



February 2015

Stock Market Review

After depicting a robust performance during January when the benchmark KSE 100 Index climbed by 2,313 points or 7.2%, the stock market swung between gains and losses during February, ending the month at around 2% decline. Overall, during the calendar year (January–February 2015), the benchmark KSE 100 Index has posted an attractive return of 4.7%. It may be mentioned that during the same period, our flagship equity fund, NAFA Stock Fund, has delivered 8% return to the investors net of management fee and all other expenses. We believe that this heightened volatility in February is more of a consolidation than an indication or sign of a bear run in the market in the near term. Currently, economy and monetary conditions are supportive of stocks. Key economic indicators point to an improving economy as corroborated by falling inflation primarily driven by the declining oil prices & soft other commodity prices, SBP reserves rising to US \$ 11 billion equivalent to 12 weeks of imports, mitigation of risks to external accounts amid lowering of import bill, and fiscal deficit largely remaining on target. Similarly, in the ongoing corporate results season, barring Oil and Gas sector, majority of the companies posted above expected earnings and declared healthy payouts. Furthermore, market is expecting 50 basis points cut in policy rate in the upcoming monetary policy review in March as reflected by the declining yields on the alternative fixed income avenues (10 year PIB yielding just 9.7%) making the equities more appealing to the yield hungry investors. That said, foreigners were net sellers during the month with net outflows of US \$ 62 million against the net inflow of US \$ 3 million during the previous month.

Turning to the sectoral performance, Oil & Gas, Electricity, Chemicals, Automobile & Parts sectors out-performed the market during the month of February 2015 while, Construction & Materials, Banking and General Industrials sectors lagged the market. Automobile & Parts sector performed better than the market driven by the healthy corporate announcements and expectations of healthy earnings growth resulting from improving sales volume and widening margins amid JPY weakening and stable product prices. Robust rally was witnessed in the Electricity sector resulting from solid earnings announcements and healthy payouts. Banking sector remained under pressure as gains from hefty PIB portfolio holding were offset by concerns on falling Net Interest Margins (NIMs) in future due to declining interest rates. After heavy battering during the last few months amid collapsing global oil prices, Oil & Gas sector posted decent return amid partial recovery in the global oil prices.

As per our estimates, the market is now trading at around 9.2 times 12-months forward earnings and offering about 5.7% dividend yield. We hold a sanguine view on the stock market driven by the reasonable valuations, benign inflation and interest rates outlook, expectations of decent foreign inflows and stability in domestic politics. That said, key risks to our view on the stock market are deterioration of law and order situation and sell-off by the foreign investors in the emerging markets amid surprise increase in interest rates by the US Federal Reserve. We are closely monitoring the developments in capital market and will alter the allocation of our equity funds accordingly.

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Inflation as measured by CPI for the month of February 2015 clocked in at 3.2% as compared to 3.9% in the previous month. Amid declining inflation expectations, improving external account position, relatively constrained fiscal deficit position and stable political situation, the market is expecting 50 bps cut in policy rate in bi-monthly monetary policy review in March 2015. Yields on fixed income securities have already started responding to the continuation of monetary easing with yield on 10 year PIB and 6-month T-bills declining to 9.7% and 8.2% respectively. For better liquidity management, SBP has proposed to enact some new measures after consultation with the stake holders. For instance, in order to ensure that overnight money market repo rate remains close to the target, SBP wants to increase the frequency of OMOs of varying tenors including overnight. To minimize the volatility of overnight repo rate, the SBP is also contemplating to introduce a target rate, which will be between the floor and ceiling rate of the interest rate corridor.

Turning to the money market, in the two T-Bills auctions during the month, an amount of Rs 302 billion was accepted against the target of Rs 200 billion and maturity of Rs 196 billion. The cut-off annualized yields for the last T-Bills auction were noted at 8.37%, 8.38% and 8.29% for 3, 6 and 12 month tenors respectively. The bid pattern remained skewed towards the 12 months and 6 months as compared to 3 months tenor. In the PIB auction during the month, an amount of Rs. 63 billion was accepted against the target of Rs. 50 billion and total participation of Rs. 240 billion at a cut-off yield of 8.5%, 9.14%, and 9.8% for the 3 year, 5 year and 10 year respectively whereas no bids were received in 20 year tenors. The bid pattern witnessed a major skew towards 5 year tenor.

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 accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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