Amid Rising Global Tensions: Inflation Surges, Markets Endure

2026 Midyear Review

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Executive Summary

Global economic growth remained resilient but uneven during the first half of 2026, with the IMF projecting global GDP growth of approximately 3.0% for the year. Economic performance varied significantly across regions, as some economies were weighed down by geopolitical disruptions, particularly the conflict in the Middle East, while others benefited from sustained demand for technology-related products and services.

Although inflationary pressures generally moderated, the pace of global disinflation slowed as higher energy prices offset the continued easing in core inflation.

Against this backdrop, monetary policy trajectories diverged across major economies. In the United States, the Federal Reserve maintained its policy rate at 3.50%–3.75%, reflecting a cautious approach amid moderating growth and inflation. China similarly adopted a measured stance, balancing subdued domestic demand with resilient export performance. Conversely, the European Central Bank increased its key policy rate by 25 basis points in June to contain inflationary pressures exacerbated by the Middle East conflict.

On the domestic front, Nigeria's economy strengthened further in Q1 2026, with real GDP growing by 3.89% year-on-year, according to the National Bureau of Statistics (NBS). Although this performance exceeded the 3.13% growth recorded in Q1 2025, it remained slightly below the 4.07% achieved in Q4 2025.

The Nigerian equities market had a strong start to 2026, with the All-Share Index (ASI) break several milestones within the period. The strength of the rally was reflected in the market's overall performance, with the ASI advancing by 47.43%, rising from 156,492.36 points at the start of the year to 229,419.18 points by the end of June. Market capitalisation also increased significantly, expanding from ₦99.94 trillion to ₦147.22 trillion, as investors continued to channel funds into equities amid improved confidence in listed companies.

Nigeria's inflation outlook for H2 2025 is expected to remain on a gradual downward trend over the coming months, underpinned by a continued exchange rate stability environment and gradual improvement in domestic food supply ahead of the main harvest season. The recent moderation in core inflation also shows that underlying price pressures are becoming more contained, which should help sustain the disinflation trend if current macroeconomic conditions persist.

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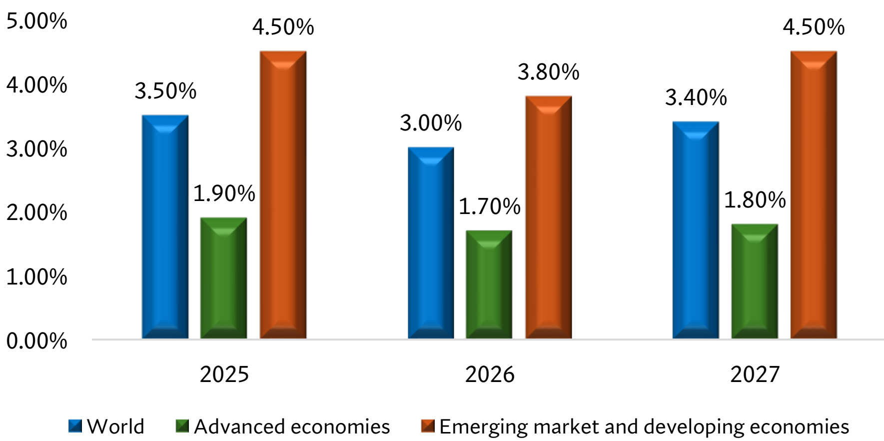
Global Economy

Global growth remained moderate but uneven in H1 2026. World GDP is projected to expand roughly 3.0% this year, with notable divergence among regions. According to the IMF, some countries were bogged down by geopolitical shocks (notably the Middle East conflict) while some benefited from robust tech demand. Inflation pressures eased in many countries, though the IMF notes that global disinflation has stalled as rising energy prices offset the decline in core inflation. Central banks are on different paths. In the U.S., the Fed kept its policy rate unchanged (kept funds rates at 3.50–3.75%) as growth and inflation moderated. China also followed the trend as policymakers balanced weak domestic demand against resilient exports. In contrast, the European Central Bank raised interest rates by 25 basis points in June in response to inflationary pressures stemming from the conflict in the Middle East.

World Real GDP Annual Growth Rate

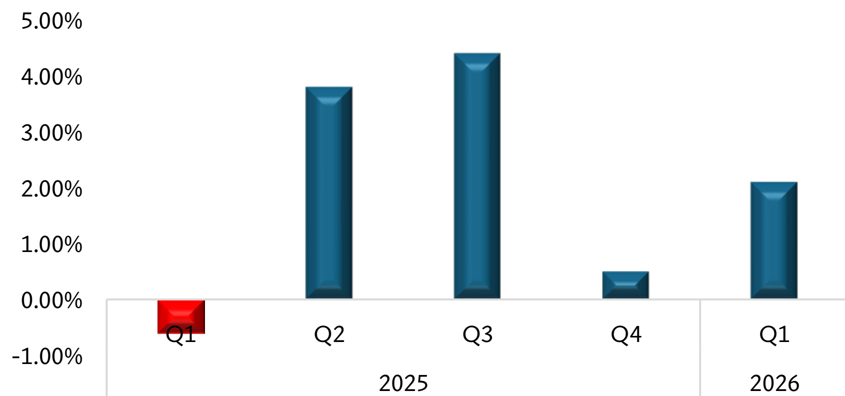


Source: IMF, WSTC Research

United States

The U.S. economy showed resilience. After a weak Q4 2025 (2.00%), real GDP bounced back in Q1 2026, as it grew by 2.70% Year-on-Year (YoY). This rebound was driven by stronger investment, exports, government spending and consumer spending. From an industry perspective, the information sector, federal government, professional, scientific and technical services, and durable goods manufacturing made the largest contributions to growth. This shows sustained investment in digital technologies and resilient domestic demand despite the geopolitical tension.

US GDP Quarterly Growth Rate



Source: US Bureau of Economic Analysis, WSTC Research

Inflation remained relatively stable at the beginning of 2026 but picked up sharply during the second quarter as geopolitical tensions disrupted global energy markets. Headline inflation eased from 2.70% YoY in December 2025 to 2.40% YoY in both January and

Global Economy Cont'd

February (Before the US/Isreal - Iran war escalation). However, inflation increased to 3.30% YoY in March, 3.80% YoY in April, and peaked at 4.20% YoY in May, largely due to the surge in energy prices following the conflict in the Middle East. The trend reversed in June, as headline inflation eased to 3.50% YoY. We view the June decline as a positive of impact the cease fire announced between the US and Iran during this period.

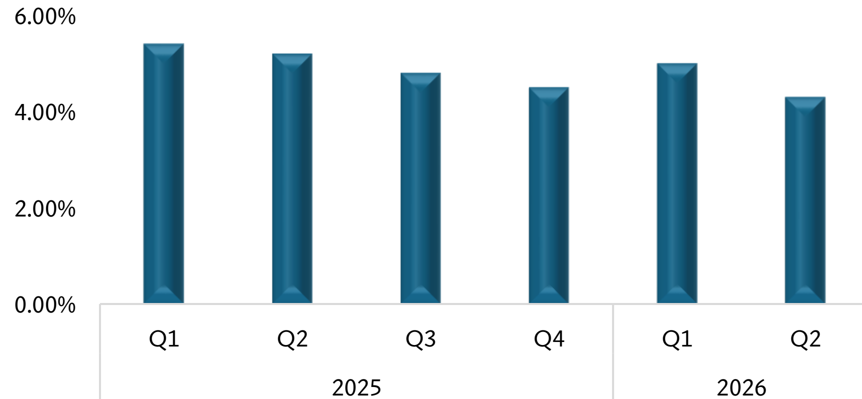
Meanwhile, the unemployment rate also remained stable throughout the first half of 2026. The unemployment rate stayed within the 4.20%–4.30% range during the period (4.2% in June), while the number of unemployed persons remained broadly unchanged at 7.10 million. Job gains continued as Nonfarm payroll employment increased by 57,000 in June. Employment gains were concentrated in professional and business services (+36,000), social assistance (+25,000) and health care (+22,000). This reflects a sustained demand for business support and essential services in the US economy.

In response to the current economic situation, the Fed held its policy rate steady at each meeting through June, as inflation remains a concern (Still relatively high to the 2.00% target). Consequently, the Fed maintained the rate range at 3.50%–3.75% in March and April and again in June. Policy makers paused rate cuts amid global uncertainties and awaited more evidence that inflation fully decelerates.

China

China's economy lost some momentum in the first half of 2026. After recording a 5.00% YoY growth in the first quarter, GDP growth slowed to 4.30% YoY in the second quarter. This was due to weaker domestic demand and continued challenges in the property sector. Despite the slowdown, the economy remained supported by industrial production (5.40% YoY), strong exports and continued growth in high-tech industries (10.70% YoY). The services sector remained the largest contributor to growth, while technology-related industries such as information technology and software continued to outperform the broader economy. This indicates that China's economy is becoming increasingly reliant on manufacturing, technology and external demand rather than domestic consumption.

