NBP FUNDS
Managing Your Savings

February 2022

Stock Market Review

The outgoing month of February-22 remained challenging for the stock market. Amid thin trading volumes, low traded value, the benchmark KSE-100 index posted a drop of 2% on a monthly basis.

Carrying the positive momentum of January, the market started off the month on a high note. IMF Executive Board concluded Article IV Consultation with Pakistan and completed the 6th review of the Extended Fund Facility (EFF), allowing the country to draw USD 1 billion, that added to the positive sentiment. Though IMF highlighted robust economic growth, it also pointed out that the country remains vulnerable to possible flare-ups of the pandemic, tighter international financial conditions, a rise in geopolitical tensions, as well as delayed implementation of structural reforms. During the month, MSCI announced that Pakistan will become eligible for inclusion in the MSCI Frontier Markets Index as part of the May-22 Semi-Annual Index Review (SAIR), which according to various estimates is likely to bring portfolio investment of around USD 50 million. Ministry of Finance issued fiscal operation numbers for 1HFY22 as per which fiscal deficit during the period touched PKR 1.37 trillion amounting to 2.1% of GDP. Primary Balance remained in surplus at around PKR 81 billion. During the month, the country received around USD 1 billion each from IMF under EFF program & as proceeds against issuance of Sukuk Bond, which supported the reserves. It was, however, the escalating tensions between Russia & Ukraine that eventually took form of a full-blown assault that really sent panic amongst global and as well as local equity markets. Its affect across the global commodity prices was even more pronounced as prices of several commodities (like crude oil, wheat, coal, aluminium, copper) soared to record high levels, adding to investors concerns and stoking fears of build-up in inflationary pressures. Remittance numbers for the month of January-22 undershot the market expectations, as the inflows clocked in at USD 2.14 billion, the lowest receipts since Aug-20 (MoM decline of USD 376 million). Sentiments were soured further after current account deficit (CAD) numbers significantly overshot analysts' expectations and clocked in at USD 2.6 billion for Jan-22 (up by around USD 693 million on MoM basis), which was the highest ever number. It was despite significant improvement in the trade deficit for the month of January-22, during which the deficit declined to USD 3.4 billion, down from USD 4.8 billion in the previous month, as reported by PBS.

During the month, Auto Assemblers, Chemicals, Fertilizers, Glass & Ceramics, Oil & Gas Exploration, and Textile Composite sectors outperformed the market. On the contrary, Auto Part & Accessories, Cable & Electrical Goods, Cements, Engineering, Food & Personal Care, Insurance, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Refinery, and Technology & Communication sectors lagged behind. On participant-wise activity during the month, Mutual Funds and Foreigners remained the largest sellers with outflow of around USD 20 million and USD 15 million, respectively. On the contrary, Other Organizations and Companies were the largest buyers in the market, with net inflows of around USD 14 million each.

On equity market outlook, though 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, we reckon that the current stock market valuations more than compensate for the risks highlighted. We are almost through the Dec-21 result season, 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 lacklustre, 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 5 times. The last time market traded at this level was post GFC time in Jan-09. Therefore, we continue to look favourably towards the market in terms of return, whereby we expect the market to provide around 20% upside in CY22.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 5.x, versus historical average of 8.4x. 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.

Money Market Review

The money market remained relatively stable during February as yields response, to the Russia-Ukraine situation and resultant spike in commodities, was muted. However, inflation is expected to remain high due to base effect and soaring energy prices. Inflation for February, as measured by CPI, was recorded at 12.2% year-on-year. SBP expects inflation to average around 9%-11% during the fiscal year, however, we feel that the actual average inflation will be at the higher end or beyond SBP forecasted range.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,300 billion against the maturity of Rs. 1,142 billion. In the first T-Bill auction, an amount of around Rs. 568 billion was accepted at a cut-off yield of 10.30%, 10.66% and 10.88% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 354 billion was accepted at a cut-off yield of 10.49%, 10.89% and 11.00 % for 3-month, 6-month and 12-month tenures. In the PIB auction, bids worth Rs. 107 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 10.70%, 10.75% and 10.86% 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.