

## Stock Market Review

During the month of October, risk-off sentiments emanating from fluid domestic political environment kept local bourse under pressure amid amplified volatility. Despite repeated calls by the military spokesman rejecting any unconstitutional step, rumors of toppling of the democratically elected government and installation of what is called a technocrat set-up heightened uncertainty in the domestic politics, unnerving market participants. Unabated statement by the ousted PM of some conspiracy against his government and PML-N further muddled the situation. Fresh statement of US Secretary of State demanding Pakistan to do more to eradicate terrorist groups on its side or face the consequences fueled investors' anxiety. Mix showing in the ongoing corporate results season also failed to provide any respite. Repeated media coverage of gathering risks of imminent Balance of Payment (BoP) crises exacerbated the pervasive negativity in the market. We believe that the recent correction is driven by more of a shifting sentiment instead of material economic deterioration or change in the market fundamentals. Robust LSM growth numbers, healthy private sector credit growth and better agri output point to accelerating economic growth. Market positioning also points to underweight stance as indicated by healthy cash holdings in equity and equity related mutual funds. We see foreign portfolio inflows to resume as the market has become quite attractive after a whopping 25% (KSE-100 Index) correction from all-time high level hit in May 2017.

During the month, Oil & Gas Exploration, Fertilizer, and Auto Assembler sectors out-performed the market while, Cement, Oil & Gas Marketing, Engineering, Commercial Banks, Power Generation & Distribution, and Textile Composite sectors lagged behind. Attractive valuations, recovery in the global crude oil prices, and expectation of some currency devaluation led to healthy performance of the Oil & Gas Exploration sector. Fertilizer sector continued strong performance on the back of improving earnings outlook and appealing dividend yield. Healthy earnings announcement drew investors toward the Auto assembler sector. Disappointing earnings announcement led to the lagged performance of the Textile Composite sector. Despite decent earnings announcement, indiscriminate sell-off resulted in under-performance of the Oil & Gas Marketing sector. Pressures on cement prices and risk of price war amid upcoming capacity additions led to lagged performance of the Cement sector. Despite attractive valuations investors kept from the Banking sector amid foreign selling in the sector heavy weight scrips.

In our view, after the recent sharp correction, the stock market valuations have become attractive as captured in the forward Price to Earnings (P/E) multiple of 8.8 times. While we may witness sporadic large swings in the market in the near term amid shifting domestic political environment or any unfavourable geopolitical developments the market is well poised to deliver a healthy return to long-term investors.

## Money Market Review

After recording 3.9% YoY in September 2017, inflation as measured by the CPI for October 2017 clocked in at 3.8%. We expect inflation to pick-up by 100 bps during FY18 due to partial recovery in crude oil prices and its pass-through impact, some PKR devaluation, and healthy private & public sectors borrowing. We see increase in policy rate in line with rise in inflation. Sovereign yields remained flat during the month with investors' preference tilted towards short tenors on the back of upside risk to inflation and interest rates.

During the month of October, SBP held two T-Bill auctions with a combined target of Rs. 1,300 billion against the maturity of Rs. 1,486 billion. In the first T-Bill auction, an amount of Rs. 802 billion was accepted at a cut-off yield of 5.99% and 6.01% for the 3 month and 6 month tenors, respectively while, no bids were received in 12 month tenor. The bid pattern was skewed towards 3 month tenor as compared to 6 month tenor. In the second T-Bill auction, an amount of Rs 730 billion was accepted at a cut-off yield similar to previous yield of 5.99% and 6.01% for 3 month and 6 month tenors, respectively. The bid pattern heavily skewed towards 3 month tenor as compared to 6 month tenor. In the PIB auction, MoF received bids worth Rs. 25 billion against the target of Rs. 100 billion and maturity of Rs. 33 billion for 3 year, 5 year and 10 year tenors while no bids were received in 20 years tenor. However, the auction was rejected.

We have adjusted the portfolio of our money market and income funds based on the capital market expectations and 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 0800-20002 || SMS NAFA INVEST to 9995 || [www.nafafunds.com](http://www.nafafunds.com) || [info@nafafunds.com](mailto:info@nafafunds.com)