Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

April 2023

Stock Market Review

The equity market exhibited strong recovery during the outgoing month of April, as the benchmark KSE-100 Index surged by 1,580 points on a monthly basis, translating into a healthy gain of 3.9% over previous month.

The stock market started off the month on a weak footing as the market braced above expected and highest ever monthly inflation of 35.4% for the month of March-23, with MoM inflation clocking in at 3.7%. As a result, overall sentiments remained fragile and investors opted to exercise caution ahead of the scheduled monetary policy committee (MPC) meeting. Contrary to expectations, the central bank raised Policy Rate by a modest 100 basis points, which the bank stated was sufficient to achieve medium-term inflation target. As expected a relief rally followed afterwards, which proved to be short lived as investors remained concerned about the ongoing political developments surrounding the court hearing on holding up of elections in KPK and Punjab. Furthermore, the continuing delay in signing off of Staff Level Agreement (SLA) and the resumption of IMF program despite repeated assurances from government quarters also unsettled investors during first half of the month. However, towards the latter part of the month, sentiments started improving with the announcement of USD 2 billion fresh financial support by Saudi Arabia. Soon after, UAE also announced an incremental deposit of USD 1 billion, moving the country closer to clinching the IMF deal. It also brought some stability to the fragile currency market, as it arrested the ongoing slide of the PKR against USD during April. Much of the index surge came about in the last 6 trading sessions of April, in which the KSE-100 index mounted by 3.3% (1,334 points) due to much higher than expected current account surplus of around USD 654 million for March. Although goods & services balance narrowed by 9% on MoM basis and the deficit contracted by USD 159 million, the key impetus came from the seasonally higher inflows from expats, as remittances clocked in at USD 2.5 billion viz-a-viz USD 2 billion in February. Secondly, the March-23 quarterly result announcements surpassed expectations both in terms of profitability and in terms of pay-outs by select large cap companies, which triggered strong index rebound. Lastly, the slight improvement in the political landscape where PDM and PTI engaged in the dialogue to amicably resolve the differences over holding of elections dissipated mounting tensions on the political front. The country's industrial output was reported during the month, that showed a drop of 11.6% in February 2023 over the same month last year, which is the 8th consecutive decline. Consequently, overall large-scale industrial output has declined by around 5.6% during 8MFY23 period. During the month, IMF & World Bank's spring meetings were held in Washington, where the IMF Middle East and Central Asia Director, Jihad Azour, expressed confidence that SLA between Pakistan & the IMF would be signed soon. Moreover, the Fund also revised Pakistan's growth rate downwards to 0.5% from 3.5% forecasted earlier. Inflation for April-23 came in slightly lower than market expectations, but again surpassed all previous monthly prints clocking in at 36.4% due to persistent price increase across the basket.

During April, Auto Assembler, Auto Parts & Access., Cable & Elec. Goods, Cements, Engineering, Food & Personal Care, Glass & Ceramics, Insurance, Leather & Tanneries, Miscellaneous, Oil & Gas Marketing, Paper & Board, Pharmaceuticals, Power Generation & Distribution, Sugar, Technology & Communication sectors underperformed the market. On the contrary, Chemical, Commercial Banks, Investment Companies, Fertilizer, Refinery, Tobacco & Transport sectors outperformed the market. On participant-wise activity, Companies & Banks/DFIs emerged the largest buyers, with net inflow of USD 10 million & USD 8 million, respectively. On the contrary, Foreigner, Insurance & Mutual Funds sold stocks worth USD 8 million each.

Looking ahead, we acknowledge heightened economic risks emanating from delay in resumption of the IMF program, amidst abysmally low FX reserves and persistent inflation. The under-target tax collection during April and in 10MFY23, by around PKR 100 bn & PKR 380 bn, respectively, is another challenge for the authorities. The political quagmire and impasse between state institutions and the government is further fuelling the economic incertitude & is taking toll on both economic indicators and as well as stock market performance. Although some tangible gains have been made on IMF front, as the two gulf nations have stepped up their support and confirmed their commitment to IMF directly, the SLA still has not been signed, which is agonizing investors. The differences over external financing gap remains a key issue, the resolution of which would fast-track the SLA. Having said this, we also find it pertinent to highlight that despite challenges facing economy, the corporate profitability and 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 19%.

