Weekly Stock Market Commentary

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During the week ending 1st September 2023, the benchmark KSE-100 fell sharply by 2,359 points on a weekly basis, translating into WoW loss of 4.95%.

The outgoing week was disheartening period for equities, as a host of factors perturbed investors leading to pervasive pessimism in the market. As the initial fervor surrounding the IMF SBA has fizzled out, investors are now eagerly awaiting the meaningful economic reforms. Market participants had pinned their hopes on the interim government, which was expected to take decisive actions on macro-economic front. However, so far it appears that the caretaker setup has also gotten cold feet, which has alarmed investors. Owing to high inflation, tension was already brewing in the public and it has now been exacerbated as widespread protests erupted in response to the massive escalation in electricity bills. Subsequent to this outcry, though the government has initiated discussions aimed at formulating a comprehensive strategy to alleviate the burden of power tariffs, there is little room for any major relief due to lack of fiscal room. The market remained abuzz through-out the week with the rumor of 2-3% increase in the Policy Rate in an out of turn MPC meeting, which coupled with relentless decline in PKR, sapped investors' confidence. In response to the economic challenges, the government has put forth a path of fiscal austerity, though the belt tightening measure are yet to be seen. The cumulative effect of these multiple factors has contributed to the palpable nervousness that has gripped the PSX, which suffered a decline of over 1,200 points on Thursday, the largest drop since January 17th, 2023. There was a fleeting moment of respite on Friday, when the market witnessed a modest rebound in performance, primarily led by a statement from the SBP refuting rumors of an emergency meeting. Nevertheless, on a week-on-week basis, the KSE-100 index suffered its most significant weekly decline in points since November 26, 2021. Other developments during the week included a substantial increase in the prices of Petrol and High-Speed Diesel (HSD) by PKR 14.91 per liter and PKR 18.44 per liter, respectively. Furthermore, after the close of market hours on Friday, the monthly Consumer Price Index (CPI) data was released, revealing that for the month of August 2023, Pakistan's headline inflation surged to 27.4% on a YoY basis. The Federal Board of Revenue (FBR) has provisionally collected PKR 1,207 bn during the first two months (July-August) of FY24 against the target of PKR 1,183 bn. Lastly, the foreign exchange reserves of the SBP reduced by USD 81 mn during the week, clocking-in at USD 7.85 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 and 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. The government is also increasingly focusing on fiscal austerity, acknowledging that there is little to no space for concessions or subsidies. The proposal of withdrawal of taxes on electricity has also been rejected, sighting lack of fiscal space. It remains to be seen what roadmap is laid out and how its implementation takes place given short tenure of the caretaker setup. It is thus 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 3.9x (earnings yield of around 25.6% as against 10-yr PIB yield of 16.3%) 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.