

August 2015

Stock Market Review

The local equities were on a roller coaster ride during August, though ending the month on a positive note with around 5% recovery during the last 5 trading sessions led by the Oil and Gas sector amid steep recovery in the global crude oil prices from their multi-year lows. Overall, during the month, the benchmark KSE 100 Index decline by around 3%. The sell-off in equities during the month was global with stocks in the US, Europe, and emerging markets all falling in sync following a rout in equity markets in China. Concerns on the global growth, notably China, uncertainty over the first interest rate lift-off in around a decade in the US, and surprise move by the Chinese authorities to devalue their currency triggered the rout in the emerging market currencies and global sell-off in equities and commodities. On the domestic front, we believe the investment landscape is supportive of equities with reasonable valuations, improving economic indicators, and easy monetary conditions. In the ongoing corporate results season, excluding Oil and Gas sector, majority of the companies posted above expected earnings and healthy payouts. As the country meets 3/4th of its oil demand from imports, lower oil prices provide multiple benefits to our economy and select companies.

During the month, Automobile & Parts, Cement, Chemicals, Engineering, Pharmaceuticals, and Power Generation & Distribution sectors out-performed the market. On the other hand, Oil & Gas Exploration (E&P), Commercial Banks, Oil & Gas Marketing, and Paper & Board sectors lagged behind. Robust earnings announcements amid healthy volumetric growth, strong margins and healthy payouts resulted in the out-performance of the Automobile & Parts sector. Despite announcements of capacity expansions by the key players, sanguine valuations, robust domestic volumetric growth along with healthy margins buoyed investors' interest in the Cement sector. Strong performance was witnessed in the Pharmaceutical sector on the back of robust earnings announcements by the select companies. Despite strong run-up towards the end of month amid sharp rebound in the global oil prices, the Oil and Gas sector lagged the market during the month. Better than expected earnings and payouts by key companies resulted in the out-performance of the Power Generation & Distribution sector.

Going forward, we hold to our view that the equities are expected to deliver healthy double digits returns during FY16 driven by reasonable valuations as captured in around 9.4 times forward earnings; benign inflation readings and anchored near-term inflation expectation; easy monetary conditions; limited leverage position in the market; and hunt for yield amid collapsing yield on the alternative fixed income avenues. However, we acknowledge that volatility may remain elevated amid unfolding developments on the global economic, geopolitical and financial markets front and domestic political situation.

We have repositioned the portfolios of our equity related funds and SMAs based on our capital market expectations and macroeconomic outlook.

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Inflation as measured by CPI clocked in at 1.7% on YoY basis for August 2015 as compared to the last month readings of 1.8%. However, we expect inflation to inch up from these levels on the back of Gas price hike by the government effective September 1, 2015 and due to base effect. Liquidity conditions remained tight during the month with short term T-bills trading in the range of 6.9% - 7%. To stabilize the overnight money market, SBP OMO injection reached a staggering level of PKR1.1 trillion in August. During the month under review, PAK Rupee depreciated by more than 2% and closed the month at around Rs.104 driven by rout in the emerging market currencies following China's surprise currency devaluation and uncertainty over interest rate hike by the US Fed.

Turning to the money market, in the two T-Bills auctions during the month, MoF accepted Rs.591 billion (realized amount) against the target of Rs.525 billion and maturity of Rs.404 billion at a cut-off annualized yield of 6.93%, 6.95% and 6.97% for 3, 6 and 12 month tenors respectively and bid pattern remained skewed towards 12 months as compared to 6 and 3 months. In PIB auction during the month, MoF accepted an amount of Rs.73 billion (realized amount) against the target of Rs.50 billion and total participation of Rs.390 billion (realized amount) at a cut-off yield of 7.6%, 8.5% and 9.4% in 3 year, 5 year and 10 years respectively, while no bids were received in 20 year tenors. The bid pattern witnessed a major participation towards 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 capital market expectations. We are closely monitoring the developments in the capital markets and will rebalance the portfolio accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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