Capital Market Review

NBP FUNDS
Managing Your Savings

NBP Fund Management Limited

May 2023

Stock Market Review

Stock market performance remained dull in the outgoing month of May-23. The benchmark KSE-100 Index witnessed a modest decline of 250 points on a monthly basis, translating into a MoM correction of 0.6%.

The equities started off current month on a firm footing and the benchmark KSE-100 Index rose by 1.6% (661 points) in the first 4 trading sessions. The key catalyst was announcement of strong financial results & buybacks. The sponsors of a large bank expressed their intent to acquire additional shares from open market by utilizing accumulated unrepatriated dividends, that sent a strong signal to the market. The same was the case for a large cement company, which announced a much larger second stock buy-back plan after completion of first buy back program. However, sentiments turned sour on 9th May with the arrest of PTI chairman Imran Khan after which the situation turned violent as protests broke out in major cities. Heightened political temperature was followed by economic uncertainty, as the FM Ishaq Dar, while speaking to a delegation of businessmen, also hinted that IMF program may expire on June 30th without revival due to restricted time. Investors also remained cautious ahead of the upcoming budget where some of the proposed tax reforms include taxing exporters who hold back foreign exchange & make gains on their foreign exchange, imposition of extra tax on failure to meet certain dividend payout threshold, and taxing the accumulated reserves of corporates. To circumvent this potential tax liability, several companies on the bourse announced extra ordinary and emergent board meetings to consider enhancing their paid-up capital via bonus issue and some even opted to pay out cash, which offered some excitement to market participants. During the month, remittances data for the month of April 2023 was released that exhibited 13% MoM decline, clocking-in at USD 2.2 bn. With that, cumulative expat inflows stood at around USD 22.7 bn viz-a-viz USD 26.1 bn in SPLY, depicting a decline of 13%. Large-scale manufacturing (LSM) data also revealed a grim picture as output of large industries fell sharply by 25% in Mar-23, with 9M cumulative contraction of 8.11%. During April-23, the country recorded second consecutive 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 purportedly cleared the outstanding backlog of LCs/payments against imports. Meanwhile, the foreign exchange reserves remained at a low level of USD 4.1 bn, providing import cover for approximately one month. Economic data for the country's output was also released with estimated provisional GDP growth rate of 0.29% during FY23, with the agricultural sector growing at 1.55%, the industrial sector experiencing a negative growth of 3.91%, and the services sector growing at 0.86%.

During May, Auto Assembler, Auto Parts & Access., Cable & Elec. Goods, Banks, Engineering, Glass & Ceramics, Oil & Gas Exploration Comp., Oil & Gas Marketing Comp., Pharmaceuticals, Refinery, Technology & Communication, Tobacco sectors underperformed the market. While, Cements, Chemical, Food & Personal Care, Insurance, Leather & Tanneries, Miscellaneous, Paper & Board, Sugar & Allied Industries, Textile Composite & Transport sectors outperformed the market. On participant-wise activity, Individuals & Banks/DFIs emerged the largest buyers, with net inflow of USD 15 million & USD 6 million, respectively. While, Mutual Funds & Insurance sold stocks worth USD 12 million & USD 6 million, respectively.

Going forward, we acknowledge that the country is facing serious macro-economic challenges emanating from record high inflation, inadequate SBP FX reserves, and large revenue shortfall. With near end to the ongoing IMF program, meeting the near-term debt obligations will further erode reserves and investors' confidence, although the government has underlined that bulk of these loans will be rolled over. It will also put further pressure on the currency, which has again seen its gap widening in the open market in May due to elevated seasonal demand. Investors will also be been keenly following the upcoming budget, which many fear will be an election budget that may imperil the macro-economic stability. The ongoing political unrest within the country, coupled with the persistent conflict between the government and opposition, is exacerbating economic uncertainty and 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 has so far remained resilient. During the 1QCY23, the listed corporate sector has posted a cumulative profit growth of around 16%. Although we expect continuation of record profitability going ahead, the burgeoning macro-economic challenges and new budgetary measures pose a risk to growth. That said, the ongoing wave of buybacks & stock purchases by leading corporates and sponsors in their respective industries also remain key catalyst which have strengthened investors' confidence in select companies and sectors. At the same time, it has been a source of much needed liquidity for market.

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 dividend 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

During the current calendar year, the policy rates have risen by 500 basis points to 21% - to curb inflation outlook and achieve price stability, however, uncertainties prevail. Besides the political noise, the overall economic activity has slowed down considerably due to curbs on imports by SBP, closure of businesses/factories/plants and increased debt repayments. The net liquid foreign exchange reserves with SBP stand at USD 4.1 billion (as at 26-May-23), posing severe risks and challenges to the financial stability and fiscal consolidation.

SBP held two T-Bill auctions with a target of Rs. 1,125 billion against the maturity of Rs. 926 billion. In the first T-Bill auction, an amount of Rs. 666 billion was accepted at a cut-off yield of 22.00%, 21.96% and 22.00% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 421 billion was accepted at a cut-off yield of 22.00%, 21.92% and 22.00% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 63 billion were realized for 3-years at a cut-off yield of 19.39%, whereas bids for 5-years were rejected. However, no bids were received for 10-years, 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.

Capital Market Review

NBP FUNDS Aitemaad

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Stock Market Review

Stock market performance remained dull in the outgoing month of May-23. The benchmark KMI-30 Index witnessed a decline of 1,014 points on a monthly basis, translating into a MoM correction of 1.4%.

The equities started off current month on a firm footing and the benchmark KMI-30 Index rose by 0.9% (639 points) in the first 4 trading sessions. The key catalyst was announcement of strong financial results & buybacks. The sponsors of a large bank expressed their intent to acquire additional shares from open market by utilizing accumulated unrepatriated dividends, that sent a strong signal to the market. The same was the case for a large cement company, which announced a much larger second stock buy-back plan after completion of first buy back program. However, sentiments turned sour on 9th May with the arrest of PTI chairman Imran Khan after which the situation turned violent as protests broke out in major cities. Heightened political temperature was followed by economic uncertainty, as the FM Ishaq Dar, while speaking to a delegation of businessmen, also hinted that IMF program may expire on June 30th without revival due to restricted time. Investors also remained cautious ahead of the upcoming budget where some of the proposed tax reforms include taxing exporters who hold back foreign exchange & make gains on their foreign exchange, imposition of extra tax on failure to meet certain dividend payout threshold, and taxing the accumulated reserves of corporates. To circumvent this potential tax liability, several companies on the bourse announced extra ordinary and emergent board meetings to consider enhancing their paid-up capital via bonus issue and some even opted to pay out cash, which offered some excitement to market participants. During the month, remittances data for the month of April 2023 was released that exhibited 13% MoM decline, clocking-in at USD 2.2 bn. With that, cumulative expat inflows stood at around USD 22.7 bn viz-a-viz USD 26.1 bn in SPLY, depicting a decline of 13%. Large-scale manufacturing (LSM) data also revealed a grim picture as output of large industries fell sharply by 25% in Mar-23, with 9M cumulative contraction of 8.11%. During April-23, the country recorded second consecutive 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 purportedly cleared the outstanding backlog of LCs/payments against imports. Meanwhile, the foreign exchange reserves remained at a low level of USD 4.1 bn, providing import cover for approximately one month. Economic data for the country's output was also released with estimated provisional GDP growth rate of 0.29% during FY23, with the agricultural sector growing at 1.55%, the industrial sector experiencing a negative growth of 3.91%, and the services sector growing at 0.86%.

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