China GDP Quarterly Growth Rate



Source: National Bureau of Statistics of China, WSTC Research

Global Economy Cont’d

On prices, China saw very low inflation. Consumer prices averaged 1.00% YoY between January and June, while headline inflation eased from 1.20% in May to 1.00% in June. The moderation was partly driven by lower transportation costs after the government reduced domestic gasoline and diesel prices in response to easing global oil prices as tensions in the Middle East subsided. Food prices also remained a major drag on inflation (declined 1.60% YoY in June), the third consecutive monthly decline. The decline reflected ample food supply and subdued household demand, with lower prices for pork and fresh fruits. The continued weakness in food prices evidenced that domestic demand remains soft despite the economic growth.

China's labour market remained broadly stable during the first half of 2026, despite slower economic growth. The surveyed urban unemployment rate averaged 5.20% during the period and eased to 5.00% in June from 5.10% in May. The unemployment rate across China's 31 major cities also declined to 5.00%. The relatively stable labour market suggests that government support measures and resilient activity in manufacturing and services continue to cushion employment, even as the property sector remains under pressure. However, with domestic demand still weak and businesses remaining cautious, sustaining job creation will be important to support household income.

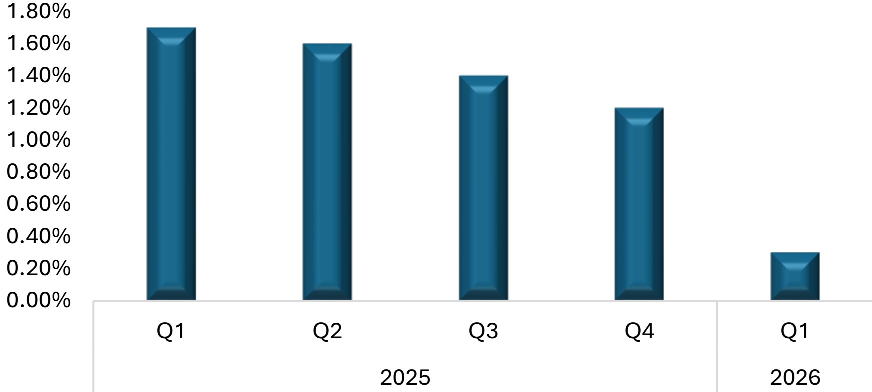
The People's Bank of China (PBOC) left the one-year Loan Prime Rate (LPR) unchanged at 3.00% and the five-year LPR at 3.50%, as policymakers balanced weak domestic demand against resilient exports and manufacturing. Instead of cutting interest rates, the PBOC focused on improving its monetary policy framework and liquidity management by introducing new short-term liquidity tools and refining its interest rate corridor. This suggests that policymakers view weak credit demand, rather than limited liquidity, as the main constraint on economic growth.

Euro Area

The euro area economy remained weak in the first half of 2026. According to Eurostat, real GDP grew by 0.30% year-on-year in the first quarter of 2026, a sharp decline from 1.20% in the previous quarter. The weaker performance was due to the weak domestic demand, weak external trade and uncertainty amid the conflict in the Middle East. Economic performance remained mixed across member states. Germany, the region's largest economy, grew by 0.30% YoY, while Spain continued to outperform with 2.70% growth, on the back of resilient domestic demand. Italy expanded by 0.70%, whereas France recorded a modest 1.10% increase. The divergence in growth across member states suggests that the region's recovery remains uneven, as stronger domestic demand in a few member states helps to offset weaker activity in some of the larger economies.

Global Economy Cont'd

Euro Area GDP Quarterly Growth Rate



Source: Eurostat, WSTC Research

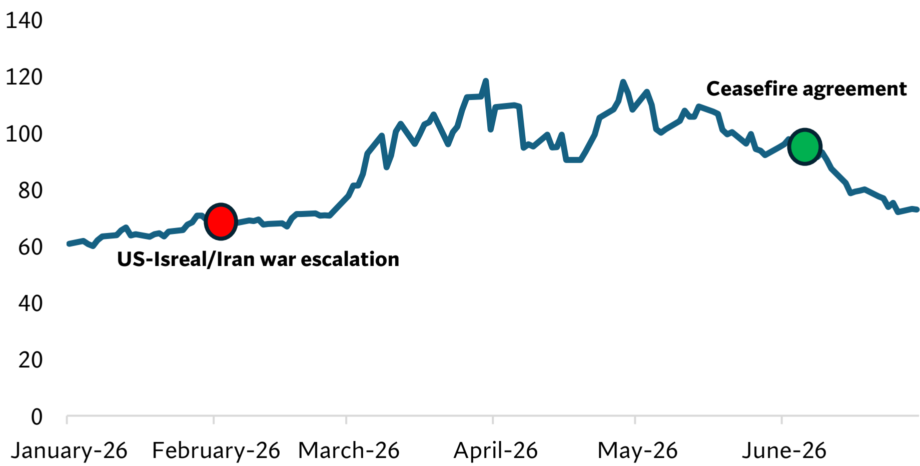
Inflation remained above the European Central Bank's (ECB) 2.00% target during the first half of 2026 but eased towards the end of the period. Headline inflation increased from 1.70% in January to 3.20% in May before moderating to 2.80% in June. The rise in inflation was mainly driven by higher energy prices following the conflict in the Middle East, which pushed up transportation and production costs across the region. However, June moderation reflected slower increases in energy and services prices as global oil prices eased when the ceasefire was announced. Despite the improvement, inflation remained above the ECB's target, which means that price pressures have yet to fully subside and that policymakers are likely to remain cautious in the near term. The labour market remained resilient despite slower economic growth. The euro area unemployment rate held steady at 6.20% in May, unchanged from April and down from 6.30% recorded in January. The number of unemployed people also declined by 158,000 over the year to 10.99 million. The resilience in the labour market shows that firms continued to retain workers despite weaker economic activity, thereby supporting household incomes and consumer spending.

In response, the European Central Bank (ECB) at its June meeting raised its three key interest rates by 25 basis points, taking the deposit facility rate to 2.25%, the main refinancing operations rate to 2.40%, and the marginal lending facility rate to 2.65%. The ECB attributed the decision to inflationary pressures arising from the conflict in the Middle East, particularly through higher energy prices, which were expected to feed into food, goods and services prices. The decision reflects the ECB's determination to keep inflation expectations anchored around its 2.00% target, even at the risk of slower economic growth. While higher borrowing costs may weigh on household spending and business investment in the near term, the Bank views maintaining price stability as essential for supporting a more sustainable economic recovery over the medium term.

Global Economy Cont’d

Global Oil

Brent Price($)/barrel



Source: EIA, WSTC Research

Global oil markets experienced significant volatility during the first half of 2026, driven mainly by geopolitical tensions in the Middle East. Crude oil prices surged in the early months of the year following the U.S.–Israel military actions against Iran, which disrupted tanker traffic through the Strait of Hormuz, a route that carries around one-fifth of global oil shipments. Amid supply concerns, Brent crude prices pushed above $100 per barrel, as it briefly surpassed $118 per barrel at the peak of the crisis in April. However, market sentiment improved in June following a ceasefire agreement between the United States and Iran and the gradual reopening of shipping through the Strait on June 18. At the same time, OPEC+ reaffirmed plans to gradually increase production, which helps to ease supply concerns and pull Brent crude prices down to about $84 per barrel by late June. The high volatility in oil prices contributed to higher energy costs and inflation across many economies during the first half of the year.

Outlook for the Global Economy

The global economy is expected to remain resilient in the second half of 2026, although growth is likely to remain uneven across countries. The IMF projects global GDP to expand by 3.00% in 2026, underpinned by continued investment in technology and artificial intelligence (AI), and easing inflation in major economies. However, geopolitical tensions remain a key risk to the outlook.

The United States is expected to maintain moderate growth, supported by resilient consumer spending and continued investment in technology. However, the Federal Reserve is likely to remain cautious until there is clearer evidence that inflation is moving sustainably towards its 2.00% target. As such, interest rates are expected to remain relatively high in the near term, which could moderate business investment and household spending.

In China, policymakers are expected to intensify targeted fiscal and monetary support to strengthen domestic demand and stabilise the property sector. While manufacturing, exports and high-tech industries should continue to support growth, a lasting recovery will depend on stronger household consumption and private investment. Without a meaningful improvement in domestic demand, China's growth is likely to remain below its historical trend.

