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During the outgoing week ending 20<sup>th</sup> January 2023, the benchmark KSE-100 Index slumped by 4.75%. It was the worst performing week for equities since November 2021. All the major sectors except Oil & Gas Exploration tumbled during the week, while the cyclical sectors took relatively high beating.

The ongoing political turmoil took center stage during the week and weighed heavily on the index. Last week the Chief Minister of Punjab called for the local assembly to be dissolved, in a bid to force the federal government into holding snap general elections. On Saturday, the assembly stood dissolved automatically, despite the governor not signing the summary. During the current week, the provincial assembly of KPK was also dissolved. The perpetual political brawl dented investors' confidence who resorted to indiscriminate selling during the week. This political drama also casts uncertainty over economic outlook which desperately requires attention of the government. Investors also remained unsure of the fate of IMF program given the spate of political events during the recent weeks. During the week, an outsized redemption by a large insurance company further unhinged the market participants. As a result, equities fell sharply during the first two trading sessions, and the index shed a cumulative 1,980 points. Although some recovery was witnessed after the bloodbath sessions, with investors seeking value investments on dips, the overall mood remained pessimistic, despite a series of positive headways. The UAE successfully rolled over a USD 2 bn deposit, followed by the Prime Minister Shahbaz Sharif's visit, which will offer a breathing space to the country's reserves. The current account deficit for December rose marginally on a monthly basis to USD 400 million, taking 1HFY23 CAD to USD 3.7 billion, against USD 9.1 billion in 1HFY22. Lastly, after inordinate delay in implementing the conditionalities for the resumption of the IMF program, the government showed intent to take the required steps, urging the lender to send its mission to Pakistan at the earliest.

Despite compelling stock market valuations, the outlook for equities remain clouded by the entwined political and economic uncertainty, especially regarding the resumption of IMF program. Most of the pledges by the friendly countries and the commitments in Geneva on flood rehab will also require IMF nod. The recent statement made by KSA's Finance Minister regarding change in its approach of providing unconditional loans & grants reaffirms our belief that doing the needful and re-entering into the IMF program would be the key to unlocking flows from other friendly countries. Necessary policy actions include higher revenue collection, further rationalization of utility tariffs, and flexible exchange rate regime. Discussions on the much talked about increase in gas tariff are afoot and are expected to materialize in the coming weeks. For revenue mobilization, plans regarding flood levy with varying rates on import of goods and one-off additional taxation remain underway and the introduction of a mini budget to the tune of PKR 200bn is also on the cards. On the exchange rate front, we believe that the government will have to eventually concede and allow the currency to float freely to help narrow the gap between the interbank and open market, which has widened to alarmingly high levels. Any convergence between the two market rates is also likely to improve remittances flow through official channels, which will help ameliorate the external account position. The implementation of the aforementioned actions will take country a step closer to receiving the loan tranche by IMF, and will offer breather to the economy and the financial markets. An end to the prevailing political uncertainty would also bring about stability to the market, in our view.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.7 times (earnings yield of around 27% as against 10-yr PIB yield of 14.2%). Therefore, investors with medium to long-term investment horizon with ability to stomach near-term volatility are recommended to build position in stock market through our NBP stock funds.