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 of around 9-10%. 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 April 2023 increased the policy rate by 100 basis points to 21%, to curb inflation outlook and achieve price stability. However, uncertainties prevail amid depressed global financial conditions and domestic political situation, posing severe risks and challenges to the financial stability and fiscal consolidation. The overall economic growth is expected to be lower due to the slowdown in economic activity and increased debt servicing (scheduled debt repayments), pressurizing the foreign exchange reserves. The net liquid foreign exchange reserves with SBP stands at USD 4.5 billion (as at 20-Apr-23).

SBP held two T-Bill auctions with a target of Rs. 1,900 billion against the maturity of Rs. 1,875 billion. In the first T-Bill auction, an amount of Rs. 2.14 trillion was accepted at a cut-off yield of 22.00%, 21.98% and 21.89% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 561 billion was accepted at a cut-off yield of 22.00%, 21.98% and 21.99% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 144 billion were realized for 3-years at a cut-off yield of 18.39%, whereas bids for 5-years and 10-years tenures were rejected. However, no bids were received for 15-years, 20-years and 30-years tenures.

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.

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NBP Fund Management Limited

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The equity market exhibited strong recovery during the outgoing month of April, as the benchmark KMI-30 Index surged by 3,016 points on a monthly basis, translating into a healthy gain of 4.4% over previous month.

The stock market started off the month on a weak footing as the market braced above expected and highest ever monthly inflation of 35.4% for the month of March-23, with MoM inflation clocking in at 3.7%. As a result, overall sentiments remained fragile and investors opted to exercise caution ahead of the scheduled monetary policy committee (MPC) meeting. Contrary to expectations, the central bank raised Policy Rate by a modest 100 basis points, which the bank stated was sufficient to achieve medium-term inflation target. As expected a relief rally followed afterwards, which proved to be short lived as investors remained concerned about the ongoing political developments surrounding the court hearing on holding up of elections in KPK and Punjab. Furthermore, the continuing delay in signing off of Staff Level Agreement (SLA) and the resumption of IMF program despite repeated assurances from government quarters also unsettled investors during first half of the month. However, towards the latter part of the month, sentiments started improving with the announcement of USD 2 billion fresh financial support by Saudi Arabia. Soon after, UAE also announced an incremental deposit of USD 1 billion, moving the country closer to clinching the IMF deal. It also brought some stability to the fragile currency market, as it arrested the ongoing slide of the PKR against USD during April. Much of the index surge came about in the last 6 trading sessions of April, in which the KMI-30 index mounted by 3.3% (2,312 points). due to much higher than expected current account surplus of around USD 654 million for March. Although goods & services balance narrowed by 9% on MoM basis and the deficit contracted by USD 159 million, the key impetus came from the seasonally higher inflows from expats, as remittances clocked in at USD 2.5 billion viz-a-viz USD 2 billion in February. Secondly, the March-23 quarterly result announcements surpassed expectations both in terms of profitability and in terms of pay-outs by select large cap companies, which triggered strong index rebound. Lastly, the slight improvement in the political landscape where PDM and PTI engaged in the dialogue to amicably resolve the differences over holding of elections dissipated mounting tensions on the political front. The country's industrial output was reported during the month, that showed a drop of 11.6% in February 2023 over the same month last year, which is the 8th consecutive decline. Consequently, overall large-scale industrial output has declined by around 5.6% during 8MFY23 period. During the month, IMF & World Bank's spring meetings were held in Washington, where the IMF Middle East and Central Asia Director, Jihad Azour, expressed confidence that SLA between Pakistan & the IMF would be signed soon. Moreover, the Fund also revised Pakistan's growth rate downwards to 0.5% from 3.5% forecasted earlier. Inflation for April-23 came in slightly lower than market expectations, but again surpassed all previous monthly prints clocking in at 36.4% due to persistent price increase across the basket.

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