

## Stock Market Review

After rising by a hefty 8.2% in May-21, the market depicted lacklustre performance during June-21 as the benchmark KSE-100 Index fell by 540 points (a decline of 1.1%) on a month-on-month basis. It merits highlighting that the market has delivered a robust 38% return during FY21 and it has surged by 74% from its March-2020 bottom. In our view, investors have opted cautious approach, weighing the incentives offered and new taxation measures taken in the federal budget FY22. A key development during the month that grabbed market attention was the Financial Action Task Force (FATF) decision to maintain Pakistan on the watchdog's "increased monitoring list", commonly known as the grey list. In its announcement, FATF said that Pakistan has made significant progress and it has largely addressed 26 out of 27 items but financial terrorism still needed to be addressed. After a robust rally from its March-20 lows, we hear many investors saying that the market has risen too far too fast and thus it has run its course. However, we see the current market levels as attractive entry point for investors with medium to long term investment horizon given attractive valuations as captured in the P/E multiple of 6.5x; improving economic outlook; and promising corporate prospects.

During the month, Auto Assemblers, Automobile Parts & Accessories, Engineering, Food & Personal Care, Glass & Ceramics, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Technology & Communication and Textile Composite sectors performed better than the market. On the contrary, Cement, Chemicals, Commercial Banks, Oil & Gas Exploration, Oil & Gas Marketing Companies sectors lagged behind. On participant-wise activity during the month, Individuals emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 51 million. Alongside, other main buyers were Companies, Mutual Funds, and Other Organizations, adding equities to the tune of USD 18 million, USD 9 million, and USD 8 million, respectively. On the other hand, Insurance Companies emerged as the largest sellers in the market, liquidating shares worth USD 49 million. Similarly, other major sellers were Foreign Investors and Broker Proprietary Trading, trimming their equity holdings by USD 32 million and USD 11 million, respectively.

Looking ahead, in our view, the market is well poised to deliver strong returns in the medium to long-term driven by attractive market fundamentals; improving economic indicators; easier financial conditions; and robust corporate profitability. It bears repeating that overall, the federal budget FY22 is positive for the stock market: Capital Gains Tax (CGT) on securities has been reduced from 15% to 12.5%; Turnover Tax rate has been lowered to 1.25% from 1.50%; Custom Duties, Additional Custom Duties, and Regulatory Duties on imported raw materials have been brought down; Federal Excise Duties and Sales Tax on some products have also been lowered/abolished; and there is renewed focus on GDP growth, with significantly higher federal and provincial allocation for development spending.

From the fundamental standpoint, the market is valued at an attractive forward Price-to-Earnings (P/E) multiple of 6.5x, versus 10-year average of 8.4x. In addition to this, the stock market also offers a healthy dividend yield of 5.3%. Helped by robust demand and strong profit margins, we expect corporate earnings to grow at double-digit rate over the next two to three years. Further, in the last monetary policy review in May 2021, the SBP has hinted at continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward. We anticipate a modest 1%-1.5% hike in the Policy Rate during FY22.

In our view, the market is well placed to show strong performance in FY22. Therefore, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

## Money Market Review

Average CPI inflation clocked-in at 8.9% in FY21. The government expects headline CPI inflation of around 6-7% for FY2022, while our estimates suggest inflation to remain at around 8.1%. Despite elevated inflation readings, the SBP has hinted at continuation of accommodative monetary policy regime in the near-term with a gradual and measured hike in the Policy Rate, going forward. We anticipate a modest 1-1.5% hike in the Policy Rate during FY22.

During the outgoing month, SBP held three T-Bill auctions with a target of Rs. 2,250 billion against the maturity of Rs. 2,205 billion. In the first T-Bill auction, an amount of Rs. 807 billion was accepted at a cut-off yield of 7.35%, 7.59% and 7.67% for 3-months, 6-months and 12-months tenures. In the second T-Bill auction, an amount of Rs. 1,140 billion was accepted at a cut-off yield of 7.33%, 7.59% and 7.67% for 3-months, 6-months and 12-months tenures. In the third T-Bill auction, an amount of Rs. 821 billion was accepted at a cut-off yield of 7.31% and 7.58% for 3-months and 6-months tenures whereas bids for 12-months tenures were rejected. In the PIB auction, bids worth Rs. 166 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 8.69%, 9.20%, 9.84% whereas no bids were received for 15-years, 20-years and 30-years tenures.

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