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### To prevent the bees from stinging, we poke the hive

To avoid being stung tomorrow, we poke the hive today.

Russia argued that it invaded Ukraine in 2022 in bid to protect itself, and prevent Ukraine from being a threat to Russia (No NATO base). Now, the same logic echoes again. On February 28, the United States and Israel struck Iran, citing the need to prevent Iran from developing nuclear weapons, to stop a threat before it fully forms (despite saying it has destroyed Iran's ability to develop Nuclear weapon last year – Operation Midnight Hammer they called it).

But this raises a difficult question: Are we preventing danger or creating it? This feels like poking a beehive today because we fear the bees might sting tomorrow, trading today's peace for the possibility of peace tomorrow. Well, in finance, the bird in hand theory might disagree.

A lot of people are now asking:

Was Iran truly weeks away from developing nuclear weapon or posed an imminent threat to the world? Or did fear move faster than facts?

*Did we poke the beehive because the bee was actually going to sting tomorrow, or it was just our fear of bees that made us poke the hive?* Sometimes, determining this may be hard.

What is clear, however, is that the markets have already reacted. Yields are rising. Equities are falling. Crude oil is surging.



### Self-fulfilling prophecy

Poking a hive does one thing for sure. It releases the bees, and sometimes they sting.

Iran has long been categorized as hostile regime, driven by hardline religion and deep-rooted sentiment. The attack led to the death of over 160 people in a school, that is about 160 families crying, and some will be wanting revenge. The new leader lost is father, wife and daughter. Do we expect him to not want revenge as well?

So, the question becomes: In trying to prevent future violence, have we increased the probability of it? If not carefully managed, this could evolve into something more dangerous, not just a geopolitical conflict, but a cycle of retaliation (and terrorist attacks) driven by emotion, not policy.

### Should NATO join?

*If you do not respect me enough to invite me to eat with you, do not invite me to clean the plates with you.* This is what US allies did.

Following the attack, Iran responded by holding the Strait of Hormuz hostage, effectively turning geopolitics into economic warfare. In response, the United States called on its allies to help in reopening the Strait (sweeping for Iranian mines and providing Navy for escorts). But the allies refused. And frankly, that is not surprising as the United States did not carry its allies along before the strike.

The question is “Should NATO join the war?” Because if NATO steps in, how do we then tell Russia it was wrong to invade Ukraine? Or stop China from invading Taiwan?

Do we risk creating a world where power and military strength alone matters, and diplomacy is thrown out of the window.

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### Crude, the oil that lubricates the global economy

*Crude oil is not just another commodity. It is still one of the closest things the global economy has to blood flow.*

When crude rises sharply, the impact moves beyond energy desks and commodity traders. It shows up at the fuel station, airline tickets, freight costs, factory input bills, and eventually on the shelves of supermarkets. That is why oil shocks travel fast. They move from geopolitics to markets, and from markets to households. The United States may produce a lot of oil, but it is not insulated from global oil shocks. U.S. pump prices had risen to about \$3.88 per gallon by March 19, and may be well above \$4 if disruption persists.

In Nigeria, higher crude prices can improve export earnings, fiscal revenues and sentiment around Nigeria's external position. On the other hand, higher fuel cost at the filling stations should drive inflation up. This is where oil becomes an inflation story. Higher fuel prices raise transportation costs. Transportation raises food distribution costs. Higher diesel and energy bills squeeze manufacturers, retailers and service providers. At that point, inflation stops being only an "energy" problem and becomes a broader cost-of-living problem.

The likely policy consequence is also important. When crude surges, central banks become more cautious. Rate cuts that looked possible start to look premature. Economies already dealing with fragile growth then face the worst combination: slower demand and higher prices. That is how an oil shock can quietly turn into a stagflation scare.

Crude has once again reminded the world that it remains strategically important. That is the contradiction of the modern energy system. Renewables are expanding. EVs are scaling. Electricity demand is rising. *Renewables may be the future, but crude still has the power to shake the present.* Clean energy is advancing, but it still has a lot of catching up to do.

### Investors Reaction: Risk-Off, But Not the Usual Kind

The wait-and-see approach is back. Investors are likely to demand higher risk premium, shorten duration, reduce exposure to vulnerable sectors and hold more cash than usual. Aviation, transport and other energy-sensitive sectors may face pressure, while defense, upstream energy and selected commodity-linked plays may continue to attract interest.

### Central Banks Reaction: Hold, Watch, and Worry

*For central banks, this is an uncomfortable development. The disinflation story was already fragile. A fresh oil shock makes it more fragile.*

On March 18, the U.S. Federal Reserve kept the federal funds rate unchanged at 3.50%–3.75%, saying it would carefully assess incoming data, the evolving outlook and the balance of risks before making further adjustments.

