

Stock Market Review

During April, amid heightened volatility, the market staged a strong recovery with a staggering 17% gains in the benchmark KSE 100 Index on a month-month basis, after a hefty 23% slump during March. The market started off the month on a positive note, carrying forward the positive momentum that started from the market trough of 27,229 points hit on March 25th, 2020. A cumulative 425 bps cut in the Policy Rate by the SBP and a slew of the measures for debt forbearance and moratorium on the principle repayment / deferment of the debt servicing allayed investors concerns. To mitigate the impact of Covid-19 on the economy, the government also launched an unprecedented fiscal stimulus covering common man, businesses, and industries. The slow pace of the infection cases and a much lower death toll raised hopes that the country would avoid the worst, which was earlier anticipated. After collapsing to multi-year lows due to weak demand and squeezed storage capacity, a sharp recovery in the global crude oil prices during the latter part of the month also provided impetus to the market. It was later on some progress on the potential treatment of Coronavirus that lifted the sentiment of the market participants. The market rally was broad-based as almost all sectors, barring banks, contributed to the gain in the Index. Investors also looked favourably towards the April inflation reading, expecting a material drop in MoM price levels, solidifying the case for further monetary easing by the SBP.

During the month, Automobile Assemblers, Cement, Glass & Ceramics, Chemical, Engineering, Oil & Gas Exploration, Paper & Board, Textile Composite, Oil & Gas Marketing Companies (OMCs), and Power Generation & Distribution sectors performed better than the market. On the contrary Banking, Food & Personal Care Products, Technology & Communication 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 69 million. On the contrary, Mutual Funds emerged as other main buyers, amounting to USD 34 million. Alongside, Insurance, Companies, and Individuals emerged as other large buyers in the market, accumulating fresh positions to the tune of USD 19 million and USD 12 million, and USD 10 million, respectively.

What lies ahead for the market? There is no denying that the recent turmoil in economic activity and sell-off of the equities from the January peak were primarily caused by the spread of Coronavirus pandemic. So, any progress on the potential treatment or respite in the infection cases, will determine the course of the economic and stock market recovery. Though the Covid-19 cases in Pakistan are still on the rise, experts say that the country would hit the peak in May. The sharp decline in the global oil prices and major debt relief offered by the multilateral agencies have mitigated the risks to the Balance of Payment (BoP) position, at least in the short to medium term. Furthermore, after more than expected drop in monthly inflation reading of April-20 and expectation of further moderation in the inflationary trend henceforth, the case for further monetary easing in the near-term has strengthened. From the valuation perspective, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7x against the 10-year average of 8x. The market also offers a healthy dividend yield of 6%. Taken it all together, we advise investors to ignore short-term swings in the market and build position in equities.

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In its emergency meeting on 16th April, 2020, the State Bank of Pakistan decided to further cut the Policy Rate by 200 bps to 9%. This decision was made keeping in view the significant decrease in oil prices, improvement in inflation outlook, and the slowdown in overall demand due to outbreak of Coronavirus. Average inflation for FY2020 is expected to clock-in at around 11%, which is likely to further drop to around 6.3% in FY2021. We expect continuation of monetary easing going forward in line with the downward trend of inflation and anticipate a further 200 bps cut in the Policy Rate to 7% in the near term.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,000 billion against the maturity of Rs. 1,002 billion. In the first T-Bill auction, an amount of Rs. 518 billion was accepted at a cut-off yield of 10.9%, 10.3% and 9.65% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 484 billion was accepted at a cut-off yield of 8.4%, 8% and 7.48% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 113 billion were realized for 3-year, 5-year, 10-year, 15-year and 20-year at a cut-off yield of 8.56%, 8.83%, 9%, 10.49% and 10.7%, respectively. Furthermore, SBP in the recent floating rate of PIB auction dated 15th April, attracted bids worth Rs. 110 billion. Out of the total bids, only Rs. 53 billion was accepted at a cut-off margin of 25 basis points over the benchmark.

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.