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Weekly Stock Market Commentary

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During the outgoing week ending 7th April, the stock market remained flat on a week on week basis, as the benchmark KSE-100 increased by only 48 points (up slightly by 0.1%).

Continuing the recent trends of last few weeks, the benchmark index again remained range bound, as KSE-100 Index movements ranged between 650 index points. The equities experienced a challenging start to the week with negative sentiment prevailing, continuing from the previous week, leading to a loss of ~300 points for the first two trading sessions of the week. Over the last weekend, Pakistan Bureau of Statistics (PBS) released data set related to inflation, which showcased highest ever monthly print, as CPI clocked in at 35.4% on a yearly basis. This marks the highest CPI increase on record since July 1965. Uncertainty surrounding the Monetary Policy Committee's (MPC) decision and the Supreme Court's verdict on the provincial elections in Punjab and KPK were contributing factors. However, the announcement of the Supreme Court's verdict to conduct elections on May 14th brought some relief to the market towards the end of the day on Tuesday. Thereafter, the market received a positive surprise, as the Monetary Policy Committee (MPC) increased the policy rate by 100 basis points, against market expectations of 200 bps, which SBP stated was sufficient to achieve the medium-term inflation target, indicating that this might be the end or near end of the tightening cycle. This development instilled much-needed confidence in the market participants. However, the most significant development of the week was Saudi Arabia's commitment of a USD 2 billion deposit which removed a major obstacle in unlocking the long-delayed tranche of IMF's Extended Fund Facility, leading the index to gain 634 points on Thursday. Following the news, the rupee also gained 1.21% against the USD. However, the momentum could not be sustained, and the index traded in the red zone on Friday, as Finance Minister Ishaq Dar's unexpected cancellation of his visit to Washington again stirred nervousness amongst the market participants.

Looking forward, the completion of the IMF program remains critical for the economic stability which will also restore investors' confidence. As witnessed, the news of Saudi Arabia's deposit was perceived positively by market participants. There is also an expectation that the USD 1 bn flows from UAE would materialize soon. This would pave way for the approval of IMF's program as well, which has been stalling for months now, as well as provide a positive trigger for markets. Most of the conditions set forth by IMF which included interest rate hike, increase in utility prices, floating exchange rates, additional taxation measures, and power surcharges have all been fulfilled by the country. However, the recent idea of subsidy on petrol to a certain segment, which remains unresolved, has casted doubts on the ongoing negotiations. On the political front, although the verdict has been given by the Supreme Court, there is a likelihood of retaliation from the coalition government, who are opposing the decision, leaving room for an uncertain environment. Any deterioration in political situation would be negative for the market, in our view.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.8 times (earnings yield of around 26.3% as against 10-yr PIB yield of 15.2%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.