

Stock Market Review

The outgoing month of September remained sluggish for equity markets. Amidst thin trading volumes reflecting lack of investors' interest, the benchmark KSE-100 index fell by 1,222 points (down 2.9%) on a monthly basis.

Continuing the downward trend from the latter half of August, stock market started off September on a frail note & remained under the grips of bear throughout the month. Market participants adopted a cautious approach due to devastation caused by flash floods. Assessment of loss inflicted by the flood was revised up multiple times which agonized investors. Starting with initial damage estimate of USD 10 billion, the latest evaluation suggested a staggering loss in the range of around USD 30-40 billion. The humanitarian aid associated with floods by international community also fell short of expectations, which dented the sentiments. Investors also remained perturbed over the impact of floods on inflation, since connectivity in the country remained disrupted, and large swathes of agriculture land remained inundated, which considerably slackened agri & manufacturing activity. Due to damage to crops, there are also concerns that it will necessitate higher food imports, further inflating the import bill. Consequently, we saw renewed pressure on Pak Rupee, which depreciated to a record low of 240 per USD, before gaining some ground towards the end of month. Ishaq Dar replaced Dr Miftah as the new Finance Minister who vowed to bring down inflation, interest rates & arrest slide in PKR against USD. The international bonds/Sukuks with varying maturities came under massive price pressure, as Finance Minister announced that the country was seeking debt relief from bilateral creditors in the wake of devastating floods. Current account deficit (CAD) for August-22 fell sharply to USD 703 million, down from USD 1.2 billion a month ago. Inflation reading for Sept-22 considerably undershot the market estimates and came off significantly from previous month, clocking in at 23.2%, due to massive adjustment in electricity tariffs.

During the month, Auto Assemblers, Cements, Food & Personal Care, Paper & Board, Power Generation, Technology & Communication, & Transport sector stocks outperformed the market. On the contrary, Auto Parts & Access., Cable & Elec. Good, Commercial Banks, Glass & Ceramics, and Oil & Gas Exploration sector stocks lagged behind. On participant-wise activity, Foreigners and Banks emerged the largest buyers, with net inflow of USD 15 million and USD 9 million, respectively. On the other hand, net outflows of around USD 20 million and USD 17 million were seen from Mutual Funds and Insurances, respectively.

Looking ahead, we acknowledge burgeoning challenges facing the economy, further aggravated by floods. Not only it will sap the already feeble economic growth, it will also result in spiralling prices of food items due to supply disruptions. Consequently, inflation is likely to remain elevated throughout the year. In terms of its impact on external account, though damage to crops will adversely impact trade balance, we expect healthy inflows in the form of aid & concessional financing/funding from international donor agencies, like ADB, AIIB & WB etc. IMF also appears to have loosened its conditions. The debt suspension initiative with multilateral & bilateral creditors, barring commercial lending and Eurobond creditors, will also provide massive relief, at least in the short term. Moreover, 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, since amelioration in the external position will trigger strong investor interest. Lastly, the June-22 PBT/PAT of listed corporate space have shown remarkable resilience and shown broad-based double-digit growth despite imposition of 10% super tax. Although the recent floods will impede near terms earnings of few cyclical sectors, looking beyond, we believe that the demand should recover and hence we continue to see healthy growth in listed corporate space.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 4.1x, 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, elevated political noise coupled with increase in commodity & utility prices kept exchange rate under pressure. Globally, owing to the Russia-Ukraine war, significant uncertainties prevail around the outlook for international commodity prices and global financial conditions. Besides, following the increase in FED rates, the central banks across the world are pushed to confront with challenging inflation outlook. Domestically, inflation outlook remains elevated in FY23 and as measured by the CPI clocked in at 23.2% against 27.3% last month. The net liquid foreign exchange reserves with SBP stands at USD 8 billion (as at 23-Sep-22), posing challenges and persistent risks to the financial consolidation.

SBP held two T-Bill auctions with a target of Rs. 2,500 billion against the maturity of Rs. 2,996 billion. In the first T-Bill auction, an amount of Rs. 783 billion was accepted at a cut-off yield of 16.00%, 15.85% and 15.98% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 1,342 billion was accepted at a same cut-off yield of 16.00%, 16.00% and 15.99% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 242 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 13.92%, 13.39% and 12.95% whereas no bids for 15-years, 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.

