

Stock Market Review

During February, the stock market came under severe selling pressure; initially sparked by the fears of new taxation measures and expected hike in utility prices as demanded by the IMF under the bailout package; and later on, fuelled by concerns on spread of Coronavirus as the country reported first two cases of the pandemic. The sell-off at the local bourse coincided with the rout in global equities and commodity markets, notably oil due to mounting risks to the global economy emanating from the supply disruption and weakening consumer demand & tourism. The benchmark KSE 100 Index slumped by a hefty 3,647 points (8.8%) on a month-on-month basis.

In the wake of the Coronavirus induced sell-off at the local bourse, investors looked past several positive developments for the country, economy, and the stock market. The much-awaited agreement for a peace deal between Afghan Taliban and the United States was signed that is likely to strengthen Pak-US relations and bring peace & prosperity in the region. The steep fall in the commodity prices, notably crude oil bodes well for the country as it would lower import bill and the resultant reduction in retail fuel prices would moderate inflationary pressure. This in turn, would move closer the highly anticipated monetary easing cycle. These expectations were reflected in the long-term government securities, which saw a decline of 20-40 basis points from their recent highs.

Looking at the participants-wise activity during the month, against a hefty USD 56 million selling by the Foreign Investors, Insurance Companies bought shares worth the same amount. Mutual Funds and Companies were other major sellers in the market, offloading shares to the tune of USD 24 million and USD 4 million, respectively. On the contrary, Other Organizations, Individuals, and Banks/DFIs emerged as other major buyers in the market, accumulating fresh positions to the tune of USD 13 million, USD 8 million, and USD 7 million, respectively.

What the future holds for the market? While it is hard to call a market bottom, these are good entry levels for long-term investors as the fundamental story of our stock market remains intact. After the sharp decline during the month, the market is trading at an extremely attractive forward Price-to-Earnings (P/E) multiple of 6.3 and offers a healthy 6% dividend yield. We expect corporate earnings to grow at double-digit rate for 2020 and 2021. Lower than the market consensus inflation reading for February and steep decline in international crude oil prices have made a case for monetary easing sooner than the earlier expectation. Given attractive valuations, healthy corporate earnings growth, and improving macroeconomic indicators, we reiterate our positive view on the market. Taken together, we advise investors to build position in the market via our NBP Stock Fund, keeping their long-term investment objectives in mind as the stock market is well poised to deliver strong returns in 2020, and beyond.

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Helped by the decline in prices of perishable food items, inflation as measured by the CPI has clocked-in at 12.4% compared with 14.6% reading for the previous month. We expect inflation to maintain the downward trajectory as food prices moderate further and base effect kicks-in. Resultantly, we expect the beginning of monetary easing cycle in the near future. We estimate that sharp drop in inflation in the next twenty-four months is likely to cause a corresponding 3-4% cut in the Policy Rate.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 600 billion against the maturity of Rs. 403 billion. In the first T-Bill auction, an amount of Rs. 273 billion was accepted at a cut-off yield of 13.41%, 13.30% and 13.52% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 414 billion was accepted at a cut-off yield of 13.39%, 13.34% and 13.33% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 61 billion were realized for 3-year, 5-year and 10-year tenures, at a cut-off yield of 12.05%, 11.40% and 11.00% respectively; while bids for 20-year tenure were rejected. Furthermore, SBP in the recent floating rate PIB auction dated February 4th, attracted bids worth Rs. 82 billion. Out of the total bids, Rs. 65 billion was accepted at a cut-off margin of around 50 basis points over the benchmark (i.e. weighted average yield of the 6-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.