

## Stock Market Review

Amid healthy trade volumes, the benchmark KSE-100 Index delivered a stellar performance rising by 5,084 points (14.9%) on a month-on-month basis in November-19 after advancing handsomely by 6.6% during October. What led to this robust performance? Market sentiments remained upbeat driven by improving macro-economic indicators including surging interest in government securities as reflected by inflow of USD 713 million (T-Bills & PIBs) in SCRA account for Nov-19; Current Account surplus of 98 million for the first time in almost 4 years; and increasing odds of monetary easing going forward. In its last monetary policy review in November 2019, the SBP left the Policy Rate unchanged however, it reiterated that inflation is likely to decelerate to 5-7% in twenty-four months. Investors were unperturbed by uncertainty surrounding the Supreme Court's review of the notification of extension of Chief of Army Staff as momentum from positive macroeconomic indicators outweighed these concerns. Alleviating concerns on large and abrupt PKR devaluation have led to de-dollarization that has created liquidity for the stock market. The ongoing documentation drive has also reduced the appeal of the real-estate sector while reduction in profit rates on the National Saving Schemes and the recent plunge in the yields on PIBs have made a strong case for equities. However, majority of investors still seem skeptical to enter the market, awaiting clarity on the potential economic recovery and commencement of the resultant monetary easing cycle.

During the month, Banks/DFIs and Insurance were the main sellers in the market, off-loading positions to the tune of USD 53 million and USD 21 million, respectively. On the other hand, Individuals, Mutual Funds, Companies and Foreign Investors stood as the major buyers in the market, accumulating positions amounting to USD 41 million, USD 21 million, USD 10 million, and USD 9 million, respectively. Automobile Assemblers, Auto Parts and Accessories, Cements, Chemicals, Engineering, Glass & Ceramics Oil & Gas Marketing Companies, Pharmaceuticals, Power Generation & Distribution sectors performed better than the market. On the contrary, Commercial Banks, Fertilizer, Oil & Gas Exploration Companies, and Textile Composite sectors lagged behind.

What lies ahead for the stock market? In the near term, the market would take cue from the progress on the issuance of the Sukuks/Euro Bonds and Current Account numbers, in our view. From the valuation standpoint, despite a hefty 37% rise from its recent low of 28,765 points on August 16, 2019, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 6.9 (Earnings Yield of 14.5%) and is offering an attractive dividend yield of about 6%. Despite slowdown in the economic activity, in our view, corporate earnings are expected to grow at double-digit rates for 2020 and 2021; thanks to the robust profitability of the Index heavy Oil & Gas Exploration, Banking, Fertilizer and Power sectors. Moreover, the case for flow of funds into equities has strengthened amid decline in yields on the fixed income avenues and ongoing drive to document the economy including real-estate sector. Above all, the odds have increased for the foreign portfolio inflows given attractive relative valuations, significant improvement in the external account position, and the oversight of the IMF during the Extended Fund Facility (EFF) period.

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State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement decided to leave the policy rate unchanged at 13.25%. After recording at 11.04% in October 2019, inflation as measured by CPI for November 2019 is expected to clock in near 12.3% on a year-on-year basis. The interbank foreign exchange market has adjusted relatively well and with the continued adjustment in the current account, the rupee has appreciated 5.6% since its low in June 2019. The market sentiment has begun to gradually improve on the back of sustained improvements in the current account and continued fiscal prudence. We project inflation to peak at around 13% on a year-on-year basis in January and expect it to decelerate to 10% by June 2020. Accordingly, we expect the first Policy Rate cut in March 2020.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,100 billion against the maturity of Rs. 1,350 billion. In the first T-Bill auction, an amount of Rs. 844 billion was accepted at cut-off yields of 13.29% for 3-month and 6-month tenures and 12.79% for 12-month tenure, respectively. In the second T-Bill auction, an amount of Rs. 244 billion was accepted at cut-off yields of 13.59%, 13.29% and 13.25% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 134 billion were realized for 3-year, 5-year and 10-year at cut-off yields of 11.8%, 11.45% and 11.35% respectively; while bids for 20-years were rejected. Furthermore, SBP in the recent floating rate PIB auction dated 13-November-19, attracted bids worth Rs. 128 billion. Out of the total bids, only Rs. 55 billion was accepted at a cut-off margin of 39.5 basis points over the benchmark (i.e. weighted average yield of the 06-month Market Treasury Bills).

We have calibrated the portfolio of our money market and income funds based on our interest rate outlook and will remain alert to any developments that may influence our investment strategy.