

Stock Market Review

After a hefty run-up seen in the previous two months, during Sept-20, the stock market took a breather as the benchmark KSE-100 Index fell by 539 points on a month-on-month basis. The market started off the month on a positive note driven by the improving incoming economic data and positive news-flow. Revenue collection for Aug-20 remained flat on a YoY basis, confirming normalizing economic activities. The external account numbers again remained encouraging as the country posted a Current Account surplus of USD 297 million, taking 2M surplus to USD 805 million, versus a deficit of USD 1,214 million in the corresponding period last year. Large Scale Manufacturing (LSM) numbers for July-20 released during the month, also reaffirm the gradual pick-up in economic activity post lifting of Covid-19 lockdown. In another positive development, The World Bank's International Centre for Settlement of Investment Disputes (ICSID) granted a stay on the enforcement of a penalty (USD 5.97 billion) awarded against Pakistan in the Reko Diq mining lease dispute. The market cheered up these developments with gains of 1,500 plus points in the initial few days. However, the market failed to carry the momentum, as rising political temperature in the country, following 11-party opposition's All Parties Conference (APC) that demanded resignation of Prime Minister Imran Khan, dented investors' confidence. It was the arrest of a key leader from the opposition party that added to investors' angst. The Monetary Policy Committee (MPC) also met during the month that decided to maintain the Policy Rate at 7%, in line with the market expectations.

During the month, Cements, Engineering, Fertilizers, Food & Personal Care, Glass & Ceramics, Oil & Gas Marketing Companies, Paper & Board, and Technology performed better than the market. On the contrary, Auto Assemblers & Parts, Oil & Gas Exploration Companies, Power Generation & Distribution, and Textile sectors lagged behind. On participant-wise activity, Banks/DFIs, Companies, and Brokers remained major sellers in the market, liquidating stocks worth USD 12 million, USD 7 million, and USD 10 million respectively. Foreigners again remained big seller with outflows to the tune of USD 33 million. On the contrary, Individuals and Insurance Companies were the largest buyers with net inflows amounting to USD 32 million and USD 23 million.

Despite an impressive 49% run-up from the recent bottom hit at end of March, we believe that the stock market still holds potential to offer handsome returns in the medium to long term. Though the market may remain choppy in the short term, our sanguine view on the market is underpinned by improvement on Coronavirus front and supportive macroeconomic environment. Although, Covid-19 infection cases have started to rise again, the numbers still remain mild and in our view, its impact on economy is going to be only marginal. Furthermore, any tangible development on the vaccine front will also excite the market, which is not very off, as 42 vaccines are in clinical trial phase on humans worldwide, with eleven vaccines under large-scale efficacy test and five approved for early / limited use. On the economic front, we expect continuation of accommodative monetary policy given benign inflation outlook in the near term. External account is also likely to remain manageable given soft oil prices, surplus generated in the Current Account in 2M and nascent recovery in exports and continuation of multilateral inflows. From the valuation standpoint, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7.6x and offers a healthy 5.3% dividend yield. Taken it all together, we advise investors to ignore the short term market volatility and consolidate position in equities, focusing on their long-term investment objectives.

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The State Bank of Pakistan in its monetary policy committee (MPC) meeting held on 21st September 2020, left the Policy Rate unchanged at 7%. The SBP stated that the outlook for growth has improved since last month along with the business confidence. In our view, inflation as measured by the CPI is expected to moderate to around 8% in FY21 after clocking in at 10.7% in FY20. After aggressive monetary easing in the wake of the Coronavirus shock to the economy, we anticipate that the interest rates have bottomed out. The SBP is likely to maintain the current easier monetary policy stance in the near term to the nascent economy recovery.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 800 Billion against the maturity of Rs. 1,098 billion. In the first T-Bill auction, an amount of Rs. 354 billion was accepted at a cut-off yield of 7.14%, 7.18% and 7.30% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 500 billion was accepted at a cut-off yield of 7.13%, 7.18% and 7.31% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 3.44 billion were realized for 3-year, 5-year, 10-year & 20-year tenures at a cut-off yield of 8.20%, 8.45%, 8.99% and 10.55%, respectively.

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.