The Euro Area is expected to recover gradually as inflation moderates and domestic demand improves. However, the pace of recovery is likely to remain slow, given weak business confidence, subdued external demand and the impact of higher interest rates. The ECB is expected to remain cautious, balancing its commitment to price stability against the need to support economic growth.

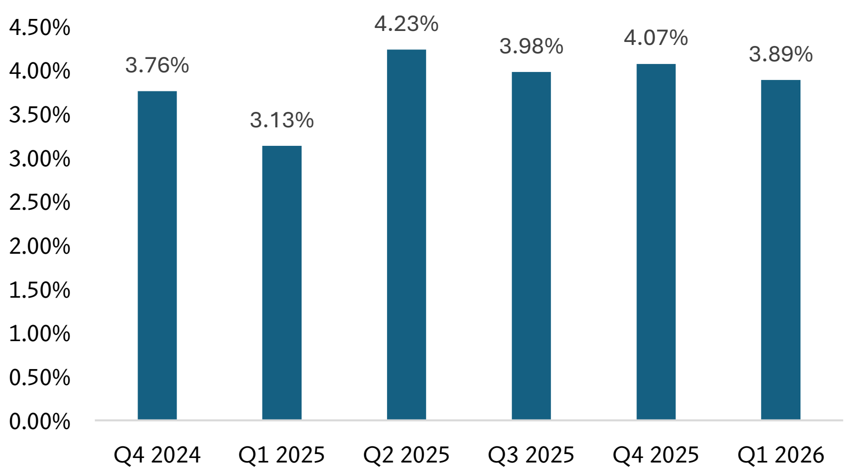
On the oil market, prices are expected to remain volatile but lower than the peaks recorded during the first half of the year. The gradual reopening of shipping through the Strait of Hormuz, together with OPEC+'s planned production increases, should help improve global supply. Nevertheless, any renewed escalation in geopolitical tensions or unexpected supply disruptions could quickly reverse the recent decline in prices.

DOMESTIC ECONOMY

GDP

Nigeria's economy strengthened further in Q1 2026, with real GDP growing by 3.89% year-on-year, according to the National Bureau of Statistics (NBS). Although this performance exceeded the 3.13% growth recorded in Q1 2025, it remained slightly below the 4.07% achieved in Q4 2025. The oil refining subsector stood out as the best performer, which recorded a significant 37.46% year-on-year growth. This huge growth is due to the spike in oil prices because of the US/Iran conflict that broke out in late February.

Quarterly Real GDP Trend

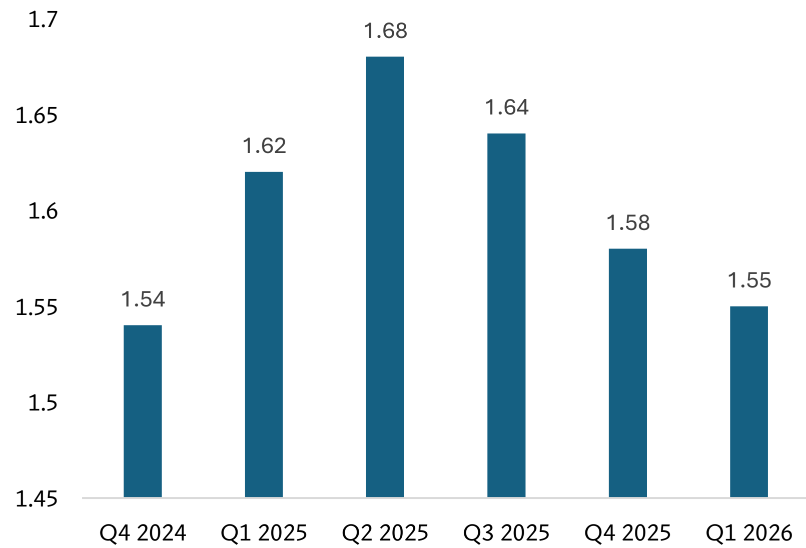


Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Oil Sector

The Oil sector posted a moderated growth of 2.57%, which is higher than the 1.57% increase in Q1 2025 but lower than that of Q4 2025 (6.79%). This drop quarter-on quarter is due to a continuous drop in the oil production, which dropped from 1.58mpd in Q4 2025 to 1.55mpd in Q1 2026. The Oil sector contribution to GDP stood at 3.92%. (Q1 2025: 2.87%, Q4 2025: 3.97%).

Oil Production Trend (Mpd)

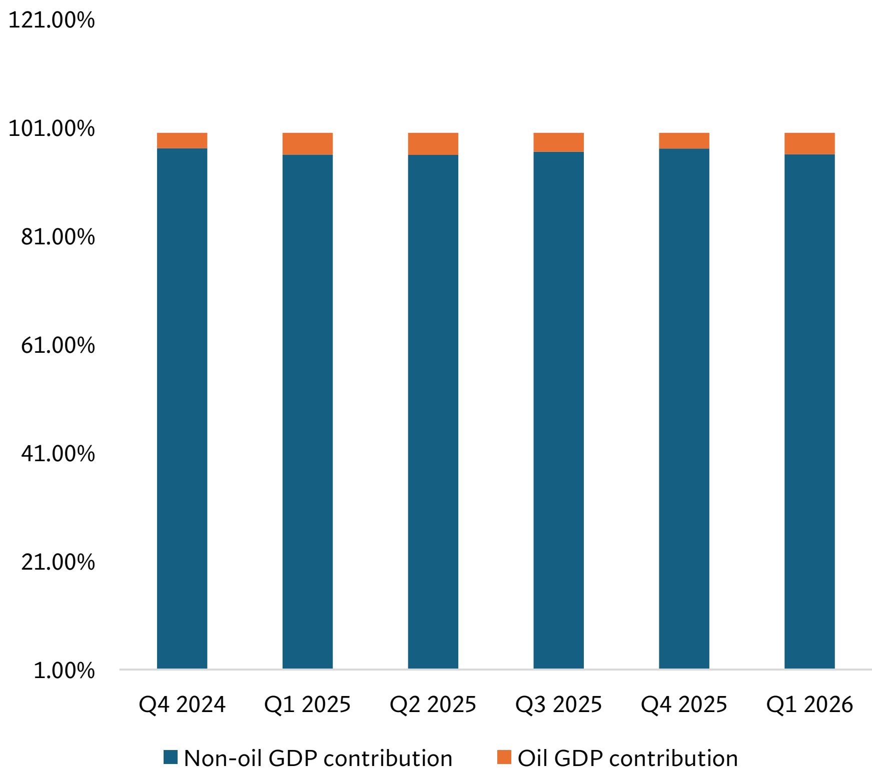


Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Non-Oil Sector

The non-oil sector remained the primary driver of economic activity, expanding by 3.94% year-on-year. This marks an improvement from the 3.19% growth recorded in Q1 2025, although it was slightly lower than the 3.99% achieved in Q4 2025. Accounting for 96.08% of total GDP, the non-oil sector continued to benefit from a relatively stable macroeconomic environment, supported by moderating inflation and improving investor sentiment, which enhanced overall economic activities.

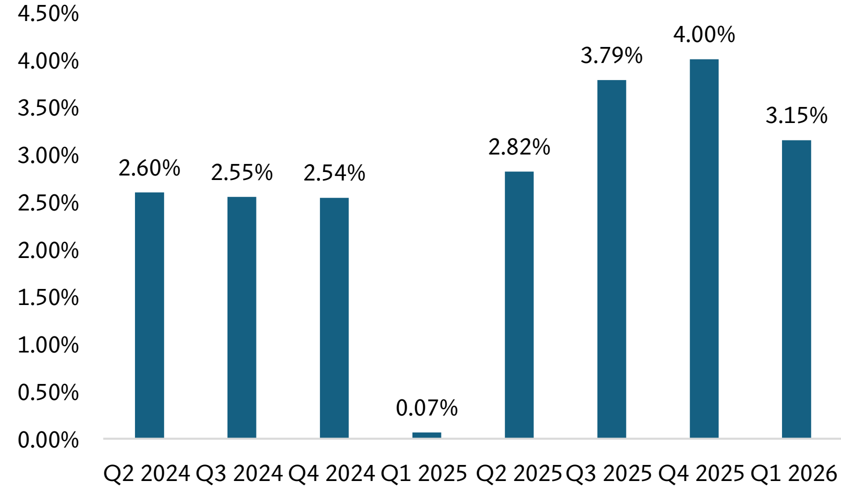
Oil and Non-oil Contribution to Real GDP



Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Breaking down the non-oil sector's performance, the Agricultural sector expanded by 3.15% YoY, contributing 23.16% to total GDP (Q1 2025: 23.33%; Q4 2025: 28.66%). Although this represents a moderation from the previous quarter (4.00%), it marks a slight improvement from the 3.08% growth recorded in Q1 2025. The moderation QoQ is most likely due to the end of the harvest season, as all the growth in all its subsector dropped.

