via fiscal and foreign exchange channels. Political uncertainty heading into the 2027 elections could also dampen investor confidence. We estimate that a severe downside scenario could limit growth to 2–3% in 2026. Conversely, a stronger oil rally (\$150+/bbl) or an outsized investment surge could lift growth toward 5% (our bull case). The range of likely outcomes implies roughly a 4.0–4.5% central estimate for FY2026 GDP.

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Oil output to improve to 1.7–1.8 mbpd as key projects ramp up

Nigeria's oil output is gradually reviving but remains below OPEC quota. Q1 2026 averaged about 1.55 mbpd, constrained by infrastructure issues and theft. We project roughly 1.7–1.8 mbpd by end-2026. The ramp-up will depend on completing projects like Egina, Bonga North, and repairs to pipelines. In GDP terms, every 0.1 mbpd increase adds approximately 0.1% of GDP, so a successful ramp would contribute 0.2–0.3 points to growth in H2.

On oil revenues, at \$85/bbl (avg FY) and 1.7 mbpd, Nigeria would earn an average of \$15–\$18bn in crude export receipts over H2, up substantially from 2025. This supports the fiscal balance and FX flows. We expect midstream (refining and gas) to see renewed policy attention. Notably, privately built refineries (Waltersmith, Dangote) are expanding, which could crowd out some crude exports but raise fuel availability domestically. For now, we model oil sector output rising modestly. Oil and gas companies (E&P) will benefit from higher volumes and prices, but overall GDP is still led by non-oil.

Nigeria pivots from stabilization to revenue-led growth

Nigeria's fiscal trajectory in the first half of 2026 was defined by overlapping budget windows and a structural shift toward revenue-led consolidation. This transition followed the rollout of core macroeconomic stabilization objectives, specifically the removal of fuel subsidy, the unification of the foreign exchange market, and aggressive monetary policy tightening.

To prevent fiscal disruptions during this transition, the federal government extended the 2025 capital budget implementation window to June 2026. This extension created parallel fiscal cycles, allowing Ministries, Departments, and Agencies (MDAs) to continue drawing from prior-year allocations while the newly approved 2026 framework gradually took effect.

In April, President Bola Tinubu signed the revised 2026 Appropriation Bill into law, aggressively scaling total expenditure to ₦68.32 trillion. This represents a sharp 17% (₦9.09 trillion) upward revision from the initial ₦58.18 trillion proposal. The expansion was engineered to accommodate critical transport, health, and judicial legacy projects, while concurrently regularizing ₦5.71 trillion in carried-over capital obligations to contractors.

The oil conundrum: Volume shortfalls vs. geopolitical price windfalls

Oil revenue remains the single most critical variable in Nigeria's fiscal arithmetic, yet H1 performance revealed a stark divergence between domestic production volumes and global commodity pricing.

The 2026 budget was constructed on a stretch production target of 1.84 million barrels per day (mbpd) at a \$64.85/bbl benchmark. However, Q1 2026 actual output disappointed, averaging just 1.55 mbpd, falling significantly below the budgetary target and trailing the 1.62 mbpd average recorded in Q1 2025.

The windfall paradox: Escalating geopolitical conflicts in the Middle East pushed Brent crude prices into a \$102.83 to \$115/bbl premium. While this provided a massive price cushion above Nigeria's conservative \$64.85/bbl benchmark, the fiscal upside was structurally capped. The existence of legacy oil-backed financing obligations, pre-existing forward-sale commitments, and direct refinery-linked crude allocations, only

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incremental "unencumbered barrels" translate directly into state cash flow. Consequently, the net fiscal benefit from high global oil prices has been a partial offset rather than a transformative solution to the underlying deficit.

Structural revenue reforms and FAAC trajectory

The government accelerated the rollout of comprehensive tax reforms in H1. These measures introduced a more progressive personal income tax structure for high earners, consolidated corporate tax lines, and instituted a new 4% development levy on the assessable profits of large enterprises. While early implementation data highlights administrative bottlenecks and collection friction within Nigeria's vast informal economy, the foundational revenue trajectory is showing clear signs of growth.

