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Weekly Stock Market Commentary

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During the outgoing week ending 2nd June, the stock market eked out slight gain week-on-week basis, as the benchmark KSE-100 increased by 388 points (up by 0.9%).

The week under review commenced on a positive footing and the benchmark index registered a 0.92% increase on Monday. Investor sentiments turned favorable as the market reacted to the response of corporates towards government's proposal of levying taxes on companies' reserves in the upcoming budget. As seen in the preceding weeks, many corporates evinced their plans to beef up their paid-up capital by recycling their accumulated earnings and some companies even resorted to out of turn cash payouts to lessen the impact of potential tax implication. Finance Minister Ishaq Dar announced that the country would share the details of its upcoming budget with IMF in order to unlock stalled funds while IMF Chief for Pakistan, Nathan Porter, emphasized that Pakistan and the IMF continued their engagements to revive the agreement. These factors collectively contributed to a positive market sentiment. This momentum persisted until Wednesday when the market turned negative due to lack of progress and speculations regarding the resumption of the IMF program. Subsequently, the market entered a rangebound phase. Towards end of the week, sources disclosed that government intends to conclude IMF program without completing all pending reviews and subsequently plans negotiate a new program with IMF immediately after the budget. At the start of the week, gap between interbank & open market USD rate widened, with PKR reaching 316 against USD. However, followed by SBP’s announcement to authorize banks to purchase dollars from interbank market for settling international payments on credit card, the PKR/USD rate fell sharply to around PKR 300 in the open market. Other noteworthy developments during the week included the release of inflation data for May, which reached 38%, marking another record, primarily driven by food inflation. Lastly, foreign exchange reserves held by SBP decreased by USD 102 million to USD 4.09 billion during the week, providing a one-month import cover.

Going forward, we acknowledge that country is facing serious macro-economic challenges emanating from record high inflation, woefully inadequate SBP FX reserves, and large revenue shortfall. Latest data shows that FBR has missed its target by approximately PKR 49 bn & PKR 430 bn during May and 11MFY23, respectively. Moreover, with near end to the ongoing IMF program, meeting near-term debt obligations will lead to FX reserves depletion, although the government has underlined that bulk of these loans will be rolled over, there will be some drawn down in reserves, which are already abysmally low. Although inflation is expected to cool down from June, given high base in the same period last year, much depends on the commodity cycle especially oil prices, and the USD/PKR parity. If USD rate gap in interbank and open market widens in coming period, there will be another round of PKR devaluation which will further fuel imported inflation going ahead. Investors will also be keenly following the upcoming budget, which many fear will be an election budget and may erode investors’ confidence, since it will further imperil the macro-economic stability. The ongoing political unrest, coupled with persistent conflict between government & opposition, is exacerbating economic uncertainty and is adversely affecting both economic metrics and stock market returns.

Having said this, we also 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 16%. 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 3.7 times (earnings yield of around 27% 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.