Agriculture Sector Quarterly Trend

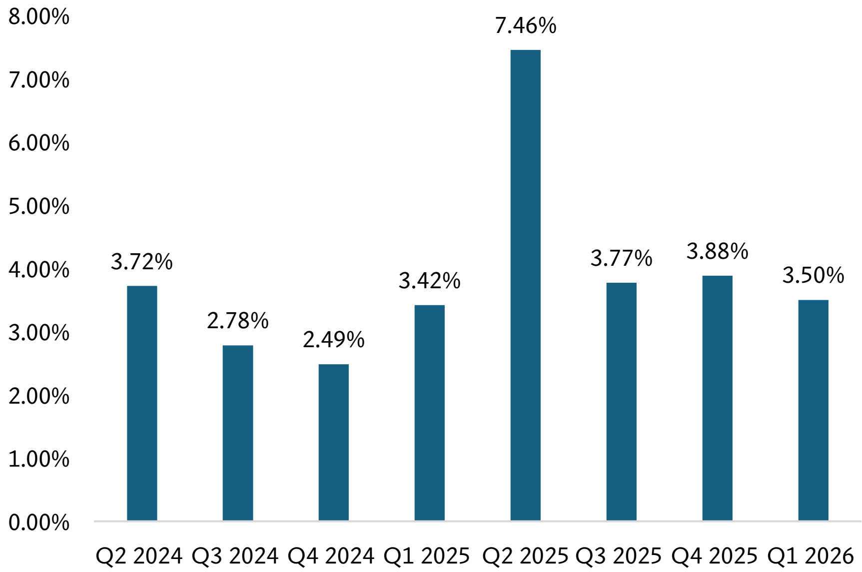


Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

The Industrial sector recorded a 3.50% year-on-year growth, contributing 17.31% to GDP (Q1 2025: 19.18%; Q4 2025: 15.42%). This reflects a modest improvement from the 3.42% growth achieved in Q1 2025, though slightly below the 3.88% recorded in Q4 2025.

The quarter-on-quarter slowdown was primarily driven by weaker performance in the Mining and Quarrying and Electricity, Gas, Steam, and Air Conditioning subsectors. Growth in the Mining and Quarrying subsector decelerated sharply to 1.89% from 8.90% in the preceding quarter, while the Electricity, Gas, Steam, and Air Conditioning subsector contracted by 15.30%, a significant reversal from the 4.26% growth recorded previously. The downturn in the latter was largely attributed to reduced electricity generation and persistent gas supply constraints, which disrupted energy production and weighed on overall industrial output during the quarter.

Industries Sector Quarterly Trend

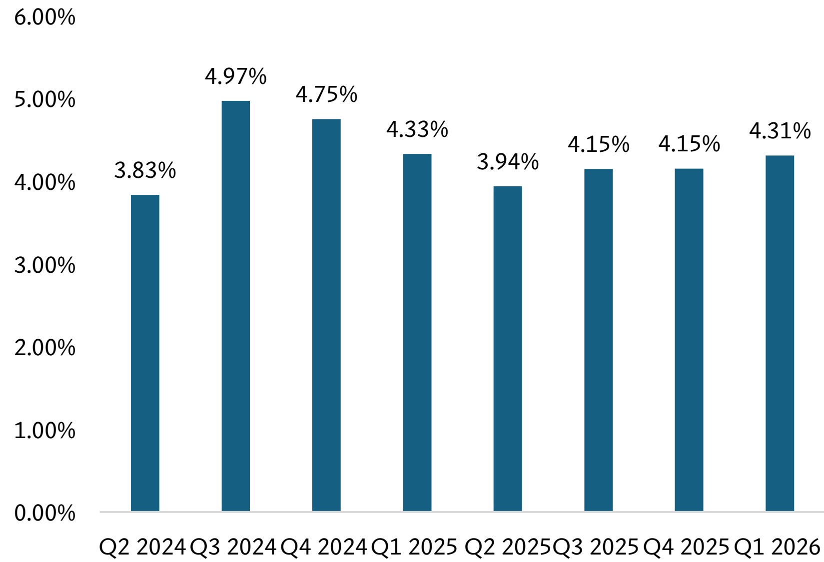


Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Meanwhile, growth within the Services sector showed signs of moderation. The sector grew by 4.31% year-on-year which is marginally lower than the 4.33% growth posted in Q1 2025 (Q4 2025: 4.15%). It contributed 57.73% to total GDP (Q4 2025: 55.92%, Q1 2025: 57.50%). The slower momentum YoY was largely driven by weakness in some key sub-sectors, particularly Transportation and Storage, which recorded a growth rate of 7.41% in Q1 2026, significantly lower than the 14.08% growth recorded in Q1 2025.

The quarter-on-quarter expansion in the services sector was underpinned by broad-based improvements across key subsectors. Growth in the Trade subsector edged up from 2.00% to 2.08%, while the Accommodation and Food Services subsector strengthened slightly from 4.22% to 4.36%. The most notable performance came from the Information and Communication subsector, which accelerated significantly from 7.55% to 10.98%, supported largely by stronger revenue growth in the telecommunications industry, reflecting increased demand for data and digital communication services during the quarter.

Services Sector Quarterly Trend



Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

GDP Outlook

Looking ahead, the ongoing US-Iran conflict is expected to provide support for the oil sector due to the surge in global crude oil prices triggered by the closure of the Strait of Hormuz. However, Nigeria's daily crude oil production remains a major constraint, as output continues to trend downward. A sustained increase in oil production over the coming months could serve as a key driver of growth within the sector.

On the non-oil side, rising inflationary pressures may weaken the growth momentum of the sector if the Strait of Hormuz remains closed for an extended period. Nevertheless, with other macroeconomic indicators remaining relatively stable, we expect the non-oil sector to continue acting as a major catalyst for overall GDP growth.

Taking these factors into account, we project that FY 2026 real GDP growth rate will be 3.90%, while FY 2026 nominal GDP is projected to reach $501.01bn, an increase from $431.18bn in FY 2025.

Inflation

Nigeria's inflation trajectory in the first half of 2026 reflected a combination of favourable domestic conditions at the beginning of the year and external geopolitical shocks that reversed the disinflationary momentum. Inflation remained broadly stable in the first two months of the year, easing marginally from 15.15% in December 2025 to 15.10% in January and 15.06% in February. The moderation was largely supported by lower energy prices, which helped contain transportation and production costs, thereby reducing the pace of price increases across the broader economy.

The inflation outlook changed towards the end of February following the escalation of the U.S.-Iran conflict and the disruption to shipping through the Strait of Hormuz. The resulting surge in global crude oil prices filtered into Nigeria's domestic economy through higher energy and transportation costs, reversing the earlier disinflationary trend. Consequently, headline inflation accelerated to 15.38% in March, increased further to 15.59% in April, and reached 15.93% in May. The sharp rise in energy costs created significant pass-through effects, pushing up production, logistics, and distribution expenses and ultimately driving higher prices across a wide range of goods and services.

Inflationary pressures began to ease slightly in June following the ceasefire agreement reached and the opening of the Strait of Hormuz in late May and early June, which contributed to a sharp correction in international crude oil prices. The moderation in energy costs helped slow the pace of price increases, with headline inflation edging down marginally to 15.91% in June. Although the decline was modest, it signalled the beginning of a gradual easing in cost pressures after several months of energy-driven inflation.

Food Inflation

Food inflation remained the primary source of price pressures during the review period, following a persistent upward trajectory from February onwards. After easing in January, food prices resumed their ascent as the harvest season came to an end, resulting in tighter agricultural supply and reduced market availability of key food items. The simultaneous increase in fuel prices further amplified food inflation by raising transportation, storage, and distribution costs across the agricultural value chain. Consequently, food inflation accelerated significantly from 10.84% in December 2025 to 17.52% by June 2026, underscoring the continued vulnerability of food prices to both seasonal supply constraints and energy cost shocks.

