

Stock Market Review

During April 2021, amid large daily swings, the market remained listless with the benchmark KSE-100 Index falling by 326 points (modest decline of 0.7%) on a month-on-month basis. It may be recalled that the market declined by 2.8% during March 2021. In our view, this lacklustre market performance is attributable to mounting investors' concerns on the surging Coronavirus cases in the country and threat to the business activity and corporate profitability. On the other hand, the market completely ignored robust ongoing corporate result season where majority of the companies across various sectors posted robust earnings, some even surpassing lofty expectations. Long awaited resumption of the IMF program and in turn release of tranche of USD 500 million and borrowing of USD 2.5 billion through Eurobonds during the last month also failed to lift market sentiments. We see the recent market correction as a buying opportunity for investors with medium to long-term investment horizon.

During the month, Auto Parts & Accessories, Chemical, Commercial Banks, Fertilizers, Food & Personal Care, Glass & Ceramics, Pharmaceuticals, Vanaspati and Technology sectors performed better than the market. On the contrary, Auto Assemblers, Cable & Elec. Goods, Engineering, Oil & Gas Exploration and Marketing, Paper & Board, Power, Refineries sectors lagged behind. On participant-wise activity, Other Organizations emerged as the largest buyers in the market with net inflows worth USD 21 million. Alongside, Individuals, Brokers, and Mutual Funds were also buyers with net inflows amounting to USD 7 million, USD 5 million, and USD 5 million, respectively. On the selling front, we saw major net outflows from Foreigners and Companies to the tune of USD 17 million and USD 13 million, respectively.

Going forward, we continue to reiterate our positive view on the market over the medium to long-term investment horizon. Our sanguine view on the market is driven by pick-up in the economic activity, which is also reflected by the robust earnings announcements in the recent results season across various industries. On the economic front, GDP is well poised to grow at around 2.5-3% during FY21 driven by uptick in agriculture sector and buoyancy in the manufacturing sector. External account is also favourably placed as 9MFY21 current account number stands at a surplus of around USD 959 million. SBP's FX reserves stand at USD 16.4 billion, highest level since May-17, and the overall country reserves are also at multi-year high level. To augment Balance of Payment (BoP) position, the recently introduced Roshan Digital Account (RDA) has also achieved great success. The recent surge in the Covid-19 cases and rising infection and fatality ratio are a potential threat to the ongoing economic recovery, however we believe that the valuable experience from the past, and the medical advances/knowledge have allowed the authorities to opt for more targeted controls to contain the spread of this pandemic. Thus, we think that this time around, the economic cost of the restrictions/smart and targeted lockdowns will be limited.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.3x, versus 10-year average of 8.4x. The stock market also offers a healthy dividend yield of 6%. Earnings of the corporate listed sector are well poised to grow at double-digit rate over the next two to three years, based on our estimates.

In our view, the market holds potential to deliver robust return in CY21, and beyond driven by: (i) double-digit corporate earnings growth rate over the next two to three years; (ii) a healthy 6% dividend yield; and (iii) some P/E re-rating. Therefore, investors with medium to long-term horizon are advised to build positions in equities through our NBP stock funds.

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With a quantum jump in food prices, inflation as measured by CPI clocked in at 11.1% on a year-on-year basis for April 2021, compared with 9.1% for the previous month. We expect CPI to remain elevated in the next few months due to base effect, expected upward adjustment in power tariff, and some revenue measures in the upcoming federal budget. However, to counter the risks to the economic recovery from the recent surge in the Covid-19 cases in the country, the SBP is expected to maintain the prevailing accommodative monetary policy stance. We anticipate a modest 50-100 bps increase in the Policy Rate in CY21.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,600 billion against the maturity of Rs. 1,432 billion. In the first T-Bill auction, an amount of Rs. 842 billion was accepted at a cut-off yield of 7.47% and 7.80% for 3-month and 6-month tenures, whereas, bids for 12-month tenor were rejected. In the second T-Bill auction, an amount of Rs. 689 billion was accepted at a cut-off yield of 7.40% and 7.69% for 3-month and 6-month tenures, whereas, bids for 12-month tenor were rejected. In the PIB auction, bids worth Rs. 211 billion were realized for 3-year, 5-year, 10-year, 15-year and 20-year tenures at a cut-off yield of 9.27%, 9.85%, 10.25%, 10.48% and 10.61%, 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.