

Stock Market Review

The stock market remained buoyant throughout the month of Dec-20, as the benchmark KSE-100 Index surged by 2,687 points (6.5%) on a month-on-month basis. In the process the Index close the month at 43,755. During CY2020, the market (KSE-100 Index) delivered a modest return of 7.4%. However, during FYTD through December 31st, the market soared by 27.1%.

The market started off the month on a positive note on the back of above expected efficacy results of multiple Coronavirus vaccines. The investors pinned their hopes on earlier than expected approval and roll out of the vaccines that were proven right later on during the month when several European countries and USA commenced vaccinations. Though on the local front, Covid-19 cases remained on the higher side, investors looked past these numbers. Unimpressive showing by the PDM's rally in Lahore allayed investors' concerns on the domestic politics. Furthermore, the market sentiments were also propped up by sustained uptrend in economic activity as manifested by the frequently released economic data. Current account again remained surplus for the fifth month in a row in November, amounting to USD 447 million. Overall, during 5MFY21, current account surplus of USD 1.64 billion was recorded, as against a CAD of USD 1.75 billion in the same period last year. Large Scale Manufacturing Index (LSMI) increased by 5.46% on a yearly basis during July-October 2020-21, reflecting buoyancy in the manufacture sector.

During the month, Engineering, Glass & Ceramics, Paper & Board, Refinery, Technology, and Textile Composite sectors performed better than the market. On the contrary, Commercial Banks, Oil & Gas Exploration, Power Generation & Distribution, and Transport sectors lagged behind. On participant-wise activity, Companies, Individual, and Insurance remained major buyers in the market, adding stocks worth USD 57 million, USD 33 million and USD 23 million, respectively. Selling from the Foreigners continued during the month with net outflow amounting to USD 96 million. Likewise, Banks/DFIs were other major sellers with net outflows of around USD 33 million.

What lies ahead for the market in 2021? After a modest return in the outgoing CY20, we expect the market to deliver robust returns in CY21. Our positive view on the market is underpinned by improving prospects of the domestic economy, attractive market valuations, and buoyancy in the corporate earnings outlook. External account remains comfortable, and core inflation outlook is benign. The SBP is likely to continue with the accommodative monetary policy stance in the coming months with a gradual rise in the Policy Rate from 4QFY21. From the valuation perspective, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.1x, versus 10-year average of 8.5x. Similarly, the market is valued at P/BV of 1x versus the long-term average of 1.75x. In addition to this, the market also offers a healthy dividend yield of 5.1%. Corporate earnings, the key determinant of stock market performance are expected to grow at a double-digit rate over the next two to three years, based on our estimates.

Taken it all together, we advise investors to ignore the short-term volatility and consolidate position in equities, focusing on their long-term investment objectives.

Money Market Review

Since the last Monetary Policy Committee (MPC) meeting held in November 2020, the overall market activity has improved. For December, inflation as measured by the CPI clocked in at 8% due to decline in food prices owing to the improved supply situation. The net liquid foreign exchange reserves of the SBP increased by USD 38 million to USD 13.15 billion in December. In our base case scenario, we expect the reversal of the monetary easing from the 4th quarter of FY21 with a modest 1%-1.5% hike in the Policy Rate during CY21.

During the outgoing month, SBP held three T-Bill auctions with a combined target of Rs. 1,225 billion against the maturity of Rs. 1,476 billion. In the first T-Bill auction, an amount of Rs. 396.5 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. 409.4 billion was accepted at a cut-off yield of 7.11%, 7.17%, and 7.24% for 3-month, 6-month, and 12-month tenures, respectively. In the third T-Bill auction, an amount of Rs. 638 billion was accepted at a cut-off yield of 7.15%, 7.20%, and 7.29% for 3-month, 6-month, and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 13.27 billion were realized for 3-year, 15-year & 20-year tenures at a cut-off yield of 8.24%, 10.00%, and 10.58%, 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.