Capital Market Review

NBP FUNDS
Managing Your Savings

NBP Fund Management Limited

June 2023

Stock Market Review

Stock market performance remained volatile in the outgoing month of June-23. The benchmark KSE-100 Index witnessed a modest increase of 122 points on a monthly basis, translating into a MoM gain of 0.3%.

The market initially gained some momentum as investors displayed optimism in anticipation of payouts, particularly due to the proposed taxation of companies' reserves, prompting several companies to announce board meetings to increase authorized share capital for issuing bonus shares. The Federal Budget for FY24 was announced on 9th June where the proposal of reserve taxation was dropped. The super tax of 10% was re-imposed along with a tax of up to 50% on unusual/unexpected income, profit and gains arisen to person or class of persons, due to any economic factor(s). Additionally, the withholding tax on bonus shares was reinstated at 10% for filers and 20% for non-filers, which will restrict the issuance of bonus shares in the stock market. However, IMF expressed dissatisfaction with the budget targets and the proposed dollar amnesty, which unnerved investors and the market lost approximately 1800 points in two weeks. Thereafter, the government took swift actions to secure the IMF funding before the end of the month, including introduction of an additional PKR 215 bn in new taxes and a net PKR 85 bn cut in expenditures to shrink fiscal deficit. The tax burden on the salaried class was increased, the USD 100,000 amnesty scheme was withdrawn, and the ceiling of Petroleum Development Levy was increased to PKR 60/litre. Moreover, an emergency MPC meeting was convened, in which the policy rate was increased to 22%. Subsequently, the country was successfully able to secure a Staff Level Agreement (SLA) for a Stand-By Arrangement (SBA) with IMF, a nine month agreement under which the country will receive USD 3 bn. The new SBA program has emerged as a significant and positive development, given the heightened concerns surrounding the short-term external account outlook. During the month, remittances data for the month of May 2023 was released exhibiting a 4.4% MoM decline, clocking-in at USD 2.1 bn. With that, cumulative expat inflows for 11M FY23 stood at around USD 24.8 bn viz-a-viz USD 28.5 bn in SPLY, depicting a decline of 13%. Large-scale manufacturing (LSM) output for April'23 also decreased by 21.0% compared to the same period last year. Furthermore, the country recorded the third consecutive current account surplus for the month of May'23, clocking-in at USD 255 mn, against USD 78 mn last month. Meanwhile, the foreign exchange reserves remained at a low level of USD 4.1 bn, providing import cover for approximately one month.

During June, Chemical, Auto Assembler, Oil & Gas Exploration Companies, Oil & Gas Marketing Comp., Cement, Power, Tobacco, Food, Leather & Tanneries, Transport, Insurance, and Engineering sectors outperformed the market. On the contrary, Fertilizer, Pharmaceuticals, Inv. Banks / Inv. Cos. / Securities Cos., , Glass & Ceramics, Technology & Communication, Automobile Parts & Accessories, Refinery, Sugar & Allied Industries, Cable & Electrical Goods, Paper & Board and Textile, sectors underperformed the market. On participant-wise activity, Companies and Foreigners emerged the largest buyers, with net inflow of USD 8.9 mn & USD 6.2 mn, respectively. On the contrary, Mutual Funds and Insurance sold stocks worth USD 14.1 mn & USD 5.3 mn, respectively.

The SBA has given a breather to the economy and would resolve the issue of unlocking funds from other international lenders. These inflows are expected to bolster the country's foreign exchange (FX) reserves and provide relief on external account, at least in the short-term. While the specific details of the new SBA are yet to be revealed, it is highly likely that energy sector reforms, including tariff hikes, will be implemented to address the circular debt issue. These reforms are expected to contribute to elevated inflation levels.

Importantly for the market, buyback activity, which had gained momentum in FY23, is expected to pick up pace especially considering the recent hike in corporate taxes (super tax) and taxation on bonus shares, which makes buybacks a much more viable and attractive option for returning capital to the shareholders.

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

In an emergency meeting held on 26-June-2023, the Monetary Policy Committee (MPC) increased the policy rate by 100 basis points to 22%. The decision was attributed to the upside risks to inflation outlook emanating from upward revisions in taxes, duties, and PDL rate in FY24 budget. The net liquid foreign exchange reserves with SBP stand at USD 4.1 billion (as at 23-Jun-23), posing severe risks and challenges to the financial stability and fiscal consolidation.

SBP held three T-Bill auctions with a target of Rs. 5,250 billion against the maturity of Rs. 4,925 billion. In the first T-Bill auction, an amount of Rs. 2,175 billion was accepted at a cut-off yield of 22.00%, 21.94% and 22.00% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 2,099 billion was accepted at a cut-off yield of 22.00%, 21.99% and 22.00% for 3-month, 6-month and 12-month tenures respectively. In the third T-Bill auction, an amount of around Rs. 2,304 billion was accepted at a cut-off yield of 22.00%, 21.97% and 22.00% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 127 billion were realized for 3-years at a cut-off yield of 19.35%, whereas bids for 5-years and 10-years 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.

Stock Market Review

Stock market performance remained volatile in the outgoing month of June-23. The benchmark KMI-30 Index witnessed a modest decline of 592 points on a monthly basis, translating into a MoM decreased of 0.8%.

The market initially gained some momentum as investors displayed optimism in anticipation of payouts, particularly due to the proposed taxation of companies' reserves, prompting several companies to announce board meetings to increase authorized share capital for issuing bonus shares. The Federal Budget for FY24 was announced on 9th June where the proposal of reserve taxation was dropped. The super tax of 10% was re-imposed along with a tax of up to 50% on unusual/unexpected income, profit and gains arisen to person or class of persons, due to any economic factor(s). Additionally, the withholding tax on bonus shares was reinstated at 10% for filers and 20% for non-filers, which will restrict the issuance of bonus shares in the stock market. However, IMF expressed dissatisfaction with the budget targets and the proposed dollar amnesty, which unnerved investors and the market lost approximately 1800 points in two weeks. Thereafter, the government took swift actions to secure the IMF funding before the end of the month, including introduction of an additional PKR 215 bn in new taxes and a net PKR 85 bn cut in expenditures to shrink fiscal deficit. The tax burden on the salaried class was increased, the USD 100,000 amnesty scheme was withdrawn, and the ceiling of Petroleum Development Levy was increased to PKR 60/litre. Moreover, an emergency MPC meeting was convened, in which the policy rate was increased to 22%. Subsequently, the country was successfully able to secure a Staff Level Agreement (SLA) for a Stand-By Arrangement (SBA) with IMF, a nine month agreement under which the country will receive USD 3 bn. The new SBA program has emerged as a significant and positive development, given the heightened concerns surrounding the short-term external account outlook. During the month, remittances data for the month of May 2023 was released exhibiting a 4.4% MoM decline, clocking-in at USD 2.1 bn. With that, cumulative expat inflows for 11M FY23 stood at around USD 24.8 bn viz-a-viz USD 28.5 bn in SPLY, depicting a decline of 13%. Large-scale manufacturing (LSM) output for April’23 also decreased by 21.0% compared to the same period last year. Furthermore, the country recorded the third consecutive current account surplus for the month of May’23, clocking-in at USD 255 mn, against USD 78 mn last month. Meanwhile, the foreign exchange reserves remained at a low level of USD 4.1 bn, providing import cover for approximately one month.

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