

October 2021

## Stock Market Review

After witnessing severe selling pressure during September-21, the stock market staged a decent recovery during October 2021 as the benchmark KSE-100 Index surged by 1,285 points (up 2.9% on a month-on-month basis). The market started off the outgoing month on a frail note. Investors remained wary of widening Current Account Deficit (CAD) which clocked in at USD 1.1 billion in Sept-21, taking 1QFY22 CAD to USD 3.4 billion versus a surplus of USD 865 million in comparative period last year; and delay in the conclusion of IMF review further discomfited investors. Rising noise in the domestic politics also unnerved the market participants. Furthermore, the protests, sit-in and later on the march of banned TLP further sent jitters in the market. Consequently, by mid of the month, the benchmark Index touched multi-month low of 43,222 points (down by 3.7% from the beginning of the month). However, the stock market bucked the trend in the latter part of the month as Saudi Arabia announced financial support for Pakistan, which included USD 3 billion safe deposit with SBP for one year and USD 1.2 billion deferred oil payment facility. As a result, the market surged by around 6.9% from its recent bottom hit during the month, translating into a month-on-month gain of around 2.9%.

During the month, Auto Assemblers, Cements, Chemicals, Commercial Banks, Engineering, Oil & Gas Exploration, Paper & Board, and Transport sectors performed better than the market. On the contrary, Food & Personal Care, Glass & Ceramics, Oil & Gas Marketing Companies, Power Generation & Distribution Companies, Refinery, Technology and Textile 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 31 million. Alongside, Companies were other main sellers, offloading shares worth USD 19 million. On the contrary, Insurance Companies, and Other Organizations stood as the largest buyers, adding their equity positions by USD 21 million and USD 10 million, respectively.

What lies ahead for the market? 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 BoP front, we believe that authorities appear inclined to contain imports, as seen from the use of various policy tools, like steep currency devaluation, commencement of monetary tightening, levying of regulatory duties on non-essential imported items, and imposition of 100% cash margin requirement on 100+ import items. On the IMF programme, we believe that breakthrough is likely in the coming days, as authorities remain committed to resumption of the program and Advisor on Finance has also hinted towards reaching an agreement shortly. 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 as reflected by the strong earnings announcements in the undergoing corporate results season.

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. Taken together, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

## Money Market Review

Inflation as measured by the CPI spiked to 9.2% on a year-on-year basis in October 2021 owing to sharp rise in food prices and upward revision in the retail fuel prices & power tariff hike due to steep rise in global oil prices & steady currency devaluation. We expect average CPI inflation of 8.9% for FY22. As cited by the SBP in its monetary policy statement in September 2021, we anticipate a measured and gradual increase in the Policy Rate during FY22.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,500 billion against the maturity of Rs. 1,416 billion. In the first T-Bill auction, an amount of Rs. 677 billion was accepted at a cut-off yield of 7.85% and 8.19% 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. 170 billion was accepted at a cut-off yield of 8.25% for 3-month. However, the bids for 6-month and 12-month tenures were rejected. In the PIB auction, bids for 3-year, 5-year, 10-year and 15-year tenures were rejected 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.