The most concrete early indicator of this reform momentum is visible in the Federation Account Allocation Committee (FAAC) inflows. Total Q1 2026 allocations to the three tiers of government reached ₦5.87 trillion which constituted a robust 18.7% y/y increase from the ₦4.959 trillion distributed in Q1 2025. This expansion was driven primarily by improved statutory non-oil revenue and a marked increase in Value Added Tax (VAT) collections.

Ultimately, while early 2026 revenue performance shows structural improvement, rigid debt-servicing burdens continue to absorb a dominant share of government inflows. Navigating the remainder of the year will require balancing these fixed costs against the need for greater spending flexibility, making the resolution of domestic collection bottlenecks the primary objective for the second half of the year.

Fiscal outlook hinges on revenue delivery and execution

Looking ahead, H2 2026 stands as the definitive implementation window for Nigeria's ambitious fiscal agenda. With the 2025 budget extension having expired in June, institutional focus shifts entirely to the execution of the unprecedented ₦2.29 trillion capital expenditure program, the largest in the nation's history. However, translating this massive budgetary allocation into tangible economic outcomes remains vulnerable to persistent bureaucratic bottlenecks, legacy contractor liabilities, and historically low capital absorption rates, suggesting actual disbursements could fall short of official targets.

The broader fiscal trajectory hinges on a delicate balance between revenue mobilization and oil sector realities. While elevated crude oil benchmarks, digital tax enforcement initiatives, a broadening VAT base, and expanding Federal Account Allocation Committee (FAAC) inflows provide near-term fiscal upside; significant countervailing pressures persist. Continued domestic crude production shortfalls, high energy landing costs driven by geopolitical tensions in the Middle East, and depressed consumer purchasing power continue to cap non-oil tax performance. Should these structural revenue reforms lag official timelines, the fiscal gap is poised to widen, triggering accelerated domestic borrowing campaigns in Q4, 2026. Consequently, the Federal Government will likely step up its reliance on Public-Private Partnerships (PPPs), asset concessions, and blended finance structures to sustain infrastructure, power, and digital economy projects amid constrained direct public spending capacity.

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Ultimately, execution quality is the critical variable for the remainder of the year. If the administration can ensure timely Q3 capital releases, maintain the momentum of tax administration reforms, and curb the fiscal slippage that typically precedes political cycles, Nigeria could achieve a compressed consolidated deficit alongside meaningful infrastructure delivery. Conversely, a reversion to historical execution patterns risks a familiar cycle of missed benchmarks, rolled-over liabilities, and subdued growth, further compounding the pressures on the nation's ₦159.28 trillion debt stock and its heavy servicing burden.

Debt pressures likely to remain elevated

Nigeria's debt sustainability profile is expected to remain under pressure in H2'26, largely reflecting elevated fiscal deficits, rising debt servicing obligations, and continued dependence on borrowing to finance government expenditure. Our projection suggest that total public borrowing in 2026 could rise substantially. The Federal Government's revised borrowing plan currently stands around ₦29.2 trillion (₦68.3 trillion in projected expenditure and ₦38.9 trillion in estimated revenue), driven by a widening fiscal deficit. Earlier fiscal framework estimates had projected deficits between ₦20 trillion and ₦24 trillion, equivalent to roughly 3–4% of GDP.

Given the pace of deficit financing in H1'26 and expected funding requirements for capital projects, recurrent expenditure, and debt refinancing, borrowings in H2'26 are likely to remain elevated. We estimate that total gross borrowings for the full year could ultimately exceed ₦30 trillion if fiscal pressures intensify or oil revenue assumptions underperform (although this is less likely).

Nigeria's debt-to-GDP ratio is also expected to remain elevated in H2'26. The Central Bank of Nigeria projects the ratio could rise toward approximately 34.7% by end-2026. Although this remains below levels seen in many advanced and emerging economies, our estimates suggest a slightly higher range of 38% - 40% (given the improvement in GDP due to the rebasing and improved economic activities) during the course of H2'26.

