

January 2022

Stock Market Review

The stock market started off the new year 2022 on a positive note. Though the market traded in a very narrow range throughout the month, at close the benchmark KSE-100 index increased by 779 points during January-22, translating into monthly return of 1.7%.

From the outset, the sentiment turned positive as the country made progress towards the resumption of the IMF program, delay in which had remained a major nuisance for the market. Key stumbling blocks included Finance Supplementary Bill and State Bank (SBP) Amendment Bill. During the month, the government was able to pass both bills from the parliament and senate. The Finance Supplementary Bill aims to raise around PKR 360 billion taxes, out of which PKR 343 billion worth of sales tax exemptions have been withdrawn. Tax has been levied on luxury imported products, while exemptions for daily-use items would stay. In the short term, it will stoke some inflationary pressure, but in the medium term it will help moderate the aggregate demand and ease off some pressure on the BoP front. Workers' remittance for Dec-21 clocked in at USD 2.5 billion, up marginally by USD 60 million / USD 83 million on MoM and on YoY basis, taking 1HFY22 remittances to USD 15.8 billion, showing YoY growth of 11%. The current account deficit (CAD) for December-21 stood at an elevated level of USD 1.9 billion, same as the last month, taking 1HFY22 CAD to USD 9.1 billion, compared to surplus of USD 1.25 billion, in same period last year. The Monetary Policy Committee (MPC) of the SBP also met towards the end of the month. In line with the industry expectations, the MPC kept the Policy Rate unchanged at 9.75%. Despite elevated near term readings, the committee looked optimistic on inflation outlook for FY23 (CPI expected to fall in the range of 5-7%). The committee also appeared comfortable on CAD and on its funding. In view of this, MPC pointed out that current real interest rates on a forward-looking basis were appropriate. On its future course, it highlighted that any fine-tuning of monetary policy settings would be relatively modest, which lifted the sentiments of the stock market. The fixed income yields also responded to the decision and forward guidance, and as a result, declined in the range of 12 bps to 71 bps across various maturities during January. During the month, the country also raised USD 1 billion, in 7-year Ijara Sukuk in the international debt market at a yield of 7.95%.

During the month, Commercial Banks, Oil & Gas Exploration, Power Generation & Distribution, Sugar and Vanaspati sectors outperformed the market. On the contrary, Auto Part & Accessories, Cable & Electrical Goods, Cements, Chemicals, Engineering, Insurance, Paper & Board, Pharmaceuticals, Refinery, Technology & Communication, Textile sectors lagged behind. On participant-wise activity during the month, Mutual Funds, and Other Organizations remained the largest sellers with outflow of around USD 22 million and USD 15 million, respectively. On the contrary, Banks/DFIs and Foreigners were the largest buyers in the market, with net inflows of around USD 20 million and USD 18 million, respectively.

On equity market outlook, we continue to look favourably towards the market in terms of return, whereby we expect the market to provide around 15-20% upside in CY22. The market will draw some comfort from the pause taken by the central bank & the outlook painted by the MPC. However, the market will continue to look keenly at headline numbers on the external side and any softening in the commodities, especially crude oil prices. A key positive event has been the resumption of IMF program after approval by the executive board. IMF revived the EFF and approved the loan tranche of USD 1 billion which will also pave the way for other multilateral flows. This will shore up the reserves and lend stability to PKR, which had also been a cause of concern for the market. The result season has also begun, where we expect continuation of robust corporate profitability along-with healthy dividend pay-outs, which will likely catalyse the market.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 5.3x, versus 10-year average of 8.1x. The market also offers healthy dividend yield in excess of 6%. Taken together, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

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During January, the Monetary Policy Committee (MPC) decided to maintain the policy rate at 9.75%. As per the MPC, recent economic growth indicators are appropriately moderating to a more sustainable pace. However, inflation is expected to remain high due to base effects and energy prices. Inflation as measured by the CPI was recorded at 13% year-on-year. SBP expects inflation to average 9 – 11 percent during the fiscal year owing to the rise in energy prices including motor fuels, house rent, and essential household consumables.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,300 billion against the maturity of Rs. 1,476 billion. In the first T-Bill auction, an amount of around Rs. 708 billion was accepted at a cut-off yield of 10.45%, 11.37% and 11.49% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 793 billion was accepted at a cut-off yield of 10.30%, 10.69% and 10.93% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids worth Rs. 178 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 10.79%, 10.86% and 10.97% whereas bids for 15-years and 20-years were rejected. However, no bids were received for 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.

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