

Stock Market Review

During March, the stock market remained in a corrective phase, as the benchmark KSE-100 Index fell by 1,277 points (around 2.8%) on a month-on-month basis. Despite the modest decline of around 3.9% in the last two months, the market is still up by a significant 30% during FY2021 to date. A few factors have contributed to this lacklustre performance of the market. Foremost was the elevated political noise during the month, surrounding the bitterly contested Senate elections, in which the ruling PTI candidate on the Islamabad Senate seat, FM Dr Abdul Hafeez Shaikh suffered defeat. The market was also concerned about the long march announced by the PDM, which was eventually put off. The market ignored the much-awaited revival of the stalled IMF program and receipt of USD 500 million under the Extended Fund Facility for budgetary support. On the contrary, investors remained wary of tough conditions by the IMF, including withdrawal of corporate tax exemptions of around PKR 140 billion, steep hike in utility tariffs with its implications for both inflation and listed corporate sector profitability. The unceremonious ouster of the Finance Minister and SAPM Petroleum was also not well received by the market. Lastly, the rising number of Covid-19 cases also sent jitters in the market, as infection ratios rose to the double digit and daily cases hovered around 4,500, the highest level since June-2020.

During the month, Automobile Assemblers, Chemical, Commercial Banks, Refinery, and Technology sectors performed better than the market. On the contrary, Auto Parts, Cements, Food & Personal Care, Glass & Ceramics, Oil & Gas Marketing, Paper & Board, Pharmaceuticals and Textile Composite sectors lagged behind. In terms of activity, Insurance, Individuals and Other Organisations stood as major buyers in the market, adding equities worth USD 16 million, USD 11 million and USD 9 million, respectively. Mutual Funds, Companies, and Foreigners were major sellers, offloading their positions by USD 17 million, USD 11 million, and USD 8 million, respectively.

Looking ahead, we maintain our sanguine outlook on the stock market premised on the improving economic outlook, strong rebound in corporate earnings growth, attractive market valuations, and supportive monetary conditions. Large Scale Manufacturing numbers continue to remain robust as (LSM) index rose sharply by 9.1% during January-21, taking 7MFY21 growth to an impressive 7.85%. External account remains comfortable as eight months' cumulative Current Account stands in a surplus of USD 881 million. The recent issue of Eurobonds worth USD 2.5 billion will augment SBP's FX reserves. From the valuation stand point, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6x, versus 10-year average of 8.5x. The market also offers a healthy dividend yield of 5%. We expect corporate earnings to grow at a double-digit rate over the next two to three years. Though recent rise in Covid-19 cases is a cause of concern, we reckon that effective implementation of smart lockdowns will circumvent the need of full scale lockdown and thus we do not see any material risks to earnings growth. We anticipate continuation of accommodative monetary policy regime in the coming months with a modest 1%-1.5% hike in the Policy Rate during CY21.

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The SBP maintained the Policy Rate at 7% in its MPC meeting held in March 2021. The SBP cited that the business sentiment and overall market activity have improved but downside risk still persists due to the emergence of third wave of Covid-19 in Pakistan. Average inflation in the coming months is expected to remain in the upper end of previously announced range of 7-9 percent mainly because of expected hike in electricity tariffs and rise in sugar and wheat prices. The inflation measured by the CPI for March 2021 clocked in at 9.1% on a YoY basis. We expect a modest 100-150 bps increase in the Policy Rate during CY21.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,750 billion against the maturity of Rs. 1,593 billion. In the first T-Bill auction, an amount of Rs. 700 billion was accepted at cut-off yields of 7.59%, 7.80% and 7.79% for 3-month, 6-month, and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 1,516 billion was accepted at cut-off yields of 7.54% and 7.80% for 3-month and 6-month tenures, whereas, bids for 12-month tenor were rejected. In the PIB auction, bids worth Rs. 84.9 billion were realized for 3-year, 5-year and 10-year tenures at a cut-off yield of 9.41%, 9.90% and 10.29%, 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.