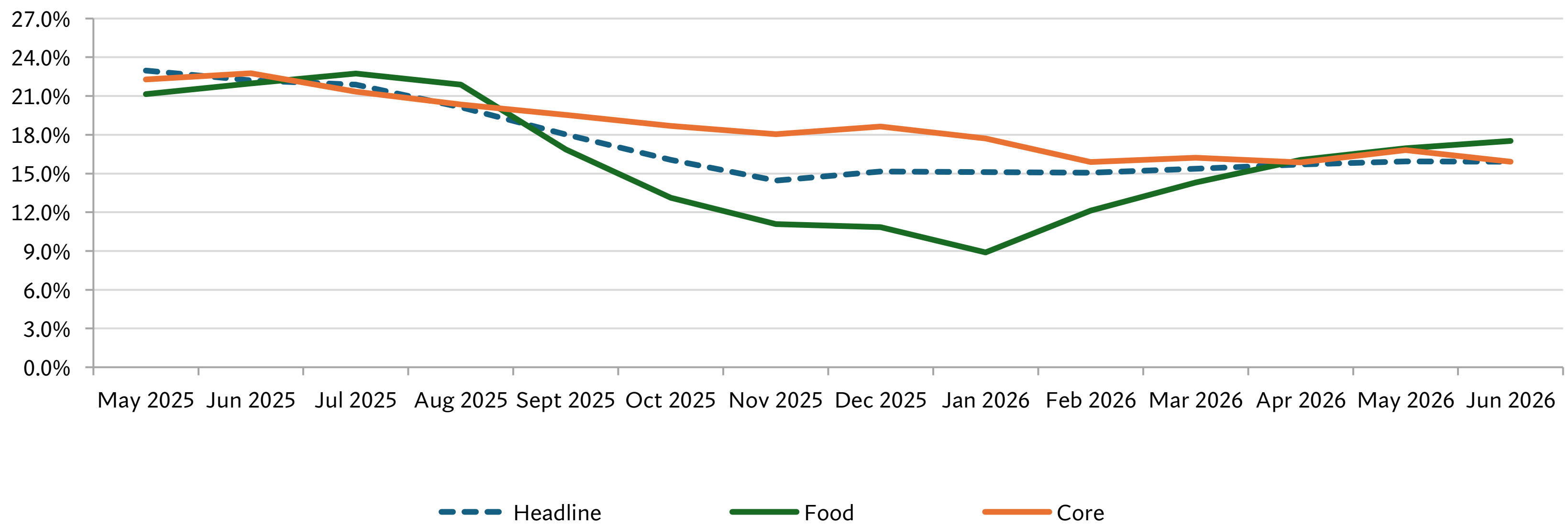
Core Inflation

Unlike food inflation, core inflation followed a broadly downward trajectory during the first half of 2026, reflecting a gradual moderation in underlying price pressures. Core inflation declined steadily from 18.63% in December 2025 to 15.92% in June 2026, supported by easing prices of non-food items, improved exchange rate stability, and softer domestic demand. The sustained decline suggests that while temporary shocks (higher energy costs) continued to influence headline inflation, underlying inflationary pressures remained relatively contained. Nevertheless,

Inflation

the persistence of elevated food prices and periodic energy-related cost shocks limited the pace of disinflation, keeping core inflation above levels consistent with long-term price stability.

Inflation Trend



Sources: Nigeria Bureau of Statistics (NBS), WSTC Research

Inflation Outlook

We expect Headline Inflation to remain on a gradual downward trend over the coming months, underpinned by a continued exchange rate stability environment and gradual improvement in domestic food supply ahead of the main harvest season. The recent moderation in core inflation also shows that underlying price pressures are becoming more contained, which should help sustain the disinflation trend if current macroeconomic conditions persist.

However, Food Inflation remains the key concern. Rising prices of fresh agricultural produce and protein items indicate that weather-related disruptions, logistics constraints and seasonal supply shortages continue to affect food markets. Any shock pressure on the exchange rate or a sharp increase in energy and transportation costs could also slow the pace of disinflation.

All other things being equal, Headline Inflation is expected to continue its downward trend in the coming months.

Monetary Policy

The Monetary Policy Committee has held two meetings so far in 2026. One in February and the other in May. At the beginning of the year, due to the disinflationary trend. The MPC decided to cut rate in February from 27% to 26.50%. However, in May the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), at its 305th meeting, retained the Monetary Policy Rate (MPR) and other key policy parameters, maintaining a cautious stance as it continues to balance inflation concerns with the need to preserve price stability.

The Committee acknowledged the recent uptick in inflation. The Increase in inflation was driven by the effects of increases in energy prices, which had a significant impact on energy inflation (4.56% increase YoY as of April 2026). The cause for the increase in energy prices is the ongoing US-Iran conflict that impacts the Strait of Hormuz and the transition of energy across the globe (the Strait of Hormuz transports 20%-25% of our global energy usage).

Summary:

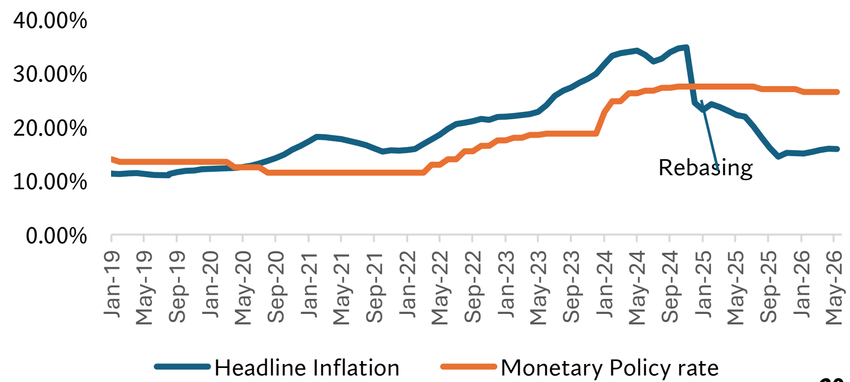
- Monetary Policy Rate: 26.50%.
- Asymmetric Corridor: +50/-450 basis points around the MPR.
- CRR of Deposit Money Banks: 45.00%.
- CRR of Merchant Banks: 16.00%.
- Liquidity Ratio: 30.00%.
- CRR of non-TSA public sector deposits: 75.00%

In arriving at its decision, the Committee acknowledged the impact of current geopolitical tensions, particularly the Middle East crisis, which has contributed to rising global energy prices and increased transportation and logistics costs. For reference, the average monthly price of Brent crude oil per barrel was $64.38 in January, $69.24 in February, $98.16 in March, and $102.20 in April.

Despite these external pressures, the MPC noted that the Nigerian economy has remained relatively resilient due to the impact of prior policy reforms. According to the Committee, improvements in exchange rate stability, stronger external reserve, improved monetary policy transmission, fiscal consolidation efforts, and a well-capitalised banking system have strengthened the economy's ability to weather the effects of the global energy crisis.

The Committee further stated that these reforms have helped moderate the pass-through effect of global commodity and energy price increases on domestic inflation, adding that inflationary pressures could have been worse in the absence of these measures.

MPC Vs Inflation Rate Trend



Source: NBS, WSTC Research

Monetary Policy Outlook

Despite recent improvements in macroeconomic conditions, including the sovereign rating upgrade and relatively stronger external reserves, we expect the MPC to maintain a cautious stance in the near term. These gains have improved investors' confidence in Nigeria's macroeconomic environment, though inflation remains above the CBN medium-term target, i.e., single-digit inflation.

Food inflation is still the key driver of price increases, and this is more linked to structural supply constraints, transport costs (through energy prices), and security challenges. At this stage of the year, Nigeria is largely in the planting season(April–July). This means a decline in food prices may begin to occur at the beginning of harvest season, beginning of Q4. The impact on headline inflation would be dependent on the effect of energy prices at the time on other arms of the supply chain for foodstuffs to the market

Overall, the MPC is expected to stay watchful of key macroeconomic indicators, as these will continue to influence its decision. We project at least a 50-basis point rate cute before the end of the year.

Fiscal Policy

The Federal Government's fiscal stance remains expansionary in 2026, reflecting its commitment to infrastructure development, social investment, and economic reforms despite mounting financing pressures. The 2026 Appropriation Act was initially signed with an aggregate expenditure of ₦58.47 trillion, comprising ₦4.10 trillion for statutory transfers, ₦15.91 trillion for debt servicing, ₦15.25 trillion for recurrent (non-debt) expenditure, and ₦23.21 trillion earmarked for capital expenditure through the Development Fund. Based on the government's revenue projection of ₦33.20 trillion, the budget implied a fiscal deficit of approximately ₦25.27 trillion, almost double the ₦13.08 trillion deficit recorded in 2025.

However, the fiscal framework was subsequently revised following presidential approval of an expanded ₦68.32 trillion expenditure plan. The revised budget increased statutory transfers to ₦4.80 trillion, while debt service and recurrent expenditure were adjusted to ₦15.80 trillion and ₦15.40 trillion, respectively. Capital expenditure received the largest increase, rising to ₦32.20 trillion, underscoring the administration's continued emphasis on infrastructure investment as a catalyst for long-term economic growth. Consequently, the projected fiscal deficit widened to approximately ₦35.05 trillion, highlighting the government's growing financing requirements and continued reliance on domestic and external borrowing.

