Weekly Stock Market Commentary

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During the week ending 15th September 2023, the benchmark KSE-100 witnessed a slight decline of 260 points on a weekly basis, translating into WoW loss of 0.6%.

Following a surge in investor optimism last week, attributed to various administrative initiatives undertaken by the government that led to rupee appreciation, the outgoing week witnessed a notable shift in momentum as the benchmark index ended up in the red on the very first day of the week, as a sense of caution prevailed among investors. Throughout the week, the market remained lackluster, and traded within a narrow range of around 500 points, as it awaited the decision in the upcoming monetary policy committee (MPC) meeting scheduled for September 14th, 2023. In the wake of the previous week's T-bills auction, market participants expected around 100-200 bps increase, which had a dampening effect on overall market sentiment. Contrary to these expectations, the MPC opted for a status quo, maintaining policy rate at 22%. The MPC's decision was underpinned by considerations of the latest inflation figures, which showcased a downward trajectory, declining from a peak of 38% in May to 27% in Aug-23 and expressed confidence in the prospect of real interest rates remaining positive going forward, despite recent hikes in oil and power prices. The statement also highlighted that significant progress was noted in the aftermath of recent administrative & regulatory actions aimed at enhancing the availability of essential food commodities and curbing illicit activities in the open market FX market, the results of which led to a narrowing of the gap between interbank and open market exchange rates. In the post MPC briefing, the governor highlighted the nation's current external debt situation, revealing net (of expected rollovers) repayments of around USD 8 bn, against expected inflows totaling USD 14 bn. The surprising result of the MPC meeting was viewed positively by market participants, and the index gained 103 points on Friday. Other developments during the week included the release of latest data on the current account balance, indicating a deficit of USD 160 million for the month of August 2023, representing a remarkable 79% YoY and MoM reduction. Overseas workers' inflows for the month of August-23 clocked in at around USD 2.1 billion, up slightly on a MoM basis, but down by around USD 700 mn from a year ago. Moreover, FDI recorded a notable 16% YoY increase for the initial two months of the year. Lastly, the FX reserves for the week clocked-in at USD 7.6 bn, registering a decrease of USD 140 mn.

Looking ahead, the outlook of stock market will be shaped by key macro-economic & political developments. It has almost been a month now since the appointment of interim government and there is dire need of meaningful and constructive reforms on multiple fronts. The stubborn inflation, high recurrent fiscal deficit, inefficiencies in energy sector that is crippling economic growth, low tax base, haemorrhaging SOEs, increased level of smuggling, and low export base are few of the areas that require immediate attention. The crackdown on exchange companies & Hundi/Hawala channels is a positive development which will help to arrest the persistent decline in the value of rupee and is a step in the right direction. The government has also initiated clampdown against hoarders of commodities like sugar and other staple in order ease of supply pressure. In the same manner, the government has swung into action against theft and non-payment of utilities (power and gas), which will alleviate burden on the energy sector. The status quo in the MPC has also sent a positive signal to the market participants. Moreover, the increase in gas prices, which is expected to be administered next week, will further prevent build-up in the stock of circular debt and will unlock value in Index-heavy Oil & Gas sector. However, it will have negative inflation out-turn which is already running very high. The government is also increasingly focusing on fiscal austerity, acknowledging that there is little to no space for concessions or subsidies. Alongside, the government is also laying roadmap for revival of economic growth, though it remains to be seen what plan is chalked 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 & profitability in the recent past. During FY21 & FY22, the cumulative profitability has almost doubled and the companies are poised to exhibit further double-digit growth in FY23 & 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 16.2%) 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 a history of providing superior return.