NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

April 10, 2020

Sajjad Anwar, CFA
Chief Investment Officer

After surging by 12.5% in the previous week, the stock market continued its ascent during the outgoing week ending 11th April, with a gain of 1.3%. The benchmark KSE-100 Index closed the week at 32,033 points.

The market remained very volatile throughout the week, gyrating on major news on both domestic and international fronts. Investors reacted sharply to the negative news initially as it emerged that IMF is likely to delay the completion of second review and hence the release of third tranche of USD 450 million. The market also did not find any solace in the construction package announced by the PM. Downward revision of the economic growth by various international agencies, such as the WB and ADB added to the investors' pessimism. In terms of positive news-flow, IMF is likely to approve Pakistan's request for USD 1.4 billion, Rapid Financing Instrument (RFI), in its meeting scheduled for 16th April. World Bank approved a package of USD 200 million for Pakistan to fight the Covid-19 pandemic. FATF extended the deadline for complying condition for Pakistan, up to September 2020, from June-20. Yields on T-Bills continued to decline, as 12-month T-Bill yield dropped by 84bps during the week to 9.42%, which hints at further decline in interest rate in the near term, as inflation expectation remains benign in the short to medium term.

In terms of participant-wise activity during the week, Foreign Investors were again major sellers in the market, trimming down their positions by USD 16 million. Additionally, Companies & Other Organizations remained other sellers in the market, liquidating shares worth USD 2 million and USD 1 million, respectively. On the other hand, Individuals Investors, Insurance Companies, and Banks/DFIs remained major buyers in the market, accumulating fresh positions to the tune of USD 9 million, USD 5 million, and USD 3 million, respectively.

There is no denying that Covid-19 pandemic has sent shock waves across the world, crippling the global economy. Though the cases in the country are still on the rise, we expect these to peak in coming days. Though the prolonged closure is certainly going to decelerate our growth for the ongoing year, however, looking beyond the current year, we remain optimistic that the recovery will also be strong, given that the authorities has offered relief package to businesses and common man, in the form of strong monetary easing and fiscal expansion. The sell-off in the equities from January to March has priced in to a major extent a degree of economic damage that will eventually pass. We believe that, despite the elevated uncertainty, foundation of an eventual economic recovery is very much in place. And, as we have witnessed in prior market downturns, investors who held their positions during the declines were rewarded with remarkable returns. More specifically, after a hefty decline of 63% in the 1998 crisis, the market delivered a robust return of 381% during the subsequent five years. Similarly, after a sharp decline of 69% in the 2008 crisis, the stock market delivered a hefty 461% return during the next five years.

Though near-term earnings of listed corporate sector are likely to be impacted, we see normalcy from 1QFY21 and profitability is still expected to remain robust in the next 2-3 years. From the valuation perspective, even after incorporating the short-term earnings blip, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.5x against the 10-year average of 8x.

Bottom line: Given a strong case for equities, we advise investors to ignore large swings in the market sporadically, and build position in the market via our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.