Weekly Stock Market Commentary

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The equities extended their upsurge during the outgoing week ending 24th November, as the benchmark KSE-100 Index further rose by around 2,000 points to settle at 59,086, translating into a healthy weekly gain of 3.5%. Since 1st July 2023, after the SLA with IMF, KSE-100 Index has provided a phenomenal return of 43% to date.

The market commenced the outgoing week on a directionless trajectory, attributed to the initiation of the November-future contract rollover week. The roll over activity was expected to keep the bull run in check. However, a positive rally once again started on Tuesday and continued through the remainder of the week. Across the board robust buying was witnessed from local & foreign investors, and as well as from institutions. Boosting investor sentiment were the improving economic indicators and the anticipation of receiving of USD 700 mn loan tranche approved by the IMF last week. The investors looked past the massive surge in WoW inflation numbers released on Friday last week, owing to steep price adjustment in gas prices. On Tuesday, caretaker finance minister Dr. Shamshad Akhtar reported encouraging signs of economic recovery, projecting a GDP growth range of 2 to 2.5% for the fiscal year 2024. Wednesday and Friday marked historic milestones as the index surpassed the 58,000 and 59,000-point thresholds for the first time. The positive trajectory of the rupee added to the joyous atmosphere although the 5-day streak of appreciation ended on Thursday. The week also saw the release of current account data, whereby the deficit for the month of Oct-23 clocked in at USD 74 mn, down by over 91% YoY. The FDI data was also published indicating that the FDI during 4MFY24 increased by 7% on a YoY basis to clock-in at USD 525 mn. Lastly, the SBP FX reserves at the end of the week were recorded at USD 7.2 bn, down by USD 217 mn from last week.

The equities have displayed very strong performance since July-23 (after SLA with IMF was signed) despite the continuing macroeconomic headwinds. The rally was further intensified over the approval of the second IMF tranche last week. 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. As per recent reports, the IMF is pushing for another hike in the gas prices in the range of 10-15% applicable from January 2024. The recently administered hike in gas prices has led to a sharp increase in SPI which recorded a multi-year high. Consequently, the inflation for the month of Nov-23 is also expected to remain elevated. Therefore, a rate cut might be put off till early next year. The approval with the IMF has sent a very positive signal to market participants and the fund has appreciated the efforts made by the government to fix key issues. The fund reiterated its stance on maintaining market determined exchange rate and acknowledged and praised recent administrative measures taken against speculative currency dealings, which contributed to stabilizing imports and bolstering reserves. The fund also highlighted that proactive monetary policy is necessary to lower inflation towards its target. The successful review of the IMF will also enable flows from other countries, taking pressure off the reserves. Going forward, the approval of the third tranche and the smooth election process, along with the entering into a new IMF program will shape market sentiments.

Despite robust performance of the equity market in the last 5 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 4.3x (earnings yield of around 23.3% as against 10-yr PIB yield of 15.0%). 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.