

June 2022

Stock Market Review

During the month, the benchmark KSE-100 index corrected by 3.6% on a month on month basis, as index shed 1,537 points. It also brings an end to FY22, which remained disappointing for equity market investors as the benchmark KSE-100 index slumped by 12.3% on a year-on-year basis, declining by around 5,815 points during the year.

The stock market started off the month on a negative note, continuing the pessimism from the last month. The newly formed coalition government announced the federal budget for FY23 on 10th June and the news-flow surrounding the budget shaped the market. The initial budget announcement was a non-event for capital markets as no major incentives were offered or taxation measures were imposed, which casted doubt if IMF would revive its loan program. There were several positive developments during the month, which failed to excite the investors. Firstly, the FATF concluded its plenary meeting, where the watch-dog acknowledged the completion of Pakistan's action plans and authorized an onsite visit to Pakistan, as a final step to exit from the FATF's grey list. Secondly, the country received USD 2.3 billion from China during June, which were long pending, and there was indication that in the second phase it would disburse another USD 2.5 to 2.8 billion to the country. Lastly, the Finance Minister Miftah Ismail, expressed his optimism that government was very close to clinching the IMF deal and was reported saying that it was merely a matter of couple of days. However, the positivity was transient and later on, as the government drafted final changes in the budget to gain approval of IMF, it imposed 10% super tax (2% initially in the budget) as poverty alleviation tax across 13 industries, which triggered indiscriminate panic selling in the market. During the month, current account deficit (CAD) was reported at USD 1.4 billion, due to seasonal drop in remittances. Inflation as measured by CPI for June-22 clocked in at whopping 21.3%, which overshoot street consensus, due to massive increase in utility tariffs taking FY22 average inflation to 12.1%.

During the month, Auto Assemblers, Chemicals, Oil & Gas Exploration, Oil & Gas Marketing, and Refinery sector stocks outperformed the market. On the contrary, Auto Parts & Access., Cable & Elec. Goods, Commercial Banks, Cements, Engineering Glass & Ceramics and Textile Composite sector stocks lagged behind. On participant-wise activity, Banks/DFIs and Individuals emerged the largest buyers, with net inflows of around USD 31 million and USD 6 million, respectively. On the other hand, net outflows of around USD 20 million and USD 11 million was seen from Mutual Funds & Foreigners.

In terms of stock market outlook, the recent budgetary measure (10% one-off tax) and the economic measures (some of which have already been taken like fuel price rationalization and other measure which will be taken shortly like power and gas tariffs hike), will squeeze the near-term earnings profile of listed corporate sector. Furthermore, due to mounting inflationary pressures amidst steep devaluation seen in the last few months, demand as well as margins of the corporates may also come under pressure. Having said this, we again re-iterate that current stock market valuations compensate for the risks highlighted. Any tangible improvement on economic front will trigger a strong relief rally. Likewise, the resumption of IMF program (with extension in duration and size) and further inflows from multilaterals will be looked favourably by the market. The ongoing commodity super cycle has also started to wane with many commodities considerably down from their recent peaks. Energy commodities, which constitute a major chunk in our import bill have so far remained resilient, but we expect them to eventually retreat from the recent elevated levels, which will not only ease off BoP pressure but will also act as a key stock market performance trigger, in our view.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 4.4x, versus historical average of 8.2x. The market also offers healthy dividend yield of around 7-8%. We advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

Money Market Review

During the outgoing month, global economic conditions remained intensified and most of the commodity prices remained elevated; pushing the central banks across the world to confront with challenging outlook. Domestically, the inflation outlook also remained deteriorated due to continued pressure on Rupee coupled with additional increase in utility (electricity) charges and reversal of fuel subsidies, subjected to persistent risks, going forward. The inflation measured by the CPI clocked in at 21.3% against 13.8% last month. The net liquid foreign exchange reserves with SBP also shrunk to USD 8.2 billion (as at 17-Jun-22) against USD 10.1 billion last month.

SBP held only three T-Bill auctions with a target of Rs. 2,300 billion against the maturity of Rs. 2,167 billion. In the first T-Bill auction, an amount of around Rs. 751 billion was accepted at a cut-off yield of 15.25%, 15.25% and 15.50% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of around Rs. 800 billion was accepted at a cut-off yield of 15.25%, 14.95% and 14.95% for 3-month, 6-month and 12-month tenures. In the third T-Bill auction, an amount of around Rs. 1,683 billion was accepted at a cut-off yield of 15.23%, 14.80% and 14.95% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids around Rs. 173 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 13.97%, 13.18% and 13.15% whereas bids for 15-years were rejected and no bids for 20-years and 30-years were received.

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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