

March 2022

Stock Market Review

Amid thin trading volumes and low value traded, the performance of the stock market remained listless during the outgoing month of March-22. Although at month end, the benchmark KSE-100 index managed to post a return of 1.1% to close at 44,929 points.

The stock market started off the month on a frail note as the skirmishes between Russia & Ukraine turned into a full-blown war, sending jitters across global & local equity markets. The developed world resorted to crippling sanctions against Russia, and its shock waves were felt in global commodity markets (energy, grain and metals alike). Prices of several commodities were either at multi-year high or were at record high levels, as the world scrambled to arrange for alternative supplies, since Russia has been one of the largest global commodity suppliers across many products. It added to the anxiety of the local investors as inflation in the country was already running in double digit and current account was alarmingly high. The rising political noise further stoked uncertainty, as the united opposition submitted notice of resolution of no-confidence against PM Imran Khan. Several lawmakers from the governing party appeared to withdraw their support for the PM ahead of a no-confidence vote, raising doubts if the government would still remain in power. In a bid to muster up support, the PM announced a relief package, which comprised of fuel & electricity subsidies. Furthermore, an industrial package was also announced, in which several incentives were offered for investing in small & medium industries, for restoring, investing in sick units, and for overseas Pakistanis to get 5-year tax holiday when investing in the country. During the month, MPC of SBP kept the Policy Rate unchanged at 9.75%. It highlighted that the various demand moderating measures were gaining traction & apprised that trade deficit (as per PBS) has been on a consistent decline since November, and appeared comfortable on its funding going forward. However, it failed to assuage relevant markets as PKR continued to slide, amidst dwindling forex reserves, fixed income yields further marched up, and equities also remained confounded. PKR weakened further to 183.5 (by 3.4% in March-22), taking FY22 depreciation to 16%, while yields on 3M, 6M, and 1-year government papers surged by 130 bps, 146 bps and 150 bps, respectively.

During the month, Technology, Chemicals, Fertilizers, Food & Personal Care, Power Generation & Distribution sectors outperformed the market. On the contrary, Auto Assemblers, Cable & Electrical Goods, Engineering, Glass & Ceramics, Oil & Gas Exploration, Oil & Gas Marketing, Paper & Board, Refinery, and Vanaspati sectors lagged behind. On participant-wise activity, Banks/DFIs, Individuals and Other Organizations emerged the largest buyers, with net inflows of around USD 15 million, USD 9 million and USD 6 million, respectively. On the other hand, net outflows of around USD 23 million and USD 9 million were seen from Foreigners & Mutual Funds.

What lies ahead for the equity market: We acknowledge that economic outlook remains challenging and risks have been further compounded by the ongoing political uncertainty. The rise in government paper yields portends further monetary tightening, and record commodity prices pose risks to the external front. This can especially be a major challenge given sharp decline in central bank reserves, which have plummeted by around USD 4.3 billion, in March-22. The PKR devaluation is another challenge that will further stoke inflationary pressure and may hurt profitability of the corporate sector. The fate of IMF program also hangs in balance. However, we believe that the current stock market valuations more than compensate for the risks highlighted. With the conclusion of Dec-21 results, listed corporate space has posted record set of profitability, where cumulative profits are estimated to have grown by around 48% 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 4.6 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 15-20% upside in CY22. However, in the short term, the ongoing political uncertainty may impede the performance.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 4.6x, versus historical average of 8.4x. The market also offers healthy dividend yield in excess of 7%. Taken together, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

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Monetary Policy Committee (MPC), in the policy statement in March 2022, maintained the policy rate at 9.75% - on the view of an improved inflation outlook, following cuts in fuel prices and electricity tariffs. Despite the rise in global prices, trade deficit witnessed 10% contraction (m/m) in February. The MPC expects inflation to average between 9-11 percent during the fiscal year due to higher food prices, though we expect inflation to be higher than SBP expectation at 11.3%. The inflation measured by the CPI clocked in at 12.7% for the month of March. Since the last MPC, PKR depreciated around 3% against the USD. Though the business sentiment and overall market activity has improved, the downside risks still persist. The liquid foreign exchange reserves with SBP stand at around USD 12 billion. However, the Russia-Ukraine conflict carries adverse impacts and high degree of uncertainty in the outlook for international commodity prices and global financial conditions - posing risks and challenges to the current account deficit and inflation expectations.

During the outgoing month, the SBP held two T-Bill auctions with a target of Rs. 1,800 billion against the maturity of Rs. 1,910 billion. In the first T-Bill auction, an amount of around Rs. 908 billion was accepted at a cut-off yield of 11.45%, 12.10% and 12.30% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 653 billion was accepted at a cut-off yield of 12.00%, 12.50% and 12.70% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids worth around Rs. 201 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 11.85%, 11.75% and 11.74% 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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