

Stock Market Review

Against the widespread belief of bullish January effect, local equities struggled, dragged down by Oil & Gas sector on plunging global oil prices, divergent policy moves by the central banks in the developed economies, and rising headlines on the weakening global growth prospects. However, in the last week, equities pared back some losses led by Oil & Gas sector amid partial recovery in global oil prices. Nonetheless, the benchmark KSE-100 index declined by 4.6% during the month to close at 31,299 level. The sell-off in equities during January was global and in lockstep with oil prices where many markets entered the bear market range amid stretched valuations, corporate earnings slowdown, tightening financial conditions, and concerns on the global economic growth. Low oil prices provide multifaceted benefits to our economy that depends on imports for around three-fourth of its oil demand. Inflation remains at multi-year low, current account deficit has reached a manageable level amid low oil import bill, fiscal deficit is expected to remain contained helped by low subsidy burden and interest rates have declined to single digits primarily due to anchored inflation expectation. On the contrary, foreign selling remained unabated during the month with net outflows recorded at US \$ 50 million. Moreover, tragic terrorist attack on a university in KPK province further added to the investors' angst.

During January 2016, Automobiles Assemblers, Cement, Engineering, Fertilizer, Pharmaceuticals, Power Generation & Distribution sectors performed better than the market, while Oil & Gas Exploration, Banking, Paper & Board, and Textile Composite sectors lagged behind. Automobile sector took a breather after posting a strong performance during last year. Cement sector led the pack and posted robust performance amid healthy domestic dispatches and steady profit margins. During better part of the month, a sizable sell-off was witnessed in Oil & Gas Exploration sector amid renewed collapse in global oil prices with partial recovery towards the end of the month. Paltry yield on the alternative fixed income avenues resulted in the superior performance of Power Generation & Distribution sector. Banking stocks continued to remain under pressure amid drag on earnings from lower interest rates as well as some adverse taxation measures announced in the budget.

Going forward, we maintain our positive outlook on the stock market driven by relatively attractive valuations as captured in 8 times PE multiple; benign near-term inflation and interest rate outlook; comfortable external account position; and improving macroeconomic prospects. We believe the stock market is well poised to deliver a healthy double digit return in CY16 driven by around 6% dividend yield and probable rerating of the market amid improving economic indicators. However, we also acknowledge that these returns may be accompanied by volatility bouts amid uncertainty on global monetary policy front, fears of a sharp slowdown in some major emerging economies and rising geopolitical risks in war ravaged Middle East. To navigate in this tumultuous investment landscape, we recommend investors to keep a long-term perspective and ignore the scary headlines about the economy and markets.

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During January, yield curve responded to rising market expectations of a policy rate cut by SBP and excessive liquidity in the market. More specifically, yield on PIBs came down by 50 bps in 3 and 5 years tenor whereas 25 bps decline was seen in 10 years. Similarly, T-Bills yield declined by 20-25 bps. However, State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Review maintained the discount rate at 6.5%. As per SBP, the main reason behind this policy decision is likely gradual reversal of declining trend in inflation. Inflation as measured by CPI for January 2016 clocked in at 3.3% on a year-on-year basis as compared to last month reading of 3.2%.

In the two T-Bills auctions during the month, MoF accepted Rs. 562 billion (realized amount) against the target of Rs.600 billion and maturity of Rs.539 billion. The cut-off annualized yields for the last T-Bill auction was noted at 6.17%, 6.18% and 6.23% for 3, 6 and 12 month tenors respectively. T-Bills auctions bid pattern was skewed towards 12 months as compared to 3 and 6 months. In PIB auction held on 27th January 2016, MoF accepted an amount of Rs.136 billion (realized amount) against the target of Rs.100 billion and total participation of Rs.361 billion at a cut-off yield of 6.50%, 7.55% and 8.85% in the 3 year, 5 year and 10 year tenors respectively, while no bids were received in 20 year tenors. The bid pattern witnessed a major shift 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 the capital market expectations. We are closely monitoring the developments in the capital market and will rebalance the portfolio accordingly.

Our Contacts

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