

## Stock Market Review

After a robust start to CY18 with a handsome return of around 8.8% during January, the stock market took a breather with the benchmark KSE 100 Index declining by 1.8% during February. During the month, the market grappled with the deteriorating Pak-US relations that involves serious economic implications; and heightened domestic political uncertainty. In the domestic politics, a three-member bench of Supreme Court barred Ex-Prime Minister Nawaz Sharif from holding the position of Party Head after disqualification under Article 62 & 63 of the constitution. In the aftermath of this decision, the Election Commission of Pakistan (ECP) declared that the ruling PML (N) nominees can contest the upcoming Senate polls as independent candidates. Another development that unnerved investors was a motion put forward by the United States (US) and Britain to place Pakistan on the FATF terrorist-financing watch list in order to pressure Pakistan to cut its alleged links to Islamist militants. It stoked fears that if adopted, the resolution would place Pakistan on the grey-list of jurisdictions with deficient anti-money laundering regimes. Local equities also weathered rout in the global equities in the first half of the month triggered by concerns on the increasing odds of unwinding of unprecedented monetary accommodation in some influential economies. The market participants took a sigh of relief as the country survived the attempt to have been put on the FATF watch list, at least for now as the government took some quick measures such as banning couple of groups, amending the anti-terror laws, and committing to take further actions. Foreigners, Mutual Funds, and Banks/DFIs were net sellers whereas; Insurance, Companies, and Other Organizations were net buyers during the month.

During the month, Oil & Gas Exploration, Commercial Banks, Power Generation & Distribution, Technology & Communication, and Engineering sectors performed better than the market. On the other hand, Cement, Textile Composite, Pharmaceuticals, and Oil & Gas Marketing sectors lagged behind. Strong performance by a select company amid reserves addition resulted in the out-performance of the Exploration & Production sector. Banking sector out-performed the market on the back of attractive valuations along with the beginning of reversal of interest rate cycle. Power Generation & Distribution sector out-performed the market after lagged performance over the last couple of months. Engineering sector exhibited strong performance on account of strong earnings announcement driven by volumetric growth and healthy profit margins. Lower than expected earnings announcement and potential threat of price war amid massive upcoming capacity additions led to the lagged performance of the Cement sector. Unimpressive earnings announcement by the select companies led to subdued performance of the Textile Composite sector. Under-performance of Oil & Gas Marketing sector is attributable to clouded earnings outlook, and earnings announcements & payouts missing the market expectations.

While acknowledging the risks to the economy from chronic trade deficit, we believe that some additional policy measures such as further currency devaluation, lowering of cost of doing business for export-oriented sector, and tariff revisions on import items would help curtail non-essential imports and boost exports. The proposed offshore assets tax amnesty scheme is also expected to bring USD3-5 billion. That being said, we hold on to our sanguine view on equities given attractive valuations as captured in P/E multiples of 10; moderate inflation and still low interest rates; ample market liquidity; upbeat business sentiment; and large cash positions by the institutional investors. We also expect foreign portfolio inflow to start pouring into the equities in due course, which in our view is waiting for some further PKR devaluation.

## Money Market Review

After recording 4.4% YoY in January 2018, inflation as measured by the CPI for February 2018 clocked in at 3.8% helped by the soft food prices. We expect inflation to pick-up from these subdued levels amid some further PKR depreciation, partial pass-through of the recent increase in the global oil prices, and reversal of base effect. In our base case scenario, we expect 0.50% hike in the Policy rate by June 2018. In response to 0.25% increase in the Policy rate in the recent monetary announcement by the SBP, sovereign yields increased by 25-30bps. As witnessed in the primary market for the sovereign securities, investors' preference remained tilted towards short tenors, foreseeing upside risks to inflation and interest rates.

During the month of February, SBP held two T-Bill auctions with a combined target of Rs. 1,700 billion against the maturity of Rs. 1,627 billion. In the first T-Bill auction, an amount of Rs. 1,154 billion was accepted at a cut-off yield of 6.21% for 3 month tenor, while no bids were received in 6 month and 12 month tenors. In the second T-Bill auction during the month, an amount of Rs 1,086 billion was accepted where the cut-off yield was maintained at 6.21% for 3 month tenor; however bids for 6 month tenor were rejected while, no bid was received in 12 month tenor. In the PIB auction, bids worth Rs. 12 billion were received for 3 year and 5 year tenors. However, the auction was rejected.

We have calibrated the portfolio of our money market and income funds based on our interest rate outlook and remain alert to any developments that may influence our investment strategy.

## Our Contacts

**Contact our Investment Consultant for free Investment advice**

Call 0800-20002 || SMS NAFA INVEST to 9995 || [www.nafafunds.com](http://www.nafafunds.com) || [info@nafafunds.com](mailto:info@nafafunds.com)