

November 2015

Stock Market Review

During November 2015, local equities almost surrendered the gains of 6% delivered during October, taking the CY15 return to a mere 0.4%. The sell-off was led by the Oil & Gas sector amid reversal in global oil prices after a brief recovery during the previous month. The indiscriminate selling during the month further restored stock values in almost all the key sectors. Contrary to the lackluster performance of the local bourses, robust recovery was witnessed in the global stock markets despite increasing odds of US Federal Reserve's first interest rate lift-off in almost a decade in its December meeting and heightened geopolitical risks amid tragic terrorist attacks in Paris and ensuing intensification of retaliation from the US and the West against the so called ISIS. We hold on to our view that investment landscape is supportive for equities due to: improving economy outlook helped by the exogenous developments; attractive stock market valuations; easy liquidity conditions; and collapsing yields on the alternative fixed avenues; and benign inflation and interest rates expectations. We reiterate that foreign selling is the swing factor for the performance of the stock market in the near-term. During the month of November, net foreign selling was recorded at US 53 million, taking CY15 foreign outflows to US 280 million. Trading activity remained healthy with average daily trading volume recorded at around 170 million.

During the month, Automobile Parts and Accessories, Chemicals, Power Generation & Distribution, Engineering, Paper & Board, and Pharmaceuticals sectors out-performed the market, while Cement, Oil & Gas Exploration, and Fertilizer sectors lagged behind. Reversal in global oil prices after recovery during the last month from their lows resulted in the lagged performance of Oil & Gas Exploration sector. Attractive dividend yield in an environment of paltry yields on the alternative fixed income avenues resulted in the superior performance of Power Generation & Distribution sector. Sell-off was witnessed in the Automobile and Assemblers sector due to stretched valuations after a strong run earlier during the year. Cement sector lagged the market driven by talks of break-down of cartel (quota and price arrangements) in the south region. Strong run continued in the pharmaceutical sector on the back of robust earnings announcements amid healthy top-line growth. Price discounts offered by the local fertilizer players to clear the inventory build-up resulted in the sector under-performance.

We reiterate our sanguine outlook on the stock market driven by attractive valuations; anchored near-term inflation and interest rates expectations; accommodative monetary policy; comfortable external account position; low yields on the alternative fixed income avenues; and improving economic outlook. We have repositioned the portfolios of our equity related funds and advisory portfolios based on our capital market expectations and macroeconomic outlook.

Investors are advised to take a long-term perspective and resist the temptation to exit the market amid high volatility, disappointing near term performance, and headlines about the global economic slowdown.

Money Market Review

In its recent monetary policy review on November 21, 2015, State Bank of Pakistan (SBP) maintained the discount rate at 6.5%. Key elements cited by the SBP for this policy rate action are: expected reversal of declining trend of inflation, improving economic outlook amid planned investment under China Pak Economic Corridor (CPEC) balanced against the risks to the external account. Moreover, SBP'S market surveys (household survey) indicate a marginal increase in inflation expectations for the coming months. Inflation as measured by the CPI for November 15 clocked in at 2.7% on a year-on-year basis as compared to last month reading of 1.6%.

In the two T-Bills auctions during the month, MoF accepted Rs. 402 billion (realized amount) against the target of Rs.400 billion and maturity of Rs.362 billion. The cut-off annualized yields for the last T-Bill auction was noted at 6.39% for 3 and 6 month tenors, whereas bids were rejected in 12 months. The bid pattern skewed towards the 3 months as compared to 6 and 12 months. In PIB auction held on 18th November 2015, an amount of Rs.50 billion (realized amount) was accepted against the target of Rs.50 billion and total participation of Rs.107 billion (realized amount) at a cut-off yield of 7.03%, 8% and 9.15% in the 3 year, 5 year and 10 year respectively, while no bids were received in 20 year tenors. The bid pattern remained skewed towards 3 year tenor followed by 5 and 10 year tenors.

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

Call 0800-20001 || UAN 111-111-632 || sms NAFA INVEST to 8080 || www.nafafunds.com || info@nafafunds.com

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