NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Capital Markets Review

April 2015

Stock Market Review

The stock market staged a robust recovery during April with the benchmark KSE 100 index rising by around 12%, more than making up for a sharp decline of around 10% witnessed during March. Overall, during CY15 through April, KSE 100 index has risen by around 5%. It is pertinent to mention that our flagship NAFA Stock Fund has posted around 12% return during CY15 through April, outperforming the KSE-100 index by around 7%. This outperformance is net of management fee and all other expenses. We attribute this strong performance of the stock market during April to attractive valuations, easy monetary conditions, and improving macroeconomic backdrop. Helped by steep fall in the global commodity prices, especially oil, the economic outlook continues to improve as depicted by falling inflation and interest rates, mitigation of risks to the external account as captured in the build-up in SBP FX reserves to US $ 12 billion from a low of US $ 3 billion hit in January2014 and a pick-up in economic activity. During the ongoing corporate results season, majority of the companies posted above expected earnings and announced healthy payouts that validated the optimistic outlook on equities. Successful Secondary Public Offering of HBL shares with strong foreign participation provided strong impetus to the market. Another underpinning for the stock market rally is falling yields on the sovereign securities with 3,5, and 10 years PIBs yielding 7.5%, 8% and 9% respectively, making the yield plays specially attractive. Foreigners were net buyers during the month with net inflows of US $ 34 Million versus net outflows of US $71 million recorded during the previous month.

Banking, Construction and Materials, and Electricity sectors performed better than the market, while Oil and Gas, General Industrials, and Forestry & Paper sectors lagged behind. Healthy corporate earnings announcements and payouts and sanguine valuations resulted in the strong performance of banking sector. After sell-off during March, investors accumulated cement stocks on expectations of healthy results announcements amid robust volumetric growth and strong margins. Power stocks remained attractive play for the yield hungry investors in the backdrop of the collapsing yields on the alternative fixed income avenues. Though sector performance remained slightly below the market, amid a decent recovery in the global oil prices and attractive valuations after heavy battering over the last one-year, a strong rally was witnessed in the key oil and gas stocks.

Easy monetary conditions driven primarily by falling inflation, relatively attractive market valuations, robust corporate earnings growth, falling yields on alternative fixed income avenues and stabilizing political and law & order situation make a strong case for double digit returns in CY2015. We also acknowledge that these returns may be accompanied by bouts of volatility spikes driven by external developments such as exit from an accommodative monetary in the US, evolving geo-politcial situation in the Middle-East and large movements in commodity prices. As per our estimates, currently the market is trading at around 8.8 times estimated earnings and is offering around 6% dividend yield.

We are closely monitoring the developments in the capital markets and will rebalance the portfolios of our equity related funds and SMAs accordingly.

Money Market Review

Inflation as measured by the CPI for April 2015 clocked in at 2.1% on a YoY basis as compared to 2.5% for March. During the month of April '15, expectations of further interest rate cut in the upcoming monetary policy announcement in May15 amid falling inflation and improving external account position were manifested in falling T-bill and PIB yields. More precisely, the money market is expecting a rate cut of 100 bps as reflected in around 70 to 80 bps fall in the long term T-bills and PIB yields.

In the three T-Bills auctions during the month, MoF accepted Rs.498 billion (realized amount) against the target of Rs.600 billion and maturity of Rs.602 billion. The cut-off annualized yields for the last T-Bill auctions were noted at 7.38%, 7.3% and 7.22% for 3, 6 and 12 month tenors respectively. Last T-Bills auctions bid pattern skewed towards the 6 and 12 months as compared to 3 months. In PIB auction during the month, an amount of Rs.44 billion was accepted (realized amount), against the target of Rs.50 billion and total participation of Rs.152 billion (realized amount), at a cut-off yield of 7.85%, 8.42%, 9.30% in the 3 year, 5 year and 10 year tenors respectively whereas no bid was received in 20 year tenors. The bid pattern witnessed a major participation in 3 year tenor followed by 5 and 10 year tenors respectively.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations. We are closely monitoring the developments in the capital markets and will rebalance the portfolio of our fixed income funds and SMAs accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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