Consequently, the debt service-to-revenue ratio is likely to remain a significant concern in H2:2026. Debt servicing costs are projected around ₦15–16 trillion within the 2026 fiscal framework, consuming a substantial portion of federally retained revenues. This limits fiscal flexibility and constrains government capacity to fund infrastructure, healthcare, education, and social development initiatives.

One of the major drivers of persistent debt sustainability concerns is growing revenue mobilisation. Despite ongoing tax reform initiatives and efforts to improve revenue collection efficiency, Nigeria's tax-to-GDP ratio (estimated at 8.2%) remains relatively low when compared with peer emerging and frontier economies (average of 16.1%). While non-oil revenue generation is expected to improve gradually, the pace of expansion may not be sufficient to adequately close the widening fiscal gap in the near term. Consequently, the government is likely to remain heavily dependent on borrowing to finance expenditure obligations.

Large fiscal deficits also remain a significant source of concern. Persistent expenditure pressures particularly on infrastructure development, security spending, public sector obligations, and support for select sectors of the economy continue to widen government financing needs. Although fiscal authorities remain committed to reform implementation and expenditure rationalisation, the size of the budget deficit suggests that substantial borrowing requirements will likely persist throughout the period. Furthermore, Nigeria's fiscal outlook remains vulnerable to oil revenue performance. Government revenue projections continue to rely heavily on assumptions relating to crude oil prices and production levels. Any disruption arising from pipeline vandalism, oil theft, operational challenges, weaker than expected global oil prices, or

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adjustments to OPEC production quotas could materially weaken revenue generation and further deteriorate fiscal balances.

The Central Bank of Nigeria has implemented reforms to improve the foreign exchange market over the last two years, however, exchange rate risks also remain an important consideration for debt sustainability. Any weakness in the exchange rate could significantly increase the local currency cost of servicing external debt obligations, thereby worsening debt metrics and increasing fiscal pressure.

Another key concern is the growing dependence on domestic borrowing to finance fiscal deficits. With a larger share of government financing expected to come from the domestic fixed income market, sovereign borrowing activity could continue to crowd out private sector access to credit while sustaining elevated yields across the yield curve. This dynamic may further tighten financial conditions within the broader economy.

Nonetheless, several factors could help moderate debt sustainability risks over the medium term. Improved foreign exchange reserves and stronger external buffers may support macroeconomic stability and enhance the country's ability to meet external obligations. Continued reforms in tax administration and revenue collection could also gradually strengthen government revenues. In addition, relative stability within the foreign exchange market may help reduce currency-related debt pressures, while higher oil production levels (particularly if security conditions improve in oil-producing regions) could provide additional fiscal support.

In summary, the second half of 2026 is expected to remain a challenging period for fiscal consolidation in Nigeria. Although ongoing macroeconomic reforms have contributed to improved investor confidence and greater external sector stability, elevated borrowing requirements, weak revenue generation, and high debt servicing costs are likely to keep debt sustainability concerns firmly in focus throughout the period.

Domestic borrowing and inflation trends to shape yield curve trajectory

Nigeria's fixed income market in the second half of 2026 is likely to remain characterised by slightly elevated yields, with the possibility of a modest upward repricing across the curve given the signs of increasing inflation. While the disinflation trend observed in early 2026 provided some room for monetary policy flexibility, structural fiscal pressures and external vulnerabilities (especially the US/Israel-Iran conflicts) are expected to sustain tight financial conditions.

The primary driver of yield direction in H2'26 will likely remain inflation risk. Although the Central Bank of Nigeria projects average inflation to moderate significantly in 2026, recent geopolitical tensions in the Middle East, particularly disruptions affecting global crude oil and energy markets, have reintroduced upside risks to imported inflation. Higher global energy prices could continually translate into elevated transportation, logistics, and food costs domestically, thereby leading to the risk of inflation.

A second major factor likely to keep yields elevated is Nigeria's continued dependence on foreign portfolio inflows ("hot money") to support FX liquidity and exchange rate stability. In an environment where advanced economies may maintain relatively high interest rates for longer, Nigerian authorities are expected to preserve attractive real yields to sustain foreign investor participation in Open Market Operations (OMO), Treasury Bills, and FGN Bonds. This suggests that the monetary authorities may be reluctant to aggressively ease rates in H2:2026 amidst inflation concerns.

