

November 2021

Stock Market Review

During November, the stock market came under pressure and declined by 2.4% on a monthly basis, as the index lost 1,112 points to close at 45,072 points. Though the market started off the month on a positive note, it failed to carry the momentum and succumbed to the selling pressure. We can attribute three key reasons for the index decline during the month. Firstly, the current account deficit (CAD) which clocked in at USD 1.66 billion, the highest level in 34 months, overshoot the market expectations and dampened sentiments. On a month on month basis, the CAD increased by around USD 529 million, as all major components saw slight deterioration (goods & services deficit, primary income deficit increased by USD 289 million and USD 157 million, and workers' remittances eased off by USD 152 million). Secondly, SBP in the last MPC review increased the Policy Rate by a whopping 150 basis points that further unhinged the market. SBP highlighted its concern on shifting risks from growth towards inflation and the deteriorating current account and re-iterated its stance to achieve mildly positive real interest rates. Thirdly, the MSCI rebalancing from Emerging Market (EM) Index to Frontier Market (FM) Index also led to massive outflows towards the end of month that also had a negative impact on the market.

During the month, Auto Assemblers, Commercial Banks, Fertilizers, Glass & Ceramics, Oil & Gas Exploration, Power Generation Companies, and Textile Composite sectors outperformed the market. On the contrary, Auto Parts, Cements, Chemicals, Engineering, Food & Personal Care, Oil & Gas Marketing Companies, Paper & Board, Pharmaceuticals, and Technology sectors lagged behind. On participant-wise activity during the month, amidst the MSCI EM Index to FM Index led rebalancing, Foreigners significantly trimmed their positions by around USD 141 million. All other local investors remained net buyers during the month, with large inflows of around USD 49 million and USD 30 million from Companies and Insurance Companies, respectively.

Looking ahead, though there are some economic challenges in the form of burgeoning CAD & inflationary pressures, we believe that the monetary and fiscal authorities have demonstrated their intent to bring stability and preserve growth using various policy tools. The current monetary tightening, coupled with the higher Cash Reserve Requirement (CRR) of banks attempt to cool down domestic demand that will help arrest CAD and ease off inflationary pressures going forward. In addition to the steep currency devaluation, enhanced scope of cash margin on imports, the government is looking to further enhance the duties on non-essential imported items. More importantly, the commodity cycle also appears to have waned somewhat (iron ore, coal, crude oil, palm oil prices have moderated). In another major development, IMF has agreed to the revive its USD 6 billion EFF programme after the two sides finally reached a staff-level agreement. Not only it will allow resumption of multilateral flows of IFIs, it will also bring discipline on part of the government towards macroprudential measures.

From the fundamental perspective, the market is trading at an attractive Price-to-Earnings (P/E) multiple of 5.7x, versus 10-year average of 8.2x. The market also offers a healthy 5.8% 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

In the last Monetary Policy Statement held on November 19, 2021, the MPC decided to raise the policy rate by 150 basis points to 8.75%. The MPC highlighted that despite the outlook for growth has continued to improve, risks related to inflation and balance of payments have increased. Inflation as measured by the CPI was recorded at 11.5% year-on-year owing to high import prices, demand-side pressures, further upside risks from domestic administered prices, and increase in the utilities. Furthermore, CAD was at the higher side due to rising oil & commodity prices and burdening PKR-USD parity adjustments. The SBP cited that achieving fiscal consolidation is important, to restrain the domestic demand – as higher primary fiscal deficit would worsen the outlook for inflation & current account, undermining the durability of recovery.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,100 billion against the maturity of Rs. 995 billion. In the first T-Bill auction, an amount of Rs. 279 billion was accepted at a cut-off yield of 8.50% 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. 55 billion was accepted at a cut-off yield of 8.50% 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.