NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

November 11, 2022

Asim Wahab Khan, CFA
Chief Investment Officer

During the holiday shortened outgoing week ending 11th November, stock market rebounded sharply as the benchmark KSE-100 index rose by 1,237 points on a week on week basis, translating into a weekly gain of 3%.

The equities started off the week on a positive note, as the market carried forward the strong momentum from the previous week. During each of the 4 days, the market closed in green as there was no serious deterioration witnessed on the political side. Furthermore, on the weekend, the Finance Minister announced on the media that the country has secured about USD 13 billion in additional financial support from two friendly countries of Pakistan (about USD 9 bn from China and over USD 4bn from Saudi Arabia). He highlighted that it was in addition to the expected investment inflows of around USD 20 billion (mainly the high-speed rail project and the deep conversion refining complex). Though materialization of flows remains a question mark and majority of these flows will be rollovers of existing financing, it still propped up market sentiments. In addition to these expected inflows, there were other announcements of various multilaterals institutions, USD 3 billion by World Bank and USD 500 million by Asian Infrastructure Investment Bank on various energy project and flood rehab. The announcement of significant amount of buyback of shares by a mid-cap bank also evoked keen investors' interest in the sector, as it may be the precursor to this trend which has just started in the stock market. SBP reserves reported during the week painted a dismal picture as reserves again slipped by USD 956 million due to external debt servicing, to clock in at USD 8 billion, at the end of last week.

In terms of trading activity, Mutual Funds emerged as major buyers with net inflows amounting to USD 4 million. Alongside, Individuals & Banks/DFIs each added USD 3 million. On the contrary, Insurance & Foreigners remained the largest sellers with net outflows of USD 6 million & USD 5 million, respectively.

In the near term, the political noise is expected to remain elevated until the appointment of the next army chief. However, looking beyond, we believe that state of economy will shape market outlook. Investors will look closely at balance of trade numbers & FX reserves which have fallen to precarious levels, barely enough to meet import of 6 weeks. The floods have further compounded the challenge for government in terms of deterioration in inflation expectations & fiscal deficit. That said, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. Secondly, any progress/materialization on planned FDI inflows from China & Saudi Arabia (with visit of Saudi Crown prince expected towards the end of the month) will also be viewed favorably by investors. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given compelling valuations, which will provide much-needed liquidity and provide impetus to stock prices. Fourthly, the FM has also stated that the country is seeking rescheduling of its external loans with its bilateral lenders. Though these parlays will be long drawn and it is no permanent fix, it will ease off massive contractual outflows in the short term. Finally, 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, are expected to 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 4.1 times (earnings yield of around 24% as against 10yr PIB yield of 12.9%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.