Furthermore, elevated government borrowing requirements are expected to exert upward pressure on yields. Nigeria's 2026 fiscal framework points to a significantly wider fiscal deficit and increased domestic borrowing programme. Reports indicate

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that the Federal Government's revised borrowing plan for 2026 has risen to approximately ₦29.2 trillion, compared to earlier projections of ₦17.9 trillion, following an expansion in the budget deficit. This implies a heavier sovereign presence in the domestic debt market during H2'26, increasing supply pressures across the yield curve. Given the crowding-out effect associated with large sovereign issuances, investors may continue demanding higher yields to absorb increased debt supply, particularly at the long end of the curve, but we expect the debt management office (DMO) to exercise caution on the pace of increase in yield for domestic debt.

Another structural concern is the relatively slow pace of revenue growth despite ongoing tax reforms. While reforms implemented by the government have improved non-oil revenue mobilisation, fiscal revenues remain insufficient relative to expenditure obligations, especially debt servicing, infrastructure spending, and social interventions. Consequently, the government's reliance on debt financing is expected to remain elevated throughout H2'26. In terms of trading activities, we expect treasury bills to hover around current levels trading within the yield of 18% - 19.5%. For bonds, the curve is likely to reflect an inverted yield curve as short term pressures elevate yields to 16% - 17% levels while the long-end are likely to trade around 15% - 16%. Nigeria's Eurobonds are expected to continually hover around the current levels with yields on the long-end trading between 7% to 9%, depending on the conditions of the global economy.

Fundamentals, valuations, and liquidity point to further upside for the Nigerian equity market.

H2 2026 should see continued equity market strength. We forecast another 20-30% total return in H2. The main driver will be fundamentals; Q2-Q3 earnings are expected to show double-digit profit growth across sectors, given healthy corporate topline and the low prior-year base. Solid earnings and dividends will lead. We expect continued earnings acceleration in H2. Many listed firms (banks, insurers, consumer companies) remain net-debt free, so high yields on their cash pile increase shareholder returns. Liquidity is abundant: foreign inflows into bonds have already occurred, and some of that may spill into equities. Market P/E at 6.9x is well below long-term averages. This implies room to run as earnings grow. While foreign ownership of equities is moderate, we expect the forthcoming index inclusion (with FTSE admission on the horizon) to act as a key catalyst for re-rating. We expect this development to unlock meaningful passive flows from global index-tracking and benchmark-aware investors, providing a more stable source of foreign capital and supporting both liquidity and valuations across the market. We anticipate a gradual broadening of participation as events such as the Dangote refinery IPO listing introduces more interest to the market.

Overall, the market is likely to continue rallying if macro conditions hold. However, the pace may slow after the strong YTD gains. We project the ASI to end H2 modestly higher. Upside surprises (e.g. unexpected big dividends, further inflows) would boost returns, while earnings disappointments or external shocks could trigger corrections. We see the risk of a deep pullback as limited given the valuation cushion.

Higher interest rates and strong capital buffers position banks for sustained earnings growth

Banks are well positioned for H2. High interest rates and steep yield curves have driven net interest income sharply higher. Loan growth should accelerate in H2 as liquidity improves, while non-interest income (fees, forex trading) will add to profits if FX stays stable. Recapitalization of banks is largely done, so capital buffers are strong. Asset quality is a watch item. However, banks have built provisions and most of the retail

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mortgage market is low. We expect NPL ratios to edge up modestly, but not derail profitability.

Banks offer leverage to higher rates. Their balance sheets can generate returns of 10–15% on equity in 2026. Valuations are attractive as tier-1 banks trade around 1–1.5x book, below historical average. Dividend payouts are likely to resume or increase as earnings rise.

