NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

March 18, 2022

Asim Wahab Khan, CFA
Chief Investment Officer

Amid lackluster traded value and volume, the equity market remained directionless during the outgoing week, as the benchmark KSE-100 index moved in a very narrow index range of 43k to 44k. In terms of closing, the market again saw some mild decline, as the benchmark index lost 623 points, translating into weekly decline of 1.4%. Except for Fertilizer sector, almost all the sectors remained under pressure, with Oil & Gas Exploration and Banking sectors taking major battering during the week.

The listless performance of the stock market during the last week is mainly on account of rising political uncertainty. The threat of political turmoil in the country is growing as the opposition looks to oust PM Imran Khan in a vote that could come as soon as this month after a no-confidence motion was unveiled in Parliament last week. Several lawmakers from the governing party withdrew their support for the PM ahead of a no-confidence vote, stoking more uncertainty over whether Imran Khan can hang on to power. Without the coalition partners and the dissidents, PTI, which has 155 seats in the lower house, would fall short of the 172 needed to retain power. And even if the incumbents are successful in holding onto power, their ability to make critical economic decisions will be greatly impaired as opposition will continue to create stumbling blocks and seize any opportunity to weaken and oust the government. This has further compounded the concerns of investors on the economic front. The hard-earned gains and stabilization achieved earlier which were already under pressure from the ongoing commodity super cycle are likely to deteriorate further as the government resorts to politically popular decisions. IMF negotiations are also underway and the outcome remains uncertain as several measures announced by the government were in contrast to the commitment made by the authorities with the Fund. The recent increase in cut-off yields in PIBs in the range of 88 basis points to 115 basis points during this week's auction also reflected the market sentiments. Pak Rupee continued to weaken during the current week, as USD breached 180 mark to settle at 180.57, from 178.51 a week earlier. Though the commodity prices cooled off somewhat during the week with sharp decline in oil and coal prices, it failed to excite the investors as the overall commodities still remain at elevated levels.

In terms of trading activity during the week, Banks/DFIs and Companies remained the largest buyers in the market as they increased their position by USD 4 million and USD 3 million. On the other hand, Foreigners and Individuals remained the largest net sellers with outflows of around USD 5 million and USD 3 million respectively.

On equity market outlook, we acknowledge the mounting risks to inflationary pressures stemming from unprecedented commodity prices, some fiscal over-runs due to the recently announced relief measures by the Prime Minister in the form of fuel and power subsidies, that also put the IMF program on risk. The recent political ruffle has added another dimension of uncertainty for investors. However, we believe that the current stock market valuations more than compensate for the risks highlighted. December-21 result season is almost over by now, where listed corporate space has posted record set of profitability, where cumulative profits are estimated to have grown in excess of 40% on a yearly basis. On the other hand, performance of stock market since the start of CY21 has remained lackluster, at best. As a result, the mostly looked at valuation metric, Price-to-Earnings Ratio (P/E) has come down to multi-year low of around 4.7 times. The last time market traded at this level was post GFC time in Jan-09. Therefore, we continue to look favorably towards the market in terms of return, whereby we expect the market to provide around 15-20% upside in CY22.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 4.7x versus historical average of 8.4x. The market also offers healthy dividend yield in excess of 6%. As we see it, the recent market valuations are equivalent of the crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.