



March 2015

Stock Market Review

Contrary to the broader market expectations and defying improving macroeconomic indicators, the stock market took a plunge during March, extending the losses of February. The benchmark KSE 100 Index declined by 10.1% or 3,398 points during the month to close at 30,234. However, the market ended the month on a very strong note with the benchmark 100 Index rising by around 4.5% on the last trading session. We attribute the recent steep fall in the stock market to selling by a foreign hedge fund facing heavy redemptions. Subsequently, forced selling by the leveraged retailers and mutual funds further unnerved the market participants.

We believe that relatively attractive valuations, easy monetary conditions and improving macroeconomic backdrop are supportive of equities. Helped by the steep fall in the global commodity prices especially oil, the economic outlook continues to improve as depicted by the falling inflation and interest rates, improving external account as captured in the build-up in SBP FX reserves to US \$ 11 billion from a low of US \$ 3 billion hit in January 2014, Moody's upgrading the outlook on Pakistan's foreign currency government bond to positive from stable, and approval of 7th tranche under Extended Fund Facility (EFF) by the IMF to the tune of US \$ 500 million. As per our estimates, barring Oil & Gas sector, corporate earnings are expected to grow at a healthy rate of 15% for the next four-quarters. After the recent fall the stock market is attractively priced with forward P/E multiples of 8.3 times and earnings yields of around 13% versus 9.4% yield on 10-year PIB. Another underpinning for our positive view on the stock market is 50 bps reduction in policy rate to 8% by the SBP in its bi-monthly monetary policy review in March and expectation of further monetary easing given the anchored near-term inflation expectations and improving external account position.

Easy monetary conditions led by the falling inflation, reasonable market valuations, robust earnings growth, falling yields on the alternative fixed income avenues, stabilizing political and law & order situation make a case for strong rally in CY2015. While foreign selling in the emerging & frontier markets triggered by earlier than expected and larger than expected interest rates hike by the US Fed is the key risk to our sanguine view on the stock market. We are closely monitoring the developments in capital market and will alter the allocation of our equity funds accordingly.

We advise our existing investors in equity related funds to resist the urge to exit the market unnerved by the heightened volatility. We believe that for investors with medium to long-term investment horizon, the market offers an attractive opportunity to earn better return than the alternative fixed income avenues such as T-bills and PIBs. That said, these returns may be accompanied by the bouts of volatility spikes.

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In line with the broader market expectations as captured in the secondary market yields of PIBs and T-bills, the State Bank of Pakistan (SBP) announced a 50 bps cut in discount rate to 8% in its bi-monthly Monetary Policy Review on March 21, 2015. According to SBP (i) low inflation readings, (ii) improving external account outlook, and (iii) largely contained fiscal deficit were key factors for the monetary easing decision. Inflation as measured by CPI for March 15 clocked in at a multiyear low of 2.5% on a YoY basis as compared to last month reading of 3.2%. We believe that sovereign yields during the coming months will be driven by the economic data such as inflation, external account, and global oil prices.

Turning to the money market, in the two T-Bills auctions during the month, MoF accepted Rs.344 billion (realized amount) against the target of Rs.225 billion and maturity of Rs.255 billion. The cut-off annualized yields for the last T-Bill auction came at around 8.19%, 7.99% and 7.84% for 3, 6 and 12 month tenors respectively. Last T-Bills auction bid pattern remained skewed towards the 6 months as compared to 12 and 3 months. In the PIB auction during the month, MoF accepted an amount of Rs.50 billion against the target of Rs.50 billion and total participation of Rs.101 billion, at a cut-off yield of 8.29%, 8.75%, 9.5% in the 3 year, 5 year and 10 year 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 markets and will rebalance the portfolio accordingly.

Our Contacts

Contact our Investment Consultant for free Investment advice

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