Strong subscriber growth and rising data consumption position telecoms for continued outperformance

Telecom is a defensive growth story. Nigeria added 13 million mobile subscribers in the past year, reaching 182.2 million users by January 2026. Internet subscriptions also grew strongly in 2026. Telecom margins are very high on incremental revenue, and both companies have low capital intensity compared to infrastructure firms, so most of the incremental ARPU falls to the bottom line. Additionally, telecoms offer relatively stable cash flows with players having net cash on their balance sheets. Upcoming catalysts include continued expansion of 4G coverage and eventual 5G auctions, which will increase data usage further.

Trading at a discount to international peers (due to country risk), and with strong FX-adjusted earnings, the sector appears undervalued. We rate **telecommunications as outperform**. Our key drivers are anchored on data-driven revenue growth and sustained high margins.

Consumer staples remain resilient, but weakening household purchasing power limits upside potential

Consumer staples have demonstrated resilience thanks to aggressive pricing and volume salvage. However, volume demand is weak, distributors and retailers are on extended credit terms and consumers are buying smaller, cheaper packs. This implies that while reported earnings are strong, the underlying market is fragile.

We expect continued double-digit earnings growth in H2 from staple manufacturers (food, beverages, household products), since they have pass-through pricing power. However, if inflation remains high, consumer spending power could be further eroded, capping upside. Valuations in staples are modest-high (often 20–25x forward P/E), reflecting the stability of these businesses. We consider the sector neutral.

Oil and gas sector outlook remains balanced as higher energy prices are offset by operational risks

Oil & gas equities have mixed prospects. E&P companies stand to benefit from higher crude prices and any volume increases. A stronger Q3/4 production outlook should improve revenues for these companies. Meanwhile, gas companies may profit from elevated domestic gas prices, as local demand rises for power and industry. In the downstream, refiners and marketers see higher margins from elevated product prices, but they also face volatility if FX or crude supply is erratic.

Overall, the sector's earnings will likely grow more moderately than the high-flying financials. Oil prices have already run up, so big multiple expansions are unlikely. We rate **oil & gas as neutral**. Upside catalysts would be any positive surprises in Nigeria's production or global oil demand.

The downside to this outlook sits in a scenario where global oil prices collapse, upstream caps new projects. Valuations are reasonable (often <8x earnings) but not as cheap as

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industrials or banks. We recommend investors selectively play oil sector reopenings while being cautious on refining/midstream until policy reforms stabilize.

Strong infrastructure spending and resilient construction activity position industrials for H2 outperformance

Industrial goods, especially building materials, should be H2 outperformers. Cement demand remains robust even as prices have spiked. Players booked high production volumes in Q1 despite the price surge. With government infrastructure projects (roads, bridges, rail) and housing development continuing, we expect cement volumes to grow 10%+ in H2. Prices may stabilize at current high levels, meaning strong profitability per ton for cement makers.

Beyond cement, other industrials like steel, paints, and packaging should benefit from import substitution policies and higher local demand. However, input costs (energy, forex) will keep margins in check. On balance, we rate **industrials (esp. cement) as outperform**. Valuations for most cement players are around 8-10x forward P/E, below their historical range, implying room for rerating. The key catalysts include government spending on infrastructure and any devaluation of import restrictions. The main risk is consumer affordability; if housing becomes unaffordable, demand could slow. But that seems a more medium-term issue.

Risks to the market outlook

Aside from macro risks (oil, inflation, FX discussed above), there are market-specific concerns. A sudden spike in global interest rates could divert funds away. A bond market downturn (e.g. yields jumping in retaliation to inflation) might temporarily make investors favor bonds over equities. Company balance sheet risks (especially any hidden NPLs in banking or debt in manufacturing) could surface if the environment worsens.

On the political front, any talk of populist policies (price controls, forced recapitalizations) would spook markets. Also, if investor confidence falters (for example, if foreign capital controls were tightened), equity flows could reverse. We will watch regulatory changes closely. However, since 2023 the investment climate has improved (ratings upgrades, fewer FX surprises, subsidy removals largely done). We view the likelihood of major market-disrupting changes in H2 as low.

Overall, we see the equities outlook as favorable. The top-line trend is higher, but investors should manage risk by diversifying and staying vigilant for global shocks or local policy shifts.

Zedcrest Research

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