Stock Market Review

The outgoing month of September remained sluggish for equity markets. Amidst thin trading volumes reflecting lack of investors' interest, the benchmark KMI-30 index fell by 2,884 points (down 4.1%) on a monthly basis.

Continuing the downward trend from the latter half of August, stock market started off September on a frail note & remained under the grips of bear throughout the month. Market participants adopted a cautious approach due to devastation caused by flash floods. Assessment of loss inflicted by the flood was revised up multiple times which agonized investors. Starting with initial damage estimate of USD 10 billion, the latest evaluation suggested a staggering loss in the range of around USD 30-40 billion. The humanitarian aid associated with floods by international community also fell short of expectations, which dented the sentiments. Investors also remained perturbed over the impact of floods on inflation, since connectivity in the country remained disrupted, and large swathes of agriculture land remained inundated, which considerably slackened agri & manufacturing activity. Due to damage to crops, there are also concerns that it will necessitate higher food imports, further inflating the import bill. Consequently, we saw renewed pressure on Pak Rupee, which depreciated to a record low of 240 per USD, before gaining some ground towards the end of month. Ishaq Dar replaced Dr Miftah as the new Finance Minister who vowed to bring down inflation, interest rates & arrest slide in PKR against USD. The international bonds/Sukuks with varying maturities came under massive price pressure, as Finance Minister announced that the country was seeking debt relief from bilateral creditors in the wake of devastating floods. Current account deficit (CAD) for August-22 fell sharply to USD 703 million, down from USD 1.2 billion a month ago. Inflation reading for Sept-22 considerably undershot the market estimates and came off significantly from previous month, clocking in at 23.2%, due to massive adjustment in electricity tariffs.

During the month, Auto Assemblers, Cements, Food & Personal Care, Paper & Board, Power Generation, Technology & Communication, & Transport sector stocks outperformed the market. On the contrary, Auto Parts & Access., Cable & Elec. Good, Commercial Banks, Glass & Ceramics, and Oil & Gas Exploration sector stocks lagged behind. On participant-wise activity, Foreigners and Banks emerged the largest buyers, with net inflow of USD 15 million and USD 9 million, respectively. On the other hand, net outflows of around USD 20 million and USD 17 million were seen from Mutual Funds and Insurances, respectively.

Looking ahead, we acknowledge burgeoning challenges facing the economy, further aggravated by floods. Not only it will sap the already feeble economic growth, it will also result in spiralling prices of food items due to supply disruptions. Consequently, inflation is likely to remain elevated throughout the year. In terms of its impact on external account, though damage to crops will adversely impact trade balance, we expect healthy inflows in the form of aid & concessional financing/funding from international donor agencies, like ADB, AIIB & WB etc. IMF also appears to have loosened its conditions. The debt suspension initiative with multilateral & bilateral creditors, barring commercial lending and Eurobond creditors, will also provide massive relief, at least in the short term. Moreover, 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, since amelioration in the external position will trigger strong investor interest. Lastly, the June-22 PBT/PAT of listed corporate space have shown remarkable resilience and shown broad-based double-digit growth despite imposition of 10% super tax. Although the recent floods will impede near terms earnings of few cyclical sectors, looking beyond, we believe that the demand should recover and hence we continue to see healthy growth in listed corporate space.

From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple of 4.1x, 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, elevated political noise coupled with increase in commodity & utility prices kept exchange rate under pressure. Globally, owing to the Russia-Ukraine war, significant uncertainties prevail around the outlook for international commodity prices and global financial conditions. Besides, following the increase in FED rates, the central banks across the world are pushed to confront with challenging inflation outlook. Domestically, inflation outlook remains elevated in FY23 and as measured by the CPI clocked in at 23.2% against 27.3% last month. The net liquid foreign exchange reserves with SBP stands at USD 8 billion (as at 23-Sep-22), posing challenges and persistent risks to the financial consolidation.

SBP held two T-Bill auctions with a target of Rs. 2,500 billion against the maturity of Rs. 2,996 billion. In the first T-Bill auction, an amount of Rs. 783 billion was accepted at a cut-off yield of 16.00%, 15.85% and 15.98% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 1,342 billion was accepted at a same cut-off yield of 16.00%, 16.00% and 15.99% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids around Rs. 242 billion were realized for 3-years, 5-years and 10-years tenures at a cut-off yield of 13.92%, 13.39% and 12.95% whereas no bids for 15-years, 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.