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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

After impressive stock market rebound witnessed last week, the equities this week remained sideways and the benchmark KSE-100 Index remained flat on a week on week basis.

The outgoing week started off on a negative note, and the KSE-100 Index lost 579 points on Monday, led by prevailing economic uncertainty and news of a tragic blast in Peshawar. However, in the subsequent days, a rebound in the index was observed followed by positive news flow regarding IMF's negotiation with the GoP for the release of 9th tranche. Since Tuesday this week, discussions with the IMF are underway and authorities on both sides are trying to bridge the gaps on multiple conditions & targets. The IMF mission chief, in his initial press release, expressed confidence that the government is working towards pending reform measures for completion of the 9th review within the stipulated timeframe. Over the weekend, the government also increased prices of petroleum products by PKR 35/litre. Talks about a hike in electricity tariffs remained underway albeit without a definite outcome, as IMF reportedly required around PKR 12.5/unit increase, while the government was willing to implement PKR 6.5/unit increase, in a staggered manner. Nonetheless, the commencement of discussions and government's stepping into action was viewed positively by the market. Moreover, following the visit of Bilawal Bhutto to Russia, Russian Foreign Minister Sergey Lavrov Monday said his country would "cooperate fully" to meet the energy needs of Pakistan. However, some negative data points caused nervousness amongst investors, pushing downward pressure on the index towards the end of the week. On Thursday, the monthly inflation data was released, depicting a yearly increase of 27.55%, reaching a 48-year high owing to an unprecedented increase in food prices, leading to an upward revision in long-term inflation expectations of market participants. Furthermore, the foreign exchange reserves continued their plunge and reached USD 3.1 bn (9-year low), witnessing a decline of USD 592 mn, providing an import cover of merely 3 weeks.

The receipt of the IMF tranche remains critical to avoid default & for restoration of confidence and while the ongoing discussion is a positive development, the urgency of the matter cannot be understated. To recall, the necessary policy actions required by the IMF included higher revenue collection, rationalization of utility tariffs, and flexible exchange rate regime. Other conditions are also surfacing such as the latest request by IMF for disclosure of assets by federal government servants for opening a bank account. Moreover, the Fund is also insistent on the withdrawal of subsidies provided to export sectors, while the government is set against it. We believe that the dire situation of the country's economy will invite a stricter attitude from the IMF, which the government will have to concede to due to a lack of alternative financing available, and a consistent drop in dollar reserves. Any positive development on the IMF front will also unlock the much-needed flows from other countries and provide a breather to the economy. However, any impediments in the ongoing negotiations can de-rail the state of the economy and can prove to be detrimental. The political agitation also remains a concern for investor sentiments and any improvement in the same would likely provide 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 3.9 times (earnings yield of around 25.6% as against 10-yr PIB yield of 14.55%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds, whereas risk averse investors can benefit from high interest rate environment via our NBP money market and savings funds.