On the same day, the Bank of England also held Bank Rate at 3.75%. Both decisions reflect the same message: uncertainty is high, and policymakers do not want to move too quickly.

In other words, this is how an oil shock travels through the global economy:

- First, it hits energy.
- Then it hits inflation expectations.
- Then it hits bond yields.
- And eventually, it hits growth.

For Nigeria's fixed-income and Eurobond market, the impact is likely to be mixed. Higher oil prices can improve the country's external story, but rising global bond yields and stronger inflation fears make investors more selective across frontier markets. We are already in a market where global investors are demanding compensation for uncertainty. Nigeria may benefit relative to some peers because it is an oil producer, but it will not be fully exempt from tighter global financial conditions.

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### Not an Investment Recommendation

You may want to pay closer attention to your portfolio at this stage. In a market driven by oil, inflation and uncertainty, *timing may not be everything, but allocation suddenly matters a lot more.*

### My portfolio?

What am I buying? Nothing. 😊

*That may sound unconventional, but for now, I am taking the wait-and-see approach, while positioning strategically for what might come next.*

What am I selling? Long-dated Eurobonds (profit-taking).

*Please contact your investment advisor. Nothing in this publication is investment advice.*

### In Other News:

#### Investment Management Landscape

*Liquidity has proven to be the lifeline in the credit market. In many cases, liquidity comes before profitability. There is a simple rule in finance about funding long term obligations with long term finance, when this rule is not followed, it sometimes gives rise to unpleasant outcomes. Yet, many private credit funds targeting retail investors appear to be stretching that principle.*

*Market concern has grown around the private credit space, as investors pull back over worries about illiquidity, opaque valuations, leverage, and high fees. Private credit has gone from being relatively small to managing over \$3 trillion, and with that growth has come increased scrutiny. The challenges may not yet be on the scale of the 2008 financial crisis, but these issues seem to be structural issues, and that is not helping confidence in the space.*

*While some asset managers have introduced redemption limits to manage liquidity pressure, that has done little to improve investor confidence.*

*Considering every other thing happening around the world right now and how they affect global economy, this doesn't seem to be a good time for private credit stress. Then again, there is never really a good time for private credit stress.*

#### Nigeria's Asset Management Industry: 2027 Will Test Confidence

Meanwhile, back at home, the Nigerian Asset Management industry may face a significant test of investor confidence in 2027.

Why 2027?

- SEC's mandatory mark-to-market regime.
- New minimum capital requirements.
- Election year.
- Rising government debt and a \$1.5 billion maturing Eurobond (Maybe not a lot).
- And increasing global uncertainty.

While the 2027 elections may not necessarily trigger major market volatility, the market is not completely immune to surprises. But beyond politics, I believe the two major forces that will shape the asset management industry are regulatory:

The new minimum capital requirement

The mandatory mark-to-market rule for fixed-income securities

The new minimum capital requirement is a major one. For some asset managers, minimum capital is moving from ₦150 million to ₦5 billion, or 10% of AUM where assets exceed ₦100 billion. That is not a marginal adjustment. That is a structural shift. Lots of small asset managers will either close shop, merge or raise some expensive capital.

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The second major driver is the SEC's mark-to-market requirement. This is part of a broader push to align with international standards, which is understandable. But the immediate implication is that many asset managers will no longer be able to smooth returns the way they used to. Fixed-income portfolios will now reflect market reality more visibly, and in some cases, that may mean recognising losses that were previously hidden by accounting convention. Lots of asset managers may have to realize losses on their fixed income portfolios.

This could significantly disrupt the return structure that many investors have become used to. And that is where the real challenge lies.

The Nigerian market still has low levels of financial literacy. A lot of investors are not prepared for mark-to-market volatility, especially in products they have come to see as stable. If returns suddenly become more volatile or decline temporarily, panic may set in. AUM could come under pressure. Confidence could weaken. And as we know, panic in one corner of the market rarely stays there. It spreads. There may be contagion.

## My Two Cents

Asset managers should start positioning strategically now. Whenever you want to hire, hire people with meaningful experience in mark-to-market portfolio management. Ask deeper questions. Do not stop at "How many years of experience do you have?" or "What was your return last year?" Ask: What was your mark-to-market performance over the last three years? How did you manage volatility? What kind of risk-adjusted decisions did you make under pressure? Because what will set asset managers apart next year may not simply be branding, or even historical AUM. It will be the quality of investment decisions being made today.

I also believe this is the time for serious investment in financial literacy. The industry must do a better job of educating investors on what mark-to-market really means, why short-term volatility is not always a sign of permanent loss, and why transparency should strengthen confidence over time, not weaken it. I have always believed that financial literacy precedes financial inclusion. Without understanding, participation becomes fragile. I expect market to panic next year, and SEC revenue will surge from fines.