

Weekly Stock Market Commentary

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During the outgoing week ending 19th May, the stock market rose slightly on a week-on-week basis, as the benchmark KSE-100 Index inched up by 112 points (up by 0.3%).

Owing to the ongoing political and economic uncertainty, the market volumes remained shallow as investors preferred to stay on the sidelines. The equities started off the week on a positive note and the benchmark KSE-100 Index mounted by 519 points during the first two trading sessions. Unfortunately, the upward trend was short-lived as the news of another operation against Chairman PTI Imran Khan, once again contributed to political instability. However, some losses were offset later on as the Minister of State for Finance Aisha Ghaus Pasha reiterated that the way forward for the country is to remain in the IMF program and the Finance Division and the Federal Board of Revenue (FBR) are constantly engaged with the Fund. Other noteworthy events during the week included a decrease in the prices of petrol and high-speed diesel (HSD) by PKR 12 and PKR 30 per liter, respectively. Additionally, the large-scale manufacturing (LSM) data revealed a year-on-year decline of 8.11% for the period July-March 2023. Furthermore, for the second consecutive month, the country posted a current account surplus as In April-23, the country recorded a current account surplus of USD 18 mn compared to a deficit of USD 640 mn in April-22. The surplus was below the market expectations as SBP has cleared the outstanding backlog of LCs/payments against imports. Meanwhile, the foreign exchange reserves remained at a low level of USD 4.31 bn, providing import cover for approximately one month.

Going forward, we recognize the heightened economic headwinds caused by the continued delay in resumption of the IMF program, inadequate foreign exchange reserves held by the central bank, and unabated increase in inflation. Additionally, authorities face the challenge of the tax collection shortfall, as they have missed their target by approximately PKR 100 billion and PKR 380 billion during April and the first ten months of the fiscal year 2023, respectively. The ongoing political unrest within the country is adversely affecting both economic metrics and stock market returns. Although some tangible gains have been made on IMF front, the differences over the external financing gap remains a key issue, the resolution of which should fast-track the SLA.

We find it pertinent to highlight that despite challenges facing the economy, corporate profitability & its outlook remains robust and the ongoing 1QCY23 results reaffirm this view, as cumulative profits announced so far have shown a yearly growth of around 15-18%. The ongoing wave of buyback and stock purchases by leading corporates and sponsors in their respective industries also remain key catalysts which have strengthened investors' confidence in select companies and sectors. At the same time, it has been a source of much needed liquidity for the market.

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 15.1%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.