On the revenue side, fiscal reforms are beginning to yield tangible results. The Nigeria Revenue Service (NRS) reported ₦21.6 trillion in tax collections during the first half of 2026, representing a robust 49.0% year-on-year increase. Revenue performance has been supported by the implementation of comprehensive tax reforms, the digitalisation of tax administration, improvements in compliance, and changes to the remittance framework for oil revenues. Historical collections have also strengthened considerably, increasing from ₦12.3 trillion in 2023 to ₦21.0 trillion in 2024 and ₦28.3 trillion in 2025, reflecting sustained improvements in revenue mobilisation.

Notably, non-oil taxes accounted for approximately 76.0% of total collections, indicating continued progress in broadening the government's revenue base beyond hydrocarbons. Furthermore, Nigeria's tax-to-GDP ratio improved from 10.3% to 13.0%, reflecting enhanced tax efficiency and the early gains from recent policy reforms. These gains have been driven by the implementation of four major tax reform laws, the expanded mandate of the Nigeria Revenue Service, continued digitalisation initiatives, and Executive Order 9, which restructured the remittance process for oil revenues.

The Executive Order 9 requires government-owned entities involved in the petroleum value chain to remit gross revenues into designated government accounts before deducting approved operational costs, while strengthening oversight and transparency in the remittance process. This has helped reduce revenue leakages, improve accountability, and enhance the government's ability to capture a larger share of oil-related revenues.

Fiscal Policy Outlook

Nigeria's fiscal outlook is expected to remain characterized by a widening divergence between revenue performance and expenditure commitments. On the revenue side, the government's fiscal position has been supported by robust growth in non-oil tax collections, driven by improved tax administration, stronger compliance, and the ongoing expansion of the tax base under the Nigeria Revenue Service (NRS). These gains have helped cushion the impact of persistent underperformance in oil-related revenues and reflect the gradual shift towards a more diversified revenue structure.

Nevertheless, the oil sector continues to pose a significant downside risk to fiscal performance. Crude oil production remained below the Federal Government's budget assumption throughout the first half of 2026, reflecting operational disruptions, ageing infrastructure, and lower-than-expected output despite relative hike in price caused by the Iran /US conflict. Consequently, oil revenue is likely to fall short of budget targets, limiting the government's capacity to fully capitalize on favourable crude price movements and increasing its reliance on non-oil revenue sources to finance expenditure.

While the impressive growth in tax revenue provides some fiscal resilience, it is unlikely to fully offset the revenue shortfall from the petroleum sector, particularly given the ambitious expenditure framework embedded in the 2026 budget. As a result, the fiscal deficit is expected to remain elevated, necessitating increased domestic and external borrowing to bridge the financing gap. This could sustain elevated sovereign debt issuance throughout the remainder of the year, limiting the pace of any meaningful decline in fixed-income yields and keeping debt service obligations at historically high levels.

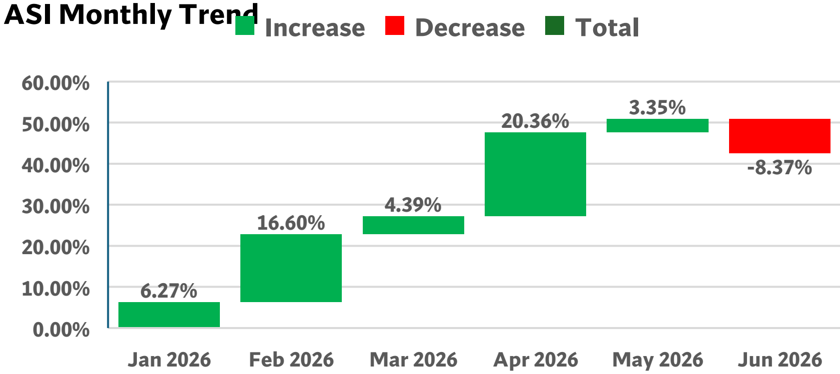
Looking ahead, the sustainability of Nigeria's fiscal position will depend on the government's ability to sustain the momentum in non-oil revenue mobilization while implementing structural reforms aimed at improving crude oil production. Without a meaningful recovery in hydrocarbon output, fiscal consolidation efforts are likely to remain constrained, increasing the country's dependence on debt financing and exposing public finances to refinancing and interest rate risks. Consequently, we expect fiscal policy to remain expansionary in the near term, with revenue-enhancing reforms taking precedence over significant expenditure rationalization as the government seeks to balance growth objectives with fiscal sustainability.


Financial Markets

Equities Market

The Nigerian equities market began 2026 on a strong footing, carrying forward the positive momentum from the close of the previous year. Investor confidence remained elevated as market participants positioned for another earnings season, with expectations of a positive 2025 corporate performance and attractive dividend payouts. This optimism, alongside improving sentiment towards domestic equities, set the stage for a remarkable first half, as the market embarked on a historic rally that saw the All-Share Index (ASI) break several milestones within the period. The strength of the rally was reflected in the market's overall performance, with the ASI advancing by 47.43%, rising from 156,492.36 points at the start of the year to 229,419.18 points by the end of June. Market capitalisation also increased significantly, expanding from ₦99.94 trillion to ₦147.22 trillion, as investors continued to channel funds into equities amid improved confidence in listed companies.

ASI Monthly Trend



January set the tone for the year with a steady but positive advance, as the ASI gained 6.27% during the month. Investors moved early to position ahead of the release of FY 2025 audited financial statements and anticipated dividend announcements, with expectations of strong earnings providing support for renewed demand across several stocks.

The momentum gathered pace in February as investor appetite grew further. With an anticipation of companies announcing their full-year results and dividend proposals, market participants responded positively, driving increased buying activity across key sectors. As a result, the ASI surged by 16.60%, marking one of the strongest monthly performances of the year.

By March, the rally had begun to establish a new phase, with the market reaching a historic milestone by crossing the 200,000-point mark for the first time. Although some investors began to take profits following the sharp gains recorded in february. Despite profit taking, the ASI recorded a further 4.39% gain during the month.

April emerged as the strongest month in H1 2026, as release of positive audited financial results and dividend announcements propelled the market higher by 20.36%. The month also witnessed the Nigerian Exchange's transition to extended trading hours, with market operations adjusted to run from 9:00 a.m. to 4:00 p.m., a move aimed at improving market accessibility and aligning trading practices with global standards.

The bullish sentiment carried into May, although at a more moderate pace, as investors continued to digest Q1 earnings releases and position for opportunities across the market. Profit-taking also began to emerge during the month, though its impact was not as intense as the broader rally, allowing the ASI to still gain 3.35% and cross the 250,000-threshold point, achieving another milestone.

After five consecutive months of gains, June marked a period of consolidation as investors moved to lock in profits following the market's impressive run since the beginning of the year. The resulting sell-off led to an 8.37% decline in the ASI during the month, as some investors adjusted their portfolios and took advantage of elevated valuations. However, the correction was moderated by sustained interest in fundamentally strong companies, supported by encouraging Q1 2026 earnings releases. June also marked the commencement of the T+1 settlement cycle, a significant market infrastructure reform expected to improve settlement efficiency, enhance liquidity management and strengthen investor confidence over time.

Sectoral Performance

Six of the seven sectors under our coverage recorded positive returns during the period, supported by a combination of strong corporate earnings, improved investor sentiment, dividend expectations and renewed demand for equities. The Oil & Gas, Industrial and Telecommunications sectors emerged as the strongest performers, while the Insurance sector remained the only loser as investors adopted a more selective approach towards the segment.

The Oil and Gas sector claimed the top spot for H1 2026, rallying an impressive +90.21%. The sector's outperformance was largely shaped by developments in the global energy market, particularly the sharp rise in crude oil prices in Q1 following escalating tensions involving Iran/Israel/US. Domestically, this played out through the exceptional performance of Seplat Energy (+95.63%) and Aradel Holdings (+111.57%), whose strong financial results and improving operational performance kept buying interest sustained well beyond the initial price rally. Seplat's momentum was further strengthened by the successful integration of Mobil Producing Nigeria Unlimited's onshore assets. while Aradel continued to benefit from its acquisition of ND Western rising production and improving earnings visibility. Together, favourable global pricing and strong company-level execution carried the sector well ahead of every other sector, even after a bruising correction in June trimmed gains across the broader market.

Not far behind, the Industrial sector posted a robust +79.03%. HBMNG (formerly Lafarge) led the pack in share-price appreciation, gaining as much as 130.48% as investors cheered

Equities Market Cont'd

its ongoing capacity expansions at the Sagamu and Ashaka plants. BUA Cement followed closely with a 90.59% gain, while Dangote Cement, Africa's largest cement producer, added around 58.13%, with the stock drawing support from its rapidly scaling export business and rising production capacity across the continent. Paint makers added further shine to the sector: Berger Paints surged 207.5%, with Premier Paints Plc close behind at 204%. Backing it all was Nigeria's continued infrastructure push, with government capital expenditure plans and a persistent housing deficit keeping cement demand and investor appetite for the names supplying it.

