

Stock Market Review

A host of domestic developments caused a lot of volatility in the local stock market during February 2017, while global markets hit new highs. After a strong start to the month with the benchmark KSE 100 index rising by around 2.5% till Feb13, 2017, the market closed the month with a decline of 0.5%. Headlines in the media regarding concluding proceedings on the Panama Leaks case sent jitters in the market. Adding to the investors' angst was fresh wave of terrorist attacks in the country. Clamp down by SECP on in-house financing by brokers contributed to the indiscriminate forced selling by the individual investors during the latter half of the month. Moreover, widening current account deficit caused by the stagnant exports, increasing imports, and tapering off remittances also made the investors cautious. The ongoing corporate result season also failed to create any excitement in the market. Local mutual funds were net buyers during the month to the tune of US \$ 48 million against US \$ 30 million foreign outflows and US \$ 43 million net selling by the individual investors. We believe that the above mentioned developments are transitory and minor hiccups with no material impact on the economic and market fundamentals. On the other hand, the present investment backdrop shaped by improving macroeconomic prospects, reasonable stock market valuations, benign inflation and interest rates outlook, and abundant liquidity is constructive for local equities. As we see it, the recent indiscriminate sell-off has opened up valuation gap in good companies with strong earnings growth prospects.

During the month, Cement, Oil & Gas Marketing, Paper & Board, and Textile Composite sectors performed better than the market while, Commercial Banks, Oil & Gas Exploration, Automobile Assemblers, Chemicals, Pharmaceuticals, Power Generation & Distribution sectors lagged behind. Healthy earnings announcements and robust future outlook resulted in out-performance of the Cement sector. Led by gas distribution companies, the OMC sector also exhibited strong performance. Investors accumulated position in the Paper & Board sector on the back of better than expected corporate results by a select company and improving earnings outlook considering likely imposition of anti-dumping duty against the imports. Banking sector underperformed due to below expected earnings announcements and lack of any positive trigger. Power Generation & Distribution sector lagged the market driven by un-impressive earnings announcements and lower than expected payouts. Automobile Assemblers sector took a breather after a strong rally.

Going forward, we maintain a sanguine outlook on the stock market driven by reasonable valuations as captured in forward P/E multiples of 10.7x; controlled inflation & low interest rates; improving economic growth on account of CPEC related investment activity; upbeat business and consumer sentiment; and expectation of healthy foreign inflows from funds tracking MSCI EM Index. We also acknowledge that domestic political fluidity and global policy uncertainty may generate bouts of volatility. In this backdrop, we advise investors to resist the urge to head to the sidelines amid volatility spikes.

Money Market Review

Inflation as measured by the CPI marginally increased to 4.2% for February 2017 owing to the second-round impact of increase in commodity prices including domestic petroleum products. We expect inflation to gradually increase driven by some increase in crude oil prices, revision of HRI, measured PKR depreciation, robust growth in private sector borrowing, and reversal of base effect. We continue to flag our concern on the Balance of Payment (BoP) position that entails credible and decisive policy action by the government on a priority basis.

During the month of February, SBP held two T-Bill auctions with a combined target of Rs. 1,100 billion against a maturity of Rs. 1,155 billion. In the first T-Bill auction an amount of Rs. 606 billion was realized against the target of Rs. 550 billion with maturity of Rs. 567 billion at cut-off yield of 5.95% for 3-month tenor and 5.99% for 6 month and 12 month tenors, respectively. The bid pattern skewed towards 3 month tenor. In the second T-Bill auction, Ministry of Finance (MoF) realized Rs. 640 billion against the target of Rs. 550 billion and maturity of Rs. 589 billion. Cut-off yields were maintained at the previous levels. The bid pattern remained skewed towards 3 month as compared to 6 month and 12 month tenors. In the PIB auction an amount of Rs. 60 billion was accepted against the target of Rs. 50 billion and maturity of Rs. 9 billion at a cut-off yield of 6.41%, 6.9% and 7.94% for 3 year, 5 year and 10 year tenors, respectively while, bids in 20 year were rejected.

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