September 2021

Stock Market Review

During September 2021, severe selling pressure was witnessed at the local bourse as the benchmark KMI 30 Index lost 5,326 points (a hefty decline of 6.9%) on a month-on-month basis. In our view, this lackluster market performance is mainly attributable to the following key factors: concerns on the corporate profitability after a sharp currency devaluation & steep surge in global commodity prices; worries over the Balance of Payment (BoP) position after a large Current Account Deficit (CAD) of USD 1.5 billion in August 2021 and USD 800 million in July 2021; the developments in the neighboring Afghanistan, Pak-US relations and recognition of Taliban government by international powers. In addition to this, according to the market talks, leveraged positions of retail investors, who received margin calls after continuous decline in the Index accelerated the sell-off of equities during the week ending September 24th 2021.

During the month, Chemicals, Commercial Banks, Fertilizer, Food & Personal Care Product, Power Generation & Distribution, Textile Composite, and Technology sectors performed better than the market. On the contrary, Automobile Parts & Accessories, Automobile Assembler, Cements, Engineering, Oil & Gas Marketing Companies, Paper & Board, and Refinery sectors lagged behind. On participant-wise activity during the month, Foreigners stood as the largest sellers in the market, liquidating their equity holdings to the tune of USD 45 million. Alongside, Mutual Funds and Broker Proprietary Trading were other main sellers, offloading shares worth USD 15 million and USD 10 million, respectively. On the contrary, Individuals stood as the largest buyers, adding their equity positions by USD 29 million. Likewise, Banks / DFI, Insurance Companies, and Other Organization emerged as other major buyers, accumulating shares worth USD 17 million, USD 16 million, and USD 15 million, respectively.

Looking ahead, we reiterate our sanguine view on the stock market driven by: attractive market valuations; robust economic activity; easier financial conditions; and abundant market liquidity. On the economic front, the recent currency devaluation is unlikely to derail the ongoing growth momentum. Due to strong consumer demand, companies are gradually passing on the increasing input costs to maintain profit margins. In addition to this, many Index heavy sectors such as Oil & Gas Exploration, Textile Composite, and Technology & Communication are net beneficiary of currency devaluation and other sectors such as Commercial Banks and IPPs are currency neutral. The central bank looks set to navigate pressure on the Balance of Payment through a flexible exchange rate policy as manifested by over 10% devaluation of the PKR since May-21. Furthermore, to curb imports of luxury items, the SBP has broadened the scope of 100% cash margin requirement on import of another 100+ items and the government has levied regulatory duties on non-essential imported items.

From the fundamental standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.9x, versus 10-year average of 8.3x. The market also offers a healthy 5.7% dividend yield. Given a strong investment case for the stock market, we advise investors with medium to long-term horizon to resist the temptation to exit the market at these levels and consider this market weakness as a buying opportunity.

Money Market Review

Driven by sharp spike in prices of food component, inflation as measured by the CPI inflation clocked-in at 9% for September 2021, exceeding market consensus. In its recent bi-monthly monetary policy review on September 20th, the SBP decided to increase the Policy Rate by 25 bps to 7.25%. The MPC cited that "looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, with possible further gradual tapering of stimulus." We anticipate a modest 100 bps hike in Policy Rate during FY22.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,350 billion against the maturity of Rs. 1,499 billion. In the first T-Bill auction, an amount of Rs. 355 billion was accepted at a cut-off yield of 7.23%, 7.49% and 7.60% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 791 billion was accepted at a cut-off yield of 7.64% and 7.98% for 3-month and 6-month tenures whereas bids for 12-month tenures were rejected. In the PIB auction, bids worth Rs. 98 billion were realized for 3-year, 5-year, 10-year and 15-year tenures at a cut-off yield of 8.88%, 9.18%, 9.83% and 10.40%, respectively whereas 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.