NBP FUNDS
Managing Your Savings

January 2021

Stock Market Review

Carrying forward the positive momentum, the stock market remained upbeat during January 2021, as the benchmark KSE-100 Index surged by 2,630 points (an increase of 6%) on a month-on-month basis. The Index closed the month at 46,386 points. To put things into context, during FYTD through January 31st 2021, the market has delivered a robust return of 35% and it has surged by a massive 70% from its bottom hit on March 25th 2020. This remarkable market performance is attributable to attractive market valuations, encouraging development on the Coronavirus front with the start of vaccinations worldwide, improving economic outlook, and promising corporate earnings prospects.

During the month, Chemical, Engineering, Oil & Gas Marketing, Glass & Ceramics, Power Generation & Distribution, Refinery, Technology, and Textile Composite sectors performed better than the market. On the contrary, Commercial Banks, Oil & Gas Exploration, Automobile Assemblers, Fertilizer, Paper & Board, Pharmaceuticals, and Transport sectors lagged behind. On participant-wise activity, Individuals and Companies stood as major buyers in the market, adding equities worth USD 44 million and USD 15 million, respectively. Insurance Companies, Banks/DFIs, and Broker Proprietary Trading were major sellers, offloading their positions by USD 27 million, USD 13 million, and USD 12 million, respectively.

What lies ahead for the market? Despite robust rally, we hold on to our sanguine view on the market. On the economic front, economic activity has picked up pace as reflected by the frequently released economic data such as cement dispatches, automobile sales volumes, and sales of the retail fuel. Buoyancy in the manufacturing sector is also corroborated by a robust 7.41% growth in the Large-Scale Manufacturing Industries (LSMI) during July-November 2020 versus the same period last year. After posting five consecutive months of surpluses, the current account registered a deficit of USD 662 million in December. However, during 1HFY2021, a current account surplus of USD 1.1 billion was recorded compared to a deficit of USD 2 billion during 1HFY2020. CPI inflation has moderated to 5.7% in January 2021 as compared to 8.0% in December 2020. In its recent meeting, the SBP has signalled continuation of the prevailing accommodative monetary policy regime in the coming months.

From the fundamental perspective, the market is valued at an attractive forward Price-to-Earnings (P/E) multiple of 7.3x, versus 10-year average of 8.5x. In addition to this, the market also offers a healthy dividend yield of 5%. Corporate earnings are expected to grow at a double-digit rate over the next two to three years. Strong showing by the majority of the companies in the ongoing corporate results season has validated the recent rally at the local bourse and would power the next up moves, in our view.

Money Market Review

State Bank of Pakistan (SBP) decided to leave the policy rate unchanged at 7% in its last Monetary Policy Committee (MPC) meeting held on 22nd January 2021. Helped by the expected decline in prices of food component, inflation as measured by the CPI clocked in at 5.7% versus 8% in the previous month. We expect inflation to gradually pick-up due to abatement of base effect, passthrough of recent hike in the retail fuel prices, and expected hike in Power & Gas tariffs. Current account registered a deficit of USD 662 million in December mainly owing to large trade deficit due to increase in import of machinery, commodities and industrial raw materials. We expect a modest 1%-1.5% hike in the Policy Rate in CY2021.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 875 billion against the maturity of Rs. 1,003 billion. In the first T-Bill auction, an amount of Rs. 571 billion was accepted at a cut-off yield of 7.17% and 7.20% for 3-month and 6-month, respectively whereas, bids for 12-month were rejected. In the second T-Bill auction, an amount of Rs. 487 billion was accepted at a cut-off yield of 7.16%, 7.49%, and 7.80% for 3-month, 6-month, and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 35 billion were realized for 3-year, 5-year & 10-year tenures at a cut-off yield of 8.50%, 9.53%, and 9.99%, 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.