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Weekly Stock Market Commentary

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The stock market continues its dream run, as the benchmark KSE-100 Index surged further by 2,179 points in the outgoing week ending 3rd November, translating into a weekly gain of 4.3%. In the process, the KSE-100 Index surpassed the previous all-time high Index close of 52,876 made on 24 May-17 and settled at 53,123 level. It was the 7th consecutive week of positive return for investors, and it is noteworthy to mention that since the start of FY24, after singing of SLA with IMF, the benchmark Index has risen by a cumulative 11,670 points, translating into a remarkable YTD return of 28%.

The landmark week began on an optimistic note, with anticipation building ahead of the Monetary Policy Committee (MPC) meeting of the SBP. Following the meeting, the SBP decided to maintain the policy rate at 22%, citing a moderation in inflationary concerns. The SBP projected a decline in inflation for October and shared its expectations of a downward trajectory in the second half of the fiscal year, resulting in positive real interest rates on a forward-looking basis, thus mitigating the need for further tightening. In the back drop of expectations of lower inflation, and peaking interest rates, the market participants rejoiced. Investors were also buoyed by improved corporate profitability, displayed by impressive financial results, and the government's decision to raise gas tariffs, which is expected to materially improve the cashflows of the energy sector that will lead to enhanced payouts by the companies going forward. Thursday marked the commencement of talks with the International Monetary Fund (IMF), and the IMF's recognition of government measures also contributed to positive sentiment in the stock market. Additionally, the announcement of the election date by the Election Commission of Pakistan (ECP) on 8th February 2024, and reports of the International Finance Corporation's (IFC) commitment to inject over USD 1.5 bn into Pakistan's economy further bolstered the bullish market run. Inflation print for October 2023 moderated to 26.9% as MoM price increments eased off to 1.1%. Other developments during the week included the release of trade deficit data, indicating a 4.5% reduction in the deficit to USD 2.1 bn in Oct-23 from USD 2.2 bn in Oct-22. Lastly, the FX reserves at the end of the week clocked-in at USD 7.5 bn, up by USD 14 mn during the week.

The equities have displayed very strong performance since July (after SLA with IMF was signed) despite the continuing macro-economic headwinds. There is growing optimism amongst investors that government has finally started to address long standing issues grappling the economy. The government is actively pursuing privatization/rehabilitation of SOEs like PIA & PSM and improvement of governance in the energy sector, especially in the Discos to bring efficiencies in their operations. The federal government has initiated reforms in the Afghan Trade Transit which will help curb smuggling and bring more revenues. The effect of reforms in the Exchange Companies is also visible, as speculation in the open market has been reduced substantially. After many years, the pricing in the gas sector has been brought to cost parity, after the ECC and later on the cabinet approved substantial gas hike earlier this month. It will help alleviate the burden of circular debt which hampered the economy and the energy chain. Investors will also be keenly following the developments with the IMF as the discussion with IMF team officially began during the week. It is believed that the country has met most of the structural benchmarks and performance criteria, but external funding gap and revenue collection for FY24 will come under scrutiny. As per initial reports, the fund has praised the measures taken by the government and emphasized that Pakistan would have to strictly implement all the targets set under the loan program. The successful review will help Pakistan unlock USD 710 mn loan tranche from the lender and will also instill confidence in the market. Geo-political risks remain heightened as Israeli and Palestinian (Hamas) forces are locked in intense battle and there is a possibility of further escalation.

Despite robust performance of the equity market in the last 4 months, we would like to reiterate that valuations of the market still remain very cheap. Cumulative profitability of our universe, that accounts for around 75% of mkt cap of the KSE-100 Index, has grown by around 123% during FY21 to FY23 period. 1QFY24 results have also surpassed expectations by a wide margin. As a result, the Price-to-Earnings Ratio (P/E) of market is still merely at 4.1x (earnings yield of around 24.4% as against 10-yr PIB yield of 15.2%). 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 have the history of providing superior returns to investors.