

Stock Market Review

May-20 remained a lacklustre month for equities in terms of performance as the benchmark KSE-100 Index shed 180 points during the month (0.5% down on a MoM basis). After sharp rebound in stock market during April-20, in which the market rose by 16.7%, the market remained in the consolidation phase in May. On one hand investors were perturbed over dismal export numbers, which as per PBS data stood at USD 957 million for the month of April-20, casting doubt over sustainability of Balance of Payment (BoP) situation amid business closures across the globe that suppressed international trade. Even the incentive package of PKR 50 billion for agri sector for subsidized fertilizers, tractors and loans; and further 100 bps cut in Policy Rate failed to excite the market. On the other hand, gradual ease in lockdown offered hope to investors that business were slowly and steadily returning to some form of normalcy despite uptick in Covid-19 cases in the country.

During the month, Automobile Assemblers and Parts & Accessories, Chemical, Food & Personal Care, Insurance, Oil & Gas Exploration Companies, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, Refinery, and Technology & Communication sectors performed better than the market. On the contrary, Cement, Commercial Bank, Engineering, Glass & Ceramics, Power Generation & Distribution, and Textile Composite sectors lagged behind. Looking at the participant-wise activity during the month, Foreign Investors remained major sellers in the market, liquidating positions to the tune of USD 40 million. Alongside, Mutual Funds and Banks/DFIs were other main sellers, with outflows amounting to USD 10 million and USD 9 million, respectively. On the buying front, Individuals emerged as large buyers in the market, accumulating fresh positions to the tune of USD 41 million. Other Organizations and Insurance were also buyers with net inflows of USD 8 million and USD 4 million, respectively.

In terms of outlook, we reckon that the recent spike in new Covid-19 cases remains worrisome but low fatality rate in patients in the country remains encouraging for policy makers that continue to ease restrictions on businesses. With the availability of antiviral drug in a couple of months and a potent vaccine in a few months' time, investors should look past the Covid-19 disruption. The historic fiscal and monetary policy actions would somewhat contain the economic damage and we expect economic activity to return to some normalcy from 1st quarter of FY21 as the spread of pandemic subsides. Discussions between the authorities and the IMF have resumed for the second review of EFF, and any constructive outcome will lend support to the BoP situation of the country. The market will also take cue from the upcoming budget for FY2020-21, scheduled on 12th June. From the valuation standpoint, the market is trading at an undemanding Price-to-Earnings multiple of 6.9x and offers a healthy 6% dividend yield. Although bulk of the decline in Policy Rate has already taken place in our opinion, further moderation in inflation due to slackening demand and continued decline in retail fuel prices warrant another 100 bps cut in Policy Rate going forward. Taken it all together, we advise investors to stay course and ignore the market volatility and consolidate position in equities, focusing on their long-term investment goals.

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In its bi-monthly Monetary Policy Statement, the State Bank of Pakistan (SBP) decided to further reduce the Policy Rate by 100 bps to 8%. The decision was based on the improved inflation outlook, in response to the continued fall in global oil prices – considering the real, external and fiscal sectors post-corona pandemic. Inflation for May clocked-in at 8.2% on a year-on-year basis. Average inflation for FY2020 is expected to clock-in at around 11%, which is likely to further drop to around 7% in FY2021. We expect continuation of monetary easing going forward in line with the downward trend of inflation. We anticipate a further 100 bps cut in the Policy Rate to 7% over the next few months.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 725 billion against the maturity of Rs. 602 billion. In the first T-Bill auction, an amount of Rs. 402 billion was accepted at a cut-off yield of 8.39%, 8.00% and 7.75% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 215 billion was accepted at a cut-off yield of 8.15%, 7.81% and 7.75% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 172 billion were realized for 3-year, 5-year, 10-year, and 15-year at a cut-off yield of 7.64%, 8.05%, 8.69% and 9.97%, respectively. However, bids for 20-year were rejected. Furthermore, SBP in the recent floating rate of PIB auction dated 29th May, attracted bids worth around Rs. 80 billion. Out of the total bids, only Rs. 70 billion was accepted at a cut-off margin of 43 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.