

## Stock Market Review

In the outgoing month of December 2022, the benchmark KSE-100 Index fell sharply by around 1,928 points (down by 4.6%) on a monthly basis. With this, calendar year 2022 comes to an end during which the index declined by 9.4% on a yearly basis.

The equities started off on a frail note and remained under the grips of bear throughout the month, as a combination of economic and political factors dented the sentiments. The surprise 100 basis points increase in Policy Rate towards end of November had rattled investors and has led to expectations of a further 100-200 basis points rate hike. The news-flow on IMF program also dented sentiments, as major differences on various policy matters & economic targets could not be ironed out between authorities and the IMF. Reportedly, the areas of contention were exchange rate regime, where there was wide gap in interbank & open market rates, burgeoning circular debt (on both gas and electricity), unfunded subsidies to exporters & farmers, and higher than envisaged fiscal deficit for the ongoing year. This comes at a time, when foreign exchange reserves are at a precarious level and on a continuous decline. Due to scheduled external debt repayments, FX reserves held by central bank fell by another USD 1.9 billion, till 23rd Dec, clocking in at USD 5.8 billion (lowest level since April 2014), despite benign current account deficit (CAD) of USD 276 million. Manufacturing data of large industries was released for Oct-22, which reflected 7.75% YoY drop in LSM activity with 2.9% contraction in LSM output during 4MFY23. Workers' remittance remained another area of concern, which stood at USD 2.1 (YoY decline of 14%) for Nov-22, taking 5MFY23 overall inflows to USD 12 billion (down by 10% YoY). The unending political uncertainty also weighed on sentiments as PTI chairman threatened to dissolve Punjab and KPK assemblies, while the opposition in Punjab submitted a no-confidence motion against the chief minister in a bid to forestall the dissolution of assembly. However, towards the end of month, there was some recovery led by Oil & Gas sector, as government formed a committee to undertake a detailed mapping of gas sector circular debt stock & to work out a comprehensive settlement plan through cash/non-cash adjustments.

During December, Fertilizer, Food & personal Care, Insurance, Oil & Gas Exploration, Sugar & Allied Industries, Textile Composite, Tobacco, and REIT sectors outperformed the market. On the other hand, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Cements, Chemicals, Engineering, Glass & Ceramics, Oil & Gas Marketing, Paper & Board, Pharmaceutical, Refinery, Transport & Technology sectors lagged the market. On participant-wise activity, Banks/DFIs emerged the largest buyers, with net inflow of USD 44 million. Alongside, Companies and Other Org. also increased their equity holdings by USD 13 million & USD 5 million, respectively. On the contrary, Foreigner & Mutual Funds sold stocks worth USD 34 million and USD 14 million, respectively.

Looking ahead, we believe the state of macro-economic affairs, particularly any tangible development on IMF program will shape market outlook. The precarious level of FX reserves and its decline have unhinged investors and only the resumption of IMF program will lead to gradual build-up in reserves, and will restore confidence of the market. So far, there has been an impasse, but we believe that necessary policy actions for continuation of IMF program are inevitable. It entails higher revenue collection, further rationalization of utility especially gas tariffs, and flexible exchange rate regime. We reckon that with the positive nod of the IMF, inflows from friendly countries will also crystalize, particularly from KSA and China. It is also interesting to note that inflows from the multilaterals have not dried up so far, as the country signed multiple loan agreements in December with ADB and WB to the tune of USD 775 million and USD 1.7 billion respectively for various flood rehabilitation activities & reconstruction efforts and for other project & program loans. This pipeline is expected to improve further when the country will be under the umbrella of IMF.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 3.8 times (earnings yield of around 26.3%). In addition, it offers healthy dividends yield in excess of 8%. Therefore, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

## Money Market Review

The Monetary Policy Committee (MPC) in November 2022, raised the policy rate by 100 basis points to 16%, to ensure inflation and risks to financial stability are contained. According to the SBP, inflation being driven by global & domestic supply shocks could de-anchor inflation expectations and undermine (short-medium term) growth. To counter these risks, administrative measures to resolve supply-chain bottlenecks and any necessary imports remain a high priority. The net liquid foreign exchange reserves with SBP stand at USD 5.8 billion (as at 23-Dec-22), posing challenges and persistent risks to the financial stability and fiscal consolidation.

SBP held two T-Bill auctions with a target of Rs. 2,000 billion against the maturity of Rs. 2,077 billion. In the first T-Bill auction, an amount of Rs. 1,599 billion was accepted at a cut-off yield of 16.99%, 16.89% and 16.80% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 343 billion was accepted at a cut-off yield of 17.00%, 16.83% and 16.85% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids for 3-years, 5-years and 10-years tenure were rejected, 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 December remained punitive for the stock market, as the benchmark KMI-30 Index fell sharply by around 3,491 points (down by 4.9%) on a monthly basis. With this, calendar year 2022 comes to an end during which the index declined by 4.8% on a yearly basis.

