

## Stock Market Review

After posting an impressive 38% return during FY21, the stock market started FY22 on a listless note as the benchmark KSE-100 Index shed around 301 points on a month-on-month basis. Throughout the month, the market traded in a very narrow range of around 1,000 points as the index oscillated between 47k and 48k points to close the month at lower bound of the range. Though there was an element of profit taking in the market, as it has risen too fast in a short span of time, the dull performance in the outgoing month can be attributed to a few factors. Firstly, the hasty and unceremonious exit of the US forces from Afghanistan stirred uncertainty amongst investors in terms of security situation in the neighbouring country and its spill-over effect on Pakistan. Secondly, investors were also unnerved by the June-21 current account deficit, which clocked in at USD 1.6 billion for the month, the highest monthly deficit since Dec-18. Thirdly, the rising cases of Covid-19 in the country also unsettled the market participants.

During the month, Auto Assemblers, Chemicals, Commercial Banks, Fertilizers, and Textile Composite sectors performed better than the market. On the contrary, Cement, Engineering, Glass & Ceramics, Oil & Gas Exploration, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, Power Generation and Distribution, and Refineries sectors lagged behind. On participant-wise activity during the month, Insurance Companies, Companies, and Mutual Funds emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 8 million, USD 8 million and USD 7 million, respectively. On the other hand, large selling was witnessed mainly from Foreign Investors and Broker Proprietary Trading, that trimmed their equity holdings by USD 29 million and USD 7 million, respectively.

Looking ahead, we see the recent lacklustre performance of the market as a healthy consolidation. We reiterate our favourable view on the market based on attractive market fundamentals; improving economic indicators; easier financial conditions; and robust corporate profitability. Though investors' concerns on rising CAD and Covid-19 cases are not unwarranted, we believe that the country is better positioned this time to steer through it. The central bank, this time around is not fixated with maintaining a fixed exchange rate and as we have seen that in the past 10-12 weeks, the currency has depreciated by around 6-7% against the USD. Furthermore, any rise in imports due to plant and machinery will either augment export base of the country or offer some import substitution. On Covid-19 front, the vaccination drive has picked pace in recent days and we expect vaccination of major eligible population in a few weeks, which would allow the economy to operate uninterrupted.

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 5.4%. We expect corporate earnings to grow at double-digit rate over the next two to three years. Furthermore, the central bank in the monetary policy review few days back, not only maintained the Policy Rate at 7%, but has again reiterated continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward, which also bodes well for the equity market. 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

In its Monetary Policy Committee (MPC) meeting held on 27th July 2021, the State Bank of Pakistan (SBP) decided to keep the policy rate at 7%. The SBP cited that overall market activity has improved, domestic recovery has gained traction and economic data and indicators have shown constant improvement. Furthermore, inflation expectations have also fallen. The SBP expects average inflation to remain in the band of 7-9 percent for this year. The inflation measured by the CPI clocked in at 8.4% for this month.

During the outgoing month, SBP held two T-Bill auctions with a target of Rs. 1,400 billion against the maturity of Rs. 837 billion. In the first T-Bill auction, an amount of Rs. 672 billion was accepted at a cut-off yield of 7.26% and 7.54% for 3-month and 6-month tenures whereas bids for 12-month tenures were rejected. In the second T-Bill auction, an amount of Rs. 682 billion was accepted at a cut-off yield of 7.24% and 7.52% for 3-month and 6-month tenures whereas bids for 12-month tenures were rejected. In the PIB auction, bids worth Rs. 149 billion were realized for 3-year, 5-year and 15-year tenures at a cut-off yield of 8.69%, 9.20% and 10.40% whereas bids for 10-year tenure were rejected and no bids were received for 20-year and 30-year 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.