The Telecommunications sector turned in a strong +72.59% performance, largely reflecting a rebound from prior losses in the sector. MTN Nigeria (40.90%) and Airtel Africa (111.22%) remained the anchors of the sector's momentum, supported by subscriber growth, rising data consumption, and a more supportive regulatory environment for pricing power in the industry. MTN Nigeria's resumption of dividend payments further boosted investor sentiment. Notably, Airtel Africa crossed the N4,000 mark.

The Agricultural sector gained +46.43% in H1 2026, led by Presco (+58.62%) and Okomu Oil Palm (+29.50%). Dividends of N30 (Presco) and N55 (Okomu) fueled investor confidence. However, Presco's momentum was further driven by its 2025 acquisitions of the remaining stake in Ghana Oil Palm Development Company and full ownership of Saro Oil Palm Limited, while Okomu benefited from stronger crude palm oil output up 7.8% to 74,131 tonnes and high palm oil prices. Notably, The Sector also welcomed a new entrant this year, with Zichis Agro Allied's listing on the Exchange and getting off to a strong start, gaining +31.40% since its debut.

The Banking sector advanced +36.56%, with Tier-1 banks leading the charge for most of the half. Ecobank topped the sector by a wide margin, gaining 127%, with Jaiz Bank close behind at 82.42%, Zenith 77.99% and GT Holdco 37.82%. GT Holdco and Zenith Bank continued to draw steady demand, priced for their defensive qualities, consistent profitability, and consistent dividend history. Not every bank shared in the enthusiasm, however, as some banks' inability to sustain dividend payouts drew a more cautious reaction from some investors.

The Consumer Goods sector rounded out the winners with a +15.57% return, aided by a more stable naira and improved pricing power across the industry. Union Dicon Salt Plc and McNichols Plc stood out with remarkable gains, while Unilever Nigeria and Nestle Nigeria also posted healthy returns, reflecting the sector's ability to pass rising input costs through to consumers without materially denting demand.

The Insurance sector emerged as the only loser, closing the half down -7.67%. Insurance stocks continue to battle low demand and investor apathy, with returns, weak market sentiment, and structural industry challenges weighing heavily on the sector's attractiveness. Despite modest growth in premium income and claims settlement, insurance stocks remain largely illiquid, undervalued, and among the least traded stocks.

Equities Market Cont'd

H1 Corporate Actions

There were several strategic corporate moves during the period. Few of these notable developments include:

- Seplat Energy's ANOH Gas Plant recorded first gas, following completion of the 11km Indorama gas export pipeline and receipt of regulatory approval from the NUPRC.
- HBMNG plc intended plan to expand its Ashakacem Plant in Gombe and Sagamu Plant in Ogun state to a total capacity of 2MT and 3.5MT respectively.
- TIP acquired an additional 20% stake in The Initiates Uganda bringing her total stake to 55%, making TIU a full subsidiary of TIP.

H1 Sectorial Performance

Description	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	H1 2026
ASI Trend	6.27%	16.60%	4.39%	20.36%	3.35%	-8.37%	47.43%
Agricultural index	11.68%	43.55%	-8.39%	8.34%	0.00%	-7.98%	46.43%
Banking Index	6.99%	16.67%	-1.66%	22.61%	3.37%	-12.22%	36.56%
Consumer Goods Index	3.21%	6.51%	-0.24%	11.31%	1.06%	-6.32%	15.57%
Industrial Index	5.45%	22.20%	19.98%	28.50%	8.60%	-17.02%	79.03%
Insurance Index	11.76%	2.31%	-9.45%	-3.65%	6.45%	-13.06%	-7.67%
Oil & Gas Index	13.80%	33.63%	7.99%	39.04%	-1.93%	-15.06%	90.21%
Telco Index	6.56%	18.97%	3.55%	20.62%	1.50%	7.38%	72.59%

H2 Corporate Actions

- Dangote Refinery's planned listing on the Nigerian Exchange (NGX), expected to take place in Q3 2026.

Equities Market Cont'd

Outlook

Having delivered an exceptional first-half performance, we expect the equities market to sustain a positive momentum through H2 2026. The direction of the market will largely be shaped by how earnings, policy and sector-specific developments play out over the coming months.

H1 2026 earnings will be a key driver of market direction. Dividend sustainability across Banking, Telecoms and Oil & Gas will be critical to maintaining investor enthusiasm, particularly as several of these companies look to build on the strong payouts that drove much of H1's rally. That said, after an exceptional first half, tougher comparatives raise the risk of profit-taking should results disappoint. On the policy side, we expect a measured approach to interest rates through H2, and should fixed-income yields remain relatively unattractive, this should continue to support a reallocation of capital from fixed income into equities.

Within this backdrop, the Oil & Gas sector remains a key one to watch. Much of its H1 outperformance was tied to the Iran/Israel/US-driven crude price spike, and although a ceasefire is now in place, negotiations between the parties are still ongoing, leaving some uncertainty around the continuity of the war. A firmer, lasting resolution could see crude prices ease further and the sector's gains moderate, while any renewed escalation could reignite the price-driven upside seen in H1. Beyond the geopolitical backdrop, the sector's H2 outlook is also supported by two developments carrying positive momentum from H1: Aradel's expanded stake in ND Western and Seplat's first gas at ANOH, both of which should continue to support earnings independent of crude price direction. The sector stands to benefit further from the planned listing of Dangote Refinery on the NGX in Q3. Given the scale and strategic importance of the refinery, we expect the listing to generate strong investor interest, increase the sector's weight on the Exchange, and draw in fresh capital from investors positioning for exposure to one of the country's largest industrial assets.

Overall, we expect the positive momentum from H1 to carry through H2 2026, supported by sustained corporate actions, the Dangote Refinery listing, dividend expectations and stable macro conditions. That said, this outlook remains tempered by risks around oil price volatility, earnings sustainability after two strong reporting seasons, and broader fiscal pressures.

Fixed Income

The domestic fixed income market in the first half of 2026 was largely shaped by changing expectations around monetary policy. Following the decline in inflation towards the end of 2025, investors entered the year anticipating that the CBN would begin a more accommodative policy cycle. This optimism was reinforced by the Monetary Policy Committee's (MPC) 50 basis point reduction in the Monetary Policy Rate (MPR) at its February meeting and putting downward pressure on yields. However, the resurgence in inflation from March and the MPC's decision to keep rates unchanged in May tempered expectations of further policy easing, leading investors to reassess the outlook for fixed income yields.

Key Developments in the Nigerian Treasury Bills (NTB) Market

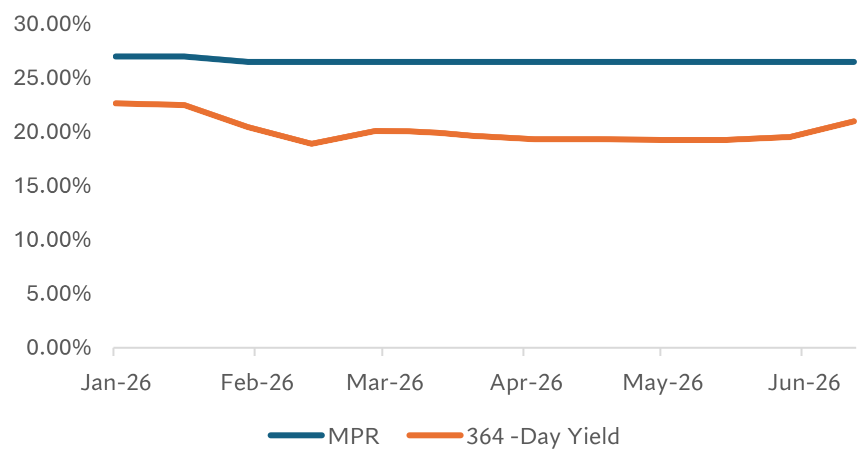
Yield Movement: Treasury Bill yields recorded mixed movements across the curve in H1 2026 as expectations of monetary easing and inflation dynamics shaped the market. Q1 averages stood at 15.54%, 18.10% and 20.53% for the 91-day, 182-day and 364-day tenors. In Q2, Yields held broadly flat through April and May near 16.61%, 17.59% and 19.30%, before reversing sharply in June, as inflation edged higher and the MPC's decision to hold the MPR at 26.50% pushed rates back up to 16.97%, 17.98% and 20.98% by month-end.

Q1 2026 Market Trend: Despite the Federal Government offering ₦7.95 trillion worth of Treasury Bills in Q1, investor appetite remained robust, with subscriptions reaching ₦24.93 trillion. Stop rates on the 91-day and 182-day bills remained broadly stable, averaging around 15.89% and 16.60%, respectively, while the 364-day bill reached an average of 17.03% (16.71%: Q4 2025), as investors positioned for additional monetary easing following the February MPC rate cut.

