Stock Market Review

After lacklustre performance in the past few months, the market rebounded sharply during the outgoing month of May-21, as the benchmark KSE-100 Index surged by 3,634 points (a hefty gain of 8.2%) on a month-on-month basis. The erstwhile spiritless performance was due to investors' concerns on rising Covid-19 cases in the country, posing threat to the business activity and a drag on corporate profitability. However, as infection ratios waned, owing to strict enforcement of SOPs and other restrictions, positivity returned to the market. The market confidence was further boosted by the encouraging developments on the economic front. The National Accounts Committee released the GDP growth estimates, where the economic growth is anticipated to be around 3.9% for FY21, surpassing all projections. As has been highlighted repeatedly in our previous notes, the frequently released economic data was already pointing towards strong economic rebound, after 0.5% GDP contraction last year. Furthermore, the market also cheered the comments of the newly appointed Finance Minister, hinting no hike in utility tariffs and no new taxes in the upcoming federal budget. The minister also alluded that to increase government revenues focus will be on withdrawing certain exemptions and broadening of the tax base using technology.

During the month, Auto Assemblers, Cements, Engineering, Glass & Ceramics, Oil & Gas Marketing, Paper & Board, Technology & Communication sectors performed better than the market. On the contrary, Automobile Parts & Accessories, Chemicals, Fertilizers, Food & Personal Care, Oil & Gas Exploration Companies, Pharmaceuticals, and Refineries sectors lagged behind. On participant-wise activity, Individuals, Other Organizations and Companies emerged as larges buyers in the market with net inflows worth USD 26 million, USD 17 million, and USD 14 million, respectively. On the selling front, we saw major net outflows from Foreigners, Insurance Companies, and Mutual Funds to the tune of USD 43 million, USD 11 million and USD 7 million, respectively.

Looking ahead, we reiterate our upbeat view on the market over the medium to long-term horizon. Our sanguine view on the market is underpinned by improvement across many fronts. On the pandemic front, the third wave has been flattened and the pick-up in the vaccination drive will further help keep infection ratios in check. On the economic front, the things are also looking up. After 3.9% growth in the current year, the government is eyeing 4-5% growth in the subsequent years, which is very much achievable in our opinion. The massive TERF financing will augment industrial capacity which will support industrial growth and enhance potential growth of the economy. On the agriculture sector, the government is now focusing to bring efficiencies and improve yields. On the external account front, the country is well poised to post a current account surplus after many years. To augment Balance of Payment (BoP) position, the recently introduced Roshan Digital Account (RDA) has also achieved great success.

From the fundamental perspective, even after a sharply rally in May 2021, the market is still trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6x, versus 10-year average of 8.4x. The stock market also offers a healthy dividend yield of 5.3%. 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 5.3% dividend yield; and (iii) some P/E re-rating. Therefore, investors with medium to long-term horizon are advised to build position in equities through our NBP stock funds.

Money Market Review

State Bank of Pakistan (SBP) continues to pursue an accommodative policy stance to support economic recovery and growth. In the last Monetary Policy Committee (MPC) meeting held on May 28th 2021, the MPC decided to maintain the policy rate at 7%. Headline inflation as measured by the CPI clocked in at 10.87% for May 2021, lower than the market consensus. Average inflation for 11MFY21 came in at 8.83% compared with 10.94% in the corresponding period last year. The inflation is likely to remain elevated in the coming months on a year-on-year basis due to the low base effect.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 1,000 billion against the maturity of Rs. 674 billion. In the first T-Bill auction, an amount of Rs. 600 billion was accepted at a cut-off yield of 7.35%, 7.55% and 7.69% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 558 billion was accepted at a cut-off yield of 7.35%, 7.60% and 7.69% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 206 billion were realized for 3-year, 5-year, 10-year, 15-year and 20-year tenures at a cut-off yield of 8.70%, 9.20%, 9.84%, 10.40% and 10.56%, 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.