The equities started off on a frail note and it remained under the grips of bear throughout the month, as a combination of economic and political factors dented the sentiments. The surprise 100 basis points increase in Policy Rate towards end of November rattled investors, as it quashed hopes that monetary tightening cycle has peaked. In fact, it led many to believe that there is further room for rates to increase by another 100-200 basis points. The news-flow on resumption of IMF program was also deterring, as major differences on various policy matters & economic targets could not be ironed out between authorities and IMF. Reportedly, the areas of contention were exchange rate regime, where there was wide gap in interbank & open market rates, burgeoning circular debt (on both gas and electricity), unfunded subsidies to exporters & farmers and higher than envisaged fiscal deficit for the ongoing year. This comes at a time, when foreign exchange reserves are at a precarious level and on a continuous decline. Due to scheduled external debt repayments, FX reserves held by central bank fell by another USD 1.9 billion, till 23rd Dec, clocking in at USD 5.8 billion (lowest level since April 2014), despite benign current account deficit (CAD) of USD 276 million as goods and services deficit further improved by USD 364 million on a MoM basis. Manufacturing data of large industries was released for Oct-22, which reflected 7.75% YoY drop in LSM activity with 2.9% contraction in LSM output during 4MFY23. Workers' remittance remained another area of concern, which stood at USD 2.1 (YoY decline of 14%) for Nov-22, taking 5MFY23 overall inflows to USD 12 billion (down by 10% YoY). The unending political uncertainty also weighed on sentiments as PTI chairman threatened to dissolve Punjab and KPK assemblies, while the opposition in Punjab submitted a no-confidence motion against the chief minister in a bid to forestall the dissolution of assembly. However, towards the end of month, there was some recovery led by Oil & Gas sector, as government formed a committee to undertake a detailed mapping of gas sector circular debt stock & to work out a comprehensive settlement plan through cash/non-cash adjustments.

During December, Fertilizer, Food & personal Care, Insurance, Oil & Gas Exploration, Sugar & Allied Industries, Textile Composite, Tobacco, and REIT sectors outperformed the market. On the other hand, Auto Assemblers, Auto Parts & Access., Cable & Elec. Goods, Cements, Chemicals, Engineering, Glass & Ceramics, Oil & Gas Marketing, Paper & Board, Pharmaceutical, Refinery, Transport & Technology sectors lagged the market. On participant-wise activity, Banks/DFIs emerged the largest buyers, with net inflow of USD 44 million. Alongside, Companies and Other Org. also increased their equity holdings by USD 13 million & USD 5 million, respectively. On the contrary, Foreigner & Mutual Funds sold stocks worth USD 34 million and USD 14 million, respectively.

Looking ahead, we believe the state of macro-economic affairs, particularly any tangible development on IMF program will shape market outlook. The precarious level of FX reserves and its decline have unhinged investors and only the resumption of IMF program will lead to gradual build-up in reserves, and will restore confidence of the market. So far, there has been an impasse, but we believe that necessary policy actions for continuation of IMF program are inevitable. It entails higher revenue collection, further rationalization of utility especially gas tariffs, and flexible exchange rate regime. We reckon that with the positive nod of the IMF, inflows from friendly countries will also crystalize, particularly from KSA and China. It is also interesting to note that inflows from the multilaterals have not dried up so far, as the country signed multiple loan agreements in December with ADB and WB to the tune of USD 775 million and USD 1.7 billion respectively for various flood rehabilitation activities & reconstruction efforts and for other project & program loans. This pipeline is expected to improve further when the country will be under the umbrella of IMF.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 3.8 times (earnings yield of around 26.3%). In addition, it offers healthy dividends yield in excess of 8%. Therefore, we advise investors with medium to long-term horizon to build position in stock market through our NBP stock funds.

## Money Market Review

The Monetary Policy Committee (MPC) in November 2022, raised the policy rate by 100 basis points to 16%, to ensure inflation and risks to financial stability are contained. According to the SBP, inflation being driven by global & domestic supply shocks could de-anchor inflation expectations and undermine (short-medium term) growth. To counter these risk, administrative measures to resolve supply-chain bottlenecks and any necessary imports remain a high priority. The net liquid foreign exchange reserves with SBP stands at USD 5.8 billion (as at 23-Dec-22), posing challenges and persistent risks to the financial stability and fiscal consolidation.

SBP held two T-Bill auctions with a target of Rs. 2,000 billion against the maturity of Rs. 2,077 billion. In the first T-Bill auction, an amount of Rs. 1,599 billion was accepted at a cut-off yield of 16.99%, 16.89% and 16.80% for 3-month, 6-month and 12-month tenures. In the second T-Bill auction, an amount of Rs. 343 billion was accepted at a cut-off yield of 16.99%, 16.83% and 16.85% for 3-month, 6-month and 12-month tenures. In the PIB auction, bids for 3-years, 5-years and 10-years tenure were rejected, 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.