April 2022

Stock Market Review

Amid lacklustre volumes and low value traded, the stock market performance remained muted during the outgoing month of April-22. During the month, the benchmark KSE-100 inched up by 0.7% whereas the CY22 cumulative return stands at 1.5%.

Several extraordinary political developments and subsequent economic implications heightened the volatility of the index in the month of April-2022. At the start of the month, on the eve of vote of no-confidence (VONC), the Deputy Speaker dismissed no-confidence motion against the Prime Minister (PM), and the President dissolved parliament. Both decisions were quite contentious and again stoked uncertainty & political turmoil in the country. The stock market also roiled, and equities came under severe selling pressure. The apex court took Suo Moto notice & in a landmark decision, it overturned ruling party's move to dissolve assemblies and restored the VONC. Subsequently, the PM was ousted as a result of successful VONC by united opposition, that later formed a coalition government & Shahbaz Sharif was sworn in as the new PM. Soon after the appointment as the new Finance Minister (FM), Miftah Ismail rushed to meet the high-level IMF officials, where it has been principally agreed to resume IMF program. The officials have requested to not only extend the program tenure but have also sought to increase the size of the program from USD 6 billion to USD 8 billion. As the political incertitude subsided, the stock market reacted with fervour and surged by around 4.9% in the subsequent week. However, later on we saw some correction in the market amid some profit taking as investors opted to remain cautious amidst challenging macro-economic and political environment and ahead of the tough requirements to meet IMF conditions for resumption of the program, which include phasing out of unfunded power and fuel subsidies among other policy measures. During the month, MPC of SBP held an emergency meeting and raised the Policy Rate by a massive 2.5%, taking Policy Rate to 12.25%. The yields on shorter tenure government instruments, which were already at a record premium to the prevailing Policy Rates, further increased despite revision in rates by the central bank. It also unhinged the confidence of the investors, as it portends further monetary tightening going forward. CPI inflation for the month of April clocked in at 13.4%, highest in 27 months, and given the impending price adjustments in retail fuels and power tariffs, near term inflation is expected to remain elevated.

During the month, Auto Assemblers, Cable & Elec. Goods, Chemicals, Fertilizers, Glass & Ceramics, Insurance, Oil & Gas Marketing, Refinery, Technology, Textile Composite sector stocks outperformed the market. On the contrary, Auto Parts & Access., Cements, Engineering, Food & Personal Care, Paper & Board, Pharmaceuticals, and Power Generation & Distribution sector stocks lagged behind. On participant-wise activity, Individuals, Companies, and Other Organizations emerged the largest buyers, with net inflows of around USD 49 million, USD 7 million and USD 5 million, respectively. On the other hand, net outflows of around USD 35 million and USD 19 million was seen from Mutual Funds & Insurance Companies.

Looking ahead, we remain cognizant of the challenging economic conditions amidst elevated global commodity prices and tough IMF conditions, which will bring about fresh round of inflationary pressure. The reserves of the central bank are barely sufficient to fund imports of 6 weeks, and the stubbornly elevated current account deficit has been tough to contain. However, the new PM and his economic team on their visit to KSA appear to have garnered some financial support, though details are yet awaited. Likewise, some support from China is expected along with roll over of loans. Though any financial support from friendly countries will be linked to the resumption of IMF program, it remains to be seen at what pace and magnitude the coalition government reverses the populist measures taken by the outgoing government and take other painful measures on the fiscal front, which will be politically difficult to implement. However, we believe that current stock market valuations more than compensate for the risks highlighted. 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 4.5x, versus historical year average of 7.7x. The market also offers healthy dividend yield of around 7-8%. 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

Monetary Policy Committee (MPC), in the policy statement in April 2022, raised the policy rate by 250 basis points to 12.25% – in order to safeguard external and price stability; owing to significant uncertainty around the outlook for international commodity prices and global financial conditions (which have worsened due to Russia-Ukraine conflict). Globally, the commodity prices including oil are likely to remain elevated for longer leading to a sharper tightening of global financial conditions. High commodity prices amid heightened political uncertainty and tight liquidity conditions resulted in sharp rise in secondary market yields, which maintained their high delta from the Policy Rate. The inflation measured by the CPI clocked in at 13.4%. The net liquid foreign exchange reserves with SBP (as at 23-Apr-22) stand at around $10.6 billion. The outlook for inflation has deteriorated and risks to external stability have risen, posing challenges to the current account deficit and inflation expectations.

During the outgoing month, the SBP held three T-Bill auctions with a target of Rs. 1,700 billion against the maturity of Rs. 1,558 billion. In the first T-Bill auction, an amount of around Rs. 644 billion was accepted at a cut-off yield of 12.80%, 13.25% and 13.30% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 579 billion was accepted at a cut-off yield of 13.50% and 13.85% for 3-month and 6-month & 12-month tenures. In the third T-Bill auction, an amount of around Rs. 629 billion was accepted at a cut-off yield of 14.79%, 14.99% and 14.81% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids worth around Rs. 387 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 13.30%, 12.95% and 13.15% whereas no bids were received for 15-years, 20-years and 30-years.

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.