

## Stock Market Review

The month of June started on a positive note for the local equities, carrying the positive momentum that started after FY16 lows hit in the last week of February. Adding to the investors' optimism was the recently announced federal budget FY2016-17 that envisages renewed focus on growth notably hard hit agriculture and exports sectors, without losing sight of fiscal consolidation. Pakistan's much awaited entry into widely tracked MSCI Emerging Market Index provided a tailwind to the rally with the benchmark KSE 100 Index reaching a high of 38,777 on June 17, 2016. However, equities suffered a horrific sell-off following a surprise decision by discontented UK voters to leave the EU (Brexit) in the historic referendum on June 23, 2016, ignoring the consensus warnings of negative consequences for global economy and financial markets. Post Brexit, commodities (notably crude oil) with the exception of Gold pummeled, reflecting potential blow to the struggling global economy. We believe that Pakistani economy being domestic demand driven with limited international trade and financial linkages is considerably immune to any slowdown in the global economy. We reiterate our view that the foreign portfolio activity will be the determining factor for the direction of local equities going forward. We expect gradual inflows into the local equities on the back of positive macroeconomic outlook, relatively attractive valuations, and improved security situation. The equities finished the month on an upswing with renewed pullback in crude oil prices and recovery in the global equities and recalibration of risk premium.

Overall, during FY16, KSE 100 Index posted 10% return verses 16% return during FY15 driven by subdued corporate earnings growth led by Banking, Oil & Gas and fertilizer sectors. In addition, equities faced headwinds emanating from unconventional and experimental monetary policies pursued by the global central banks; plunge in commodities, notably crude oil with partial off late recovery; and rising concerns on the global economic growth. During the month, Cement, Banking, Refinery, and Pharmaceutical sectors performed better than the market whereas Engineering, Oil & Gas, Automobile, Fertilizer, and Textile sectors lagged behind.

We hold a positive outlook on equities based on attractive stock market valuations, benign near-term inflation and interest rate outlook, improving macroeconomic prospects, and increasing odds of large portfolio inflows post PSX's entry into MSCI EM Index effective May 2017. We expect equities to deliver a healthy double digit returns during FY17 that still look tantalizing given 6.1% return offered by 3 year PIB. That said, the volatility may remain elevated on the back of fluid global & domestic politics, concerns on the global growth, and global policy uncertainty.

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Inflation as measured by CPI clocked in at 3.2% in line with the last month's reading. We expect inflation to remain benign in the near term on still soft commodity prices and better supply side management. During June 2016, PIBs and longer tenor-bills yield further declined by around 10-30 bps on account of more liquidity injections by State Bank of Pakistan (SBP) as reflected by increase in Open Market Operation (OMO) size to Rs1.45 trillion from Rs1.39 trillion in the beginning of the month. Pak Rupee exhibited stability amid build up in foreign exchange reserves to over USD23.1 billion at month end, equivalent to 27 weeks of imports.

During the month, SBP conducted two T-Bill auctions with a combined target of Rs. 200 billion and a maturity of Rs. 72 billion. In the first T-Bill auction, Ministry of Finance (MoF) accepted Rs. 132 billion against the target of Rs. 100 billion and maturity of Rs. 44 billion at a cut-off yield of 5.95%, 5.97% and 6.00% for 3, 6 and 12 month tenors, respectively. Bid pattern remained skewed towards 6 months as compared to 3 and 12 months. Moreover, in the second T-Bill auction, an amount of Rs. 193 billion was accepted against the target of Rs. 100 billion and maturity of Rs. 28 billion. Cut-off yield declined to 5.90%, 5.93% and 5.96% for 3, 6 and 12 month tenors, respectively. Bid pattern shifted towards 12 months as compared to 3 and 6 months. In the PIB auction held on 15-Jun-2016, Ministry of Finance (MoF) accepted Rs. 45 billion against the target of Rs. 100 billion and maturity of Rs. 2 billion at a cut-off yield of 6.41%, 6.91% and 8.02% in the 3, 5 year and 10 years respectively, while no bids were received in 20 year tenors.

We have adjusted the portfolio of our money market and income funds based on our capital market expectations. We are closely monitoring the developments in the capital markets and will rebalance our portfolio accordingly.

## Our Contacts

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

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