NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

October 21, 2022

Asim Wahab Khan, CFA
Chief Investment Officer

Trading within a narrow range, the stock market managed to eke out modest return of 0.6% on a weekly basis, as the benchmark KSE-100 index increased by 265 points during the week ending 21st October 2022. In terms of index contribution, Fertilizer, Power and Oil & Gas Exploration led the increase.

The stock market started off the week on a weak footing as the market fell slightly by 0.5% on the opening day reacting on the comment by the US President on the safety of nuclear arsenal of the country. After the by-elections held on last Sunday, the political temperature was again seen rising, which also unsettled the investors. However, the sentiment improved later during the week as the quarterly result season saw companies posting better than expected results. Notwithstanding the concerns on corporate profitability due to slowing economy amidst floods in the country and soaring inflation, better than expected results especially within cement and banking sector offered glimpse of upcoming results. Healthy dividend announcements garnered warm investor interest as well. Current account deficit (CAD) numbers were reported during the week, which depicted improving trend in external numbers. Compared to USD 676 million CAD in August, the deficit was merely USD 316 million in September, taking 1Q CAD to USD 2.2 billion vis-à-vis USD 3.5 billion CAD in same period last year. In another positive but expected news, the Asian Development Bank (ADB) approved USD 1.5 billion in financing to help Pakistan provide social protection, promote food security, and support employment amid devastating floods & global supply chain disruptions.

In terms of trading activity during the week, Individuals emerged as the only large buyers with net inflows amounting to USD 5 million. On the contrary, Foreigners remained the largest sellers with net outflows of USD 3 million. Alongside, Banks and Mutual Funds also liquidated stocks worth USD 1 million each.

Going forward, we acknowledge burgeoning challenges facing the economy, further aggravated by floods. However, looking beyond the economic loss and deterioration in inflation expectations and fiscal deficit, there are a few positives on the horizon that will shape the capital market outlook going forward. Firstly, we expect healthy inflows from WB, ADB, IDB, AIIB which coupled with IMF loan tranche that will bolster the dwindling fx reserves and as well as support the decrepit investors' confidence. As seen in the past, there has been positive correlation between reserves and market performance. Secondly, as we highlighted last week, at the conclusion of its plenary, FATF announced that it has removed Pakistan from a list of countries under increased monitoring, also known as the "grey list", which will likely strengthen the market sentiment. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given such compelling valuations, that would provide the much-needed liquidity to the market. Fourthly, the FM has also stated that the country is looking to seek rescheduling of its external loans with its bilateral lenders, barring commercial lending and Eurobond creditors. Though these parlays will be long drawn and it is no permanent fix, it will still ease off massive contractual outflows in the short term. Lastly, as global central banks step up their efforts to tame inflationary pressure by aggressive monetary tightening, it will likely stifle global economy. Thus, international commodity prices, that have materially come off from peak, will continue to trend lower, which presents an upside case for local equities.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.2 times (earnings yield of around 24%). The September quarterly result season has also begun on a strong note, though we remain cognizant of few cyclical sectors, to post weak results due to floods and SBP imposed quotas. However, we continue to see healthy growth double digit growth in listed corporate space for FY23, which should support the market. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.