Weekly Stock Market Commentary

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After 6 consecutive weeks of positive return, during the outgoing week ending 4th August 2023, the benchmark KSE-100 receded slightly by 161 points on a week-on-week basis, translating into marginal decline of 0.3%.

Although the stock market remained flat on an overall basis during the period under review, and traded within a range of around 1,150 points, it exhibited large daily swings throughout the week. The profit taking witnessed towards end of preceding week extended into the current week. There was mild correction on Monday, however the sell-off accelerated the next day when the Index declined considerably by 956 points. Driving the negative sentiment was the arrest of Chairman PTI over the weekend, which triggered some political tension. Moreover, uncertainty was also stirred by the expected delay in elections, after the Council of Common Interests (CCI) approved the first digital census, and paved way for elections on the basis of recent enumeration and new delimitations. Additionally, the lack of an official announcement with respect to highly anticipated resolution of circular debt in the energy sector via one-time dividend payment also sent jitters in the market. This trend was reversed the next day (Wednesday) as the market was abuzz with rumors that incoming caretaker FM will take up this matter. Hence, massive buying interest in index-heavy OGDC, PPL, and SNGP shares was witnessed. The momentum did not last for long as no official confirmation followed. However, on Friday, there was a positive surprise, that brought back excitement. The nation's largest insurance company allocated about 0.2% of its total assets towards equities which saw the market surge by more than 1,000 points in the intraday. It is pertinent to mention here that the state life insurer is heavily under invested in equities, along with other life insurance and institutional investors including mutual funds. Also in its results of the August 2023 index review, MSCI announced the addition of a record 56 Pakistani companies as constituents on its Frontier Market (FM) Index and FM Small Cap Index. Additionally, Wall Street Journal reported that the country was negotiating with Gulf nations to bring in billions of dollars of investment, in refining and mining sector that revived investor's interest. Other developments during the week included the Ijarah Sukuk auction, raising a record PKR 371 bn, tapping strong demand from local Islamic banks and making it the largest issuance of Islamic bonds in a single auction since the Sukuk program's launch in 2008. Moreover, the government raised PKR 1.25 trn in the T-Bill auction on Wednesday, while the yields on these papers fell slightly. Remittances to Pakistan from expats dropped 19.3% YoY to USD 2 bn during July. Lastly, the FX reserves fell by USD 110 mn during the week, clocking-in at USD 8 bn.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. PM Shahbaz Sharif dissolved the National Assembly on 9th August, and is advocating for elections to be held based on the results of the recent census. This would cause a delay of elections till Feb-March next year. IMF has officially stated that it would not have a problem having discussions with the caretaker government for an extended time period. Although the caretaker PM has been finalized, it will be interesting to see how things shape up going forward especially on economic front, which require immediate and continuous attention. Investors will be keenly following developments on these fronts and accordingly adjust capital market expectations. As highlighted in the latest IMF report as well, Pakistan's path to recovery is narrow with little leeway, and the country has to tread very carefully and undertake meaningful reforms across various fronts to avoid any misstep. So, it is imperative for the caretaker and the subsequent new government to embark upon various reforms on taxation, state owned enterprises, and energy sector.

Looking at the fundamentals, the listed companies are poised to exhibit healthy double-digit growth in FY23 and FY24 despite imposition of super-tax. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 4.1x (earnings yield of around 24.4% as against 10-yr PIB yield of 15.8%) and compensates for the risks highlighted earlier. In the same manner, the dividend yield of the market is also around 9-10%. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds, which has the history of providing superior return to investors.