Weekly Stock Market Commentary

September 22, 2023

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During the week ending 22nd September 2023, the benchmark KSE-100 Index rebounded by 668 points translating into WoW return of 1.5%.

During the outgoing week, the stock market experienced a notable shift in direction, driven by a series of positive news-flow that improved the sentiments. The week commenced on a subdued note, as the decision announced by the MPC to keep interest rates unchanged failed to substantially boost investor confidence. The turning point in market sentiment took place on Thursday, occurring toward the latter part of the trading session, led by a pivotal announcement by the Election Commission of Pakistan (ECP) indicating that the general elections will be conducted during the last week of January. This brought about the hope of much-needed political stability ahead and the stock market exhibited around 300-point surge in the Index, breaching the 46,000-point barrier. This positive trend continued on Friday, further bolstered by the expectations of higher dividends from the power sector. On the IMF front, the Fund has recommended the Pakistani authorities to impose higher taxes on the affluent, while safeguarding the interests of the lower-income class. It was also reported that the Fund has refused the government's request for relief to customers using electricity of less than 200 units and has also pushed for an immediate increase in gas prices. After the rate hold last week, the secondary market yields and cut-off yields in the T-Bill auction during the week saw a material decline of around 171-217 bps. Lastly, the FX reserves increased by USD 56 mn, clocking-in at USD 7.7 bn.

Looking ahead, the outlook of the market will be shaped by the key macro-economic and political developments. The positivity seen in the stock market after the announcement of election period by ECP reflects how investors value political stability which would lay foundation for economic reforms that are badly needed. The stubborn inflation, high recurrent fiscal deficit, inefficiencies in energy sector that are crippling economic growth, low tax base, haemorrhaging SOEs, increased level of smuggling, and low export base are few areas that require immediate attention. Any tangible development on this front will be eyed favorably by the market. The crackdown on exchange companies and Hundi/Hawala channels is also a positive development which will help to arrest the unabated decline in the value of rupee and is a step in the right direction. In an attempt to increase the USD inflow through formal channels, the central bank on Thursday announced an increase in financial incentives for banks, Microfinance Banks, and ECs to bring more home remittances into the country. The status quo in the MPC has also sent a positive signal to the market participants. Moreover, the increase in gas prices, expected to be administered soon, 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 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 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 16.1%) 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 returns to investors.