

Stock Market Review

After a robust start to FY17 with the benchmark KSE 100 Index rising by around 4.6% during July 2016, the stock market swung between gains and losses during August, hitting an intra-day all time high of 40,214 but closing the month at 39,810 levels. The local investors, buoyed by improving economic prospects, reasonable valuations, and improving security situation, remained net-buyers during the month absorbing foreign selling of around US \$ 20 million. Majority of the companies posted above expected earnings and announced healthy payouts in the ongoing corporate results season that contributed to the investors' optimism in the market. Global and regional stock markets posted healthy returns during the month amid lower volatility despite uncertain global growth outlook, elevated valuations, political fluidity, and rising odds of interest rate hike by the US Fed. That said, ultra-low sovereign yields assisted by extremely accommodative monetary policy in the systematically important developed economies are forcing investors to search for returns in risky assets, including equities, despite elevated valuations. Recently, global asset managers have warmed up on the emerging markets driven by improving growth outlook on recovery in the commodity prices, stabilization in China, and calm in the US dollar. In addition, reclassification of Pakistan equity markets in the widely followed MSCI EM Index along with the attractive fundamentals has brought our market on the radar screen of Emerging Market Fund Managers. Notable observation during the month was change of the market focus on the second-tier stocks with significant contributions to the market volume.

Turning to the sectoral performance during the month, Automobile Assemblers, Oil & Gas Exploration, Chemicals, Commercial Banks, Engineering, Textile Composite, and Refinery sectors performed better than the market, while Cement, Power Generation & Distribution, and Fertilizer sectors lagged behind. Automobile Assemblers continued their robust run amid strong volumetric growth, healthy profit margin, and launch of a new model by one of the major players. Oil & Gas exploration sector out-performed the market on the back of brief recovery in the global oil prices amid talks of supply side adjustments by some key players. Rally in the refinery sector extended during the month as a result of healthy earnings announcement and expectation of improving earnings outlook. Textile composite sector drew investors' interest on the news of increase in yarn prices which should filter down to value-added products and rising probability of measured PKR devaluation in the near-term. Investors' interest was witnessed in the Banking sector amid some healthy earnings announcements and attractive valuations. Power Generation & Distribution sector lagged the market amid stretched valuation of a major company and investors' shift to the second tier stocks.

Currently, the market is trading at around 9.8 times estimated earnings and offers around 4.8% dividend yield. Relatively attractive stock market valuations, benign near-term inflation & interest rate outlook, improving macroeconomic prospects, and expectation of healthy portfolio inflows in 2HFY16 have us maintain positive outlook on equities. However, volatility may increase going forward on the back of expected escalation in domestic political climate, shifting global political rhetoric, concerns on global economic growth, and uncertainty on the global policy front.

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Inflation as measured by CPI clocked in at 3.6% for August 2016 as compared to 4.1% reading for the previous month. Despite record accumulation of FX reserve of US \$ 23 billion, the confluence of declining remittances, challenged exports outlook, and heavy scheduled foreign loan payments during FY17 has raised concerns on the Pak Rupee recently. We see inflation to pick up to 5.5% by the year-end due to measured increase in commodity prices and PKR devaluation; and expectation of strong private sector borrowing.

State Bank of Pakistan (SBP) held three T-Bill auctions during the month, with a combined target of Rs. 850 billion and a maturity of Rs. 785 billion. In the third and last T-Bill auction during the month, an amount of Rs. 179 billion was accepted against the target of Rs. 200 billion and maturity of Rs. 168 billion. Cut-off yields were maintained at 5.86%, 5.90% and 5.91% for 03, 06 and 12 month tenors, respectively. Bid pattern skewed towards 06 months as compared to 03 and 12 months. In the PIB auction during the month, an amount of Rs. 222 billion was accepted against the target of Rs. 100 billion and maturity of Rs 281 billion at a cut-off yield of 6.2%, 6.7% and 7.8% in the 03, 05 year and 10 years, respectively, while, no bid was received in 20 year tenors.

We have adjusted the portfolio of our money market and income funds based on our 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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