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Weekly Stock Market Commentary

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During the holiday shortened week ending 18th August 2023, there was a mild correction in equity market, as the benchmark KSE-100 fell slightly by 206 points on a weekly basis, translating into WoW loss of 0.3%.

After solid return posted by stock market in the first few weeks of FY24, the last 2 weeks have been slightly dull in terms of performance, as the market appears to be in consolidation phase. During the outgoing week, the market remained directionless and moved within a very narrow range of around 400 points. The absence of positive triggers coupled with uncertainty surrounding the appointment of an interim caretaker government shaped Index movements during the initial half of the week. Although Senator Anwar ul Haq Kakar was sworn in as caretaker PM on Monday, speculations surrounding the composition of the remaining cabinet members bred sense of nervousness among market participants. Although there was a semblance of optimism witnessed on Thursday, the momentum could not sustain. The finalization of cabinet members of caretaker government transpired after-market hours on Thursday, accompanied by the administration taking their oaths of office. Dr Shamshad Akhtar was designated as head of finance ministry whereas Mr Muhammad Ali was assigned the role of care-taker minister for Energy, Power & Petroleum, rekindling hopes of ultimate resolution of circular debt. Other developments during the week included a massive rate hike of PKR 17.5/litre & PKR 20/litre for petrol and HSD, respectively, owing to rupee devaluation and higher oil prices. The currency also remained under pressure throughout the week, with the interbank rate slipping by 2-3% WoW. Additionally, the gap between interbank & kerb market rates also widened against IMF's recommendation, foretelling further weakness in PKR. Moreover, the fiscal deficit for FY23 clocked-in at PKR 6.5 trillion (7.7% of GDP), up 24% YoY. Furthermore, after reporting a surplus for four successive months, Pakistan showed CAD of USD 809 mn for July, reflecting the ease off in import restrictions by SBP. Lastly, the FX reserves at the end of the week clocked in at USD 8.1 bn, steady from last week.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. The interim government has been successfully appointed and there is dire need of meaningful & constructive reforms that should steer the economy and the stock market in a positive direction. Following the completion of the 2023 census, the ECP has announced fresh delimitations to be conducted, which is likely to push the elections to Feb-Mar'23, however the IMF has officially stated that it would not have a problem having discussions with the caretaker government for an extended time period. It is important to note that the recent increase in petroleum prices and significant rupee devaluation will translate into a higher inflation reading in the coming months. Given IMF's focus on positive real interest rates, the increase in inflation may drive further tightening of the monetary policy, hence additional rate hikes cannot be ruled out. As highlighted in the latest IMF report as well, Pakistan's path to recovery is narrow with little leeway, and the country must tread very carefully and undertake meaningful reforms across various fronts to remain solvent and achieve sustainable economic growth. 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 16.12%) 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.