Q2 2026 Market Trend: Government borrowing moderated to ₦4.80 trillion in Q2, with total subscriptions of ₦13.75 trillion Although inflationary pressures reduced expectations of further policy easing, demand remained healthy across all tenors. Consequently, stop rates on the shorter maturities were largely unchanged, while the 364-day bill averaged 19.62% (up from 17.03% in Q1), reflecting continued demand for longer-dated securities.

In contrast, the Open Market Operations (OMO) segment witnessed a different trend. While the CBN conducted 14 auctions in Q1 and 13 auctions in Q2, average yield increased from 20.99% in Q1 to 21.68% In Q2 as the CBN adjusted pricing to manage liquidity conditions and sustain the attractiveness of naira-denominated assets to foreign investors.

H1 2026 364 Day NTB vs MPR Trend



Source: NBS, WSTC Research

Fixed Income Cont'd

Outlook

The direction of the fixed income market in H2 2026 will hinge on the interplay between inflation, monetary policy, and government borrowing. Persistent domestic funding needs are likely to keep upward pressure on yields, while the MPC's next move will depend on inflation: a resumed decline would open the door to further rate cuts and pull yields lower, whereas sticky or rising inflation would keep the MPC on hold and yields elevated. Although Treasury Bills are expected to remain attractive to income-focused investors, improving sentiment in the equities market could encourage a gradual reallocation of funds, moderating demand at primary auctions. Consequently, we expect Treasury Bill yields to remain relatively stable in the near term before easing gradually as macroeconomic conditions improve.

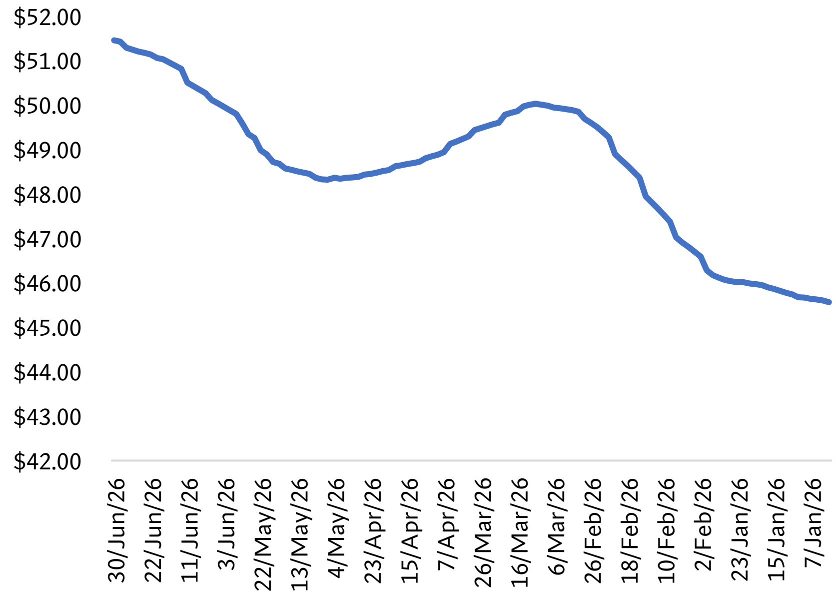
External Reserve

Nigeria's external reserves strengthened considerably during the first half of 2026, providing a stronger buffer against external shocks and reinforcing confidence in the country's foreign exchange market. Despite continued CBN interventions to support FX liquidity and external debt service obligations, gross reserves rose by 13.09% YTD to US$51.46 billion as of 30 June 2026.

The improvement in reserves was driven by a combination of stronger oil receipts, sustained foreign portfolio investment (FPI) inflows, resilient diaspora remittances and improved transparency within the foreign exchange market. Attractive domestic yields, particularly in the OMO market, continued to support foreign investor participation, while reforms to international money transfers encouraged more remittance inflows through official channels, strengthening dollar liquidity.

Reserve growth was further supported by the Federal Government's US$5.0 billion Total Return Swap (TRS) arrangement with First Abu Dhabi Bank (FAB), under which US$1.50 billion had been drawn by the end of June using ₦2.74 trillion in privately issued FGN securities as collateral. Beyond boosting reserves, the facility provided an additional source of foreign currency liquidity without immediate recourse to the international debt market.

External Reserves Trend (bn)



Source: CBN, WSTC Research

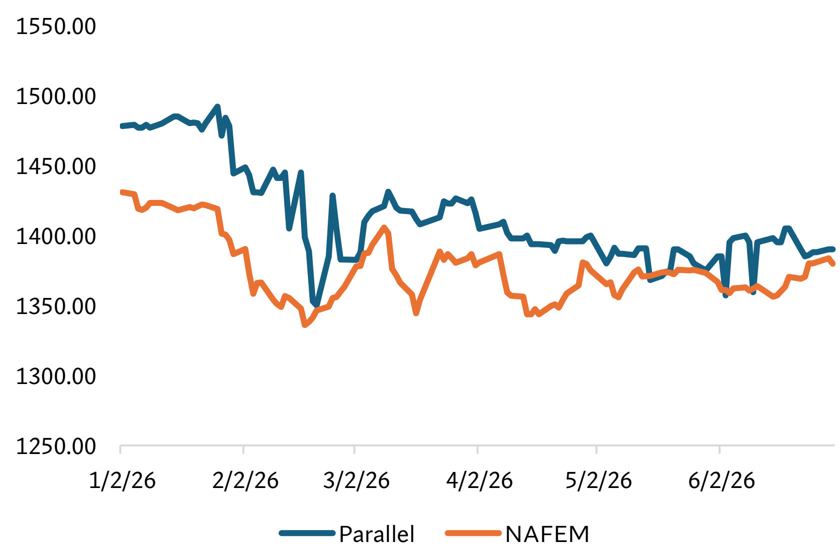
Foreign Exchange Market

Building on the foreign exchange reforms initiated in previous years, the Central Bank of Nigeria (CBN) continued its efforts to deepen liquidity, improve market transparency and restore confidence in the foreign exchange market during the first half of 2026. A key milestone was the re-integration of licensed Bureau De Change (BDC) operators into the official foreign exchange market, alongside stricter operational guidelines designed to curb speculative activities and improve market discipline. Under the revised framework, BDCs were permitted to purchase up to US$150,000 weekly from Authorised Dealer Banks, while being required to resell any unused foreign exchange within 24 hours. The reforms also prohibited operators from warehousing foreign currency and introduced enhanced Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements, reinforcing the CBN's broader objective of promoting transparency and improving price discovery across the market.

Improved transparency and relatively attractive domestic yields also continued to support foreign portfolio participation, further strengthening dollar supply and reinforcing confidence in the official foreign exchange market.

The combined impact of these developments was reflected in the performance of the naira across both market segments. At the NAFEM, the naira appreciated from ₦1,430.85/US$ at the beginning of the year to ₦1,379.68/US$ by the end of June, representing a 3.58% appreciation. Similarly, the parallel market exchange rate strengthened from ₦1,478/US$ to ₦1,390/US$, translating to a 5.95% appreciation over the same period. More importantly, the appreciation across both markets points to a gradual improvement in market confidence and suggests that exchange rate stability during the period was increasingly supported by stronger foreign exchange liquidity rather than short-term interventions alone.

Naira Movement Relative To The US Dollar



Source: CBN, Naira rates (X), WSTC Research

External Reserve & Foreign Exchange Market Cont'd

Outlook

Looking ahead, we expect Nigeria's foreign exchange market to remain relatively stable in the second half of 2026, supported by improving external buffers, ongoing policy reforms and stronger confidence in the official market. The CBN's efforts to deepen liquidity through the reintegration of Bureau De Change (BDC) operators, alongside stricter market discipline, should continue to improve price discovery and reduce speculative demand for foreign exchange.

On the external front, reserve accretion is expected to remain supported by stronger oil receipts, sustained foreign portfolio inflows and continued diaspora remittances. However, the pace of reserve growth will largely depend on the government's ability to sustain crude oil production and maintain investor confidence through consistent policy implementation. The undrawn balance of the US$5.0 billion Total Return Swap (TRS) facility also provides additional flexibility to strengthen external liquidity should market conditions require it.

Nonetheless, risks remain. A sustained decline in global crude oil prices, weaker foreign capital inflows or a resurgence in inflationary pressures could constrain foreign exchange supply and slow reserve accumulation. Barring these downside risks, we expect the naira to remain broadly stable through the remainder of the year, with stronger external reserves continuing to provide the CBN with adequate support to preserve orderly market conditions and reinforce confidence in the foreign exchange market.

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