

Stock Market Review

March turned out to be an extremely tough month for equity investors as panic driven by the spread of highly contagious Coronavirus (Covid-19) fuelled indiscriminate selling at the local bourse with the benchmark KSE 100 Index falling by a massive 8,754 points (23%) on a month-on-month basis. This dismal performance of the stock market coincided with the rout in global equities and collapse in global oil prices due to weakening demand for the fossil fuel and breakdown in supply arrangement among the OPEC+ members. Just to recall, the market decline by a hefty 3,647 points (8.8%) during February 2020.

During the month, Auto Parts & Accessories, Cement, Glass & Ceramics, Chemical, Engineering, Fertilizer, Pharmaceuticals, Technology & Communication, and Power Generation & Distribution sectors performed better than the market. On the contrary, Oil & Gas Exploration, Banking, Oil & Gas Marketing Companies (OMCs), Paper & Board, Auto Assemblers, and Textile Composite sectors lagged behind. Looking at the participants-wise activity during the month, Foreign Investors remained the major sellers in the market, liquidating positions to the tune of USD 85 million. Alongside, Mutual Funds emerged as other main sellers, with outflows of USD 14 million. On the other hand, Insurance Companies, Banks/DFIs, and Individuals emerged as large buyers in the market, accumulating fresh positions to the tune of USD 59 million and USD 22 million, and USD 19 million, respectively.

What to expect from the market going forward? The lockdown necessitated by the social distancing requirement has resulted in the cessation of economic activity to a large part of the economy. However, we expect economic activity to rebound from 1st quarter of FY21 as the spread of pandemic subsides. The historic fiscal and monetary policy actions would somewhat contain the economic damage. The SBP has slashed the Policy Rate by a cumulative 2.25%. To ease financial conditions, the SBP has made amendments in prudential regulations for corporates / commercial banks. The government has announced Rs 1.2 trillion stimulus package, equivalent to 2.8% of the GDP, which includes relief for all sectors of the society including the poor, businesses, and the industries. From the valuation standpoint, the market is trading at an extremely attractive Price-to-Earnings multiple of 5.7x and offers a healthy 8% dividend yield. The expected moderation in inflation due to weakening of consumption demand and declining retail fuel prices have made a case for further cut in the Policy Rate in the coming months. Taken it all together, we advise investors to ignore the recent market turmoil and consolidate position in equities, focusing on their long-term investment goals.

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In its Monetary Policy Committee (MPC) meeting held on 17th March 2020, the State Bank of Pakistan decided to cut the Policy Rate by 75 bps to 12.5%. This decision was made keeping in view the significant decrease in oil prices, slowdown in overall demand due to coronavirus outbreak and improvement in inflation outlook. To counter the economic impact following the lockdown and cessation of the business activity; and moderation in inflation expectation due to sharp fall in global oil prices, the SBP decided to further cut the interest rate by a further 150 bps to 11% in its meeting held on 24th March 2020.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 850 billion against the maturity of Rs. 732 billion. In the first T-Bill auction, an amount of Rs. 354 billion was accepted at a cut-off yield of 12.73%, 12.51% and 12% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 554 billion was accepted at a cut-off yield of around 11.3% for 3-month & 6-month tenures and 10.87% for 12-month tenure. In the PIB auction, bids worth Rs. 109 billion were realized for 3-year, 5-year, 10-year and 20-year tenures at a cut-off yield of 11.59%, 10.99%, 10.85% & 11.8%, respectively. Furthermore, SBP in the recent floating rate PIB auction dated March 20th attracted bids worth Rs. 252 billion. Out of the total bids, only Rs. 57 billion was accepted at a cut-off margin of 25 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.