Weekly Stock Market Commentary

August 25, 2023

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During the week ending 25th August 2023, the equity market performance remained lackluster as the benchmark KSE-100 shed 547 points on a weekly basis, translating into WoW decline of 1.1%.

The last few weeks have remained lukewarm for equities following an impressive return during the initial weeks of FY24, as the initial excitement over the resumption of IMF program appears to have fizzled out. The outgoing week kicked off on a frail note, losing 771 points owing to mounting concerns over both economic and political front. Last Sunday, in a shocking and troubling revelation, President Arif Alvi conveyed his non-endorsement of Official Secrets Amendment Bill 2023 and Pakistan Army Amendment Bill 2023, claiming that his authority was undermined. Furthermore, last week's release of the current account figures, which showed a higher than expected deficit of USD 809 million after four months of recording surpluses also weighed on investor sentiments. Despite attempts during the latter part of the week to recover from these setbacks, the market performance remained lackluster throughout. Although a marginal uptick in performance witnessed over impressive financial results announcements by some companies, and over reports of contact between IMF and the caretaker government with respect to the circular debt management plan, these developments fell short of generating sustained upward momentum in the stock market. Other factors causing a subdued performance on the stock exchange included rumors of an emergent monetary policy meeting and further hike in interest rate, and the continuous devaluation of the rupee against USD. During the week, the rupee depreciated by a cumulative 1.5-2% to reach an all-time low of 301 against USD in the interbank market. To note, the gap between the open market and interbank PKR/USD rate has widened considerably against IMF's requirement of 1-1.5%. There were also reports of another quarterly tariff adjustment in power tariffs to the tune of PKR 5/unit. Both the devaluation and the increase in electricity rates, with likely increase in gas prices on the cards as well, evoked a fear of escalating inflation in the minds of investors. Lastly, the FX reserves with SBP fell by USD 125 mn during the week, clocking in at USD 7.9 bn.

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 on multiple fronts. The stubborn inflation, high recurrent fiscal deficits, inefficiencies in energy sector that is crippling economic growth, low tax base, hemorrhaging SOEs, low export base are few of the areas that require immediate attention. Just recently, the interim PM has approved the constitution of a cabinet committee for economic revival and has also mandated it to suggest measures for long term economic growth. So, it remains to be seen what roadmap is laid out and how its implementation takes place given short tenure of the caretaker setup. So, it is imperative for the caretaker and the subsequent new government to remain steadfast on the reform agenda for long term and sustainable growth.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations and profitability over the recent past. In the last 2 years, during FY21 and FY22, the cumulative profitability has almost doubled and the companies are poised to exhibit further 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 16.1%) and compensates for the economic challenges 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.