



June 2015

## Stock Market Review

Despite negative surprises for the stock market in federal budget 2015-16 the stock market depicted strong performance during June with the benchmark KSE 100 Index rising by around 4%, extending the gains in FY2015 to around 16%. During FY15, our flagship NAFA Stock Fund generated around 37% return, outperforming the market by 21%, net of management fee and all other expenses. Investors brushed aside increase in capital gains tax and increase in tax on dividend income on investment in shares and levy of one-off super tax on corporates and banks with 4.5%-6% impact on FY2015 earnings. On the contrary, a decent rally was witnessed post budget announcement driven by a combination of reasonable stock market valuations, easy monetary conditions, and rerating theme driven by improving macroeconomic fundamentals. Another underpinning for the rally in the stock market is fund flows towards equities from fixed income avenues due to declining yields. Foreigners were net buyers during the month with inflows of US \$ 7.6 million. Trading activity remained very healthy with average daily traded volume recorded at 377 million shares.

Cement, Chemicals, Fertilizers, Oil & Gas Marketing, Refineries and Pharmaceuticals sectors performed better than the market, while Commercial Banks, Engineering, Oil & Gas Exploration, and Power Generation & Distribution sectors lagged behind. Favorable measures for construction sector and sizable allocation for infrastructure in the recently announced budget revived investors' interest in the cement sector. Healthy volumetric sales and some recovery in the oil prices from lows resulted in outperformance of Oil & Gas Marketing sector. Expectation of healthy earnings growth driven by improving gross refinery margins attracted investors towards the Refineries sector. Banks continued to lag the market on the back of shrinking net interest margins amid declining interest rates and increase in taxes on capital gains and dividend income. Power Generation stocks took a breather after depicting a robust performance over the previous months.

Going forward, we hold a sanguine view on the stock market based on the supportive investment landscape for equities shaped by the reasonable stock market valuations as captured in 9.2 times estimated earnings, benign near-term inflation and interest rate outlook, healthy (10-15%) corporate earnings growth outlook and ultra low yield on the alternative fixed income avenues. We believe that the market will post healthy double digit returns in FY16. However, we also acknowledge that these returns will be accompanied by bouts of volatility spikes.

We have repositioned the portfolios of our equity related funds and SMAs based on our capital market expectations and macroeconomic outlook.

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Inflation as measured by CPI clocked in at 3.2%, a reading well below the market consensus, bringing the FY15 average to 4.5%. During the month of June, liquidity tightening was witnessed in shorter tenors T-Bills with yields rising to 6.8% - 7% range. SBP conducted an Outright OMO of 52 days where it accepted PKR 186 billion against the participation of PKR 297 billion at a 7.34% yield. We expect the yield on the long tenors PIBs to decline from the current levels that inched up by around 100 bps from lows hit in May.

Turning to the fixed income market, in the two T-Bills auctions during the month, MoF accepted Rs.168 billion (realized amount) against the target of Rs.100 billion and maturity of Rs. 66 billion at a cut-off annualized yields of 6.93%, 6.95% and 6.97% for 3, 6 and 12 month tenors respectively. Last T-Bills auction bid pattern skewed towards 3 months tenor as compared to 6 and 12 months. In the PIB auction during the month MoF accepted an amount of Rs.53 billion (realized amount) against the target of Rs.50 billion and total participation of Rs.72 billion at a cut-off yield of 8.1% and 9.0% for 3 year and 5 year tenor respectively. 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 markets and will rebalance the portfolio accordingly.

## Our Contacts

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

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