

Weekly Stock Market Commentary

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Equities remained directionless during the outgoing week ending on January 12th. Trading within a narrow range of around 700 points, the benchmark KSE-100 index inched up by a modest 0.19% on a weekly basis.

The outgoing week was marred by political uncertainty, despite the improving macro-economic outlook. The week started off on a negative footing, and the benchmark KSE-100 Index gradually receded by around 600 points from Monday through Wednesday, as investors remained wary of ongoing political developments. The PTI and ECP remained embroiled in a legal battle over the retention of the electoral symbol. Several lawmakers moved another resolution in the Senate, seeking a delay in General Elections for a further three months owing to concerns related to security.

On the other hand, several positive news-flows helped in the market's recovery in the last two trading sessions. During the week, the IMF's Executive board approved a USD 700mn loan tranche for the country. In the aftermath of the IMF's approval, flows from the multilaterals are expected to materialize in a timely manner. In addition to this, workers' remittances during Dec-23 also showed healthy growth, increasing by 13%/5% on YoY/MoM basis, recording at USD 2.38 bn.

The other key development during the week was a notable decline in yields in the recent T-Bills auction held on January 11th, as the cut-off yields on 3M, 6M, and 12M bills fell by 45, 44, and 59 basis points ahead of the MPC meeting later during the month. SBP also released Public Debt figures which showed the country's debt stock increasing to PKR 63.4 trn as of Nov 30th, 2023, registering a 24%/1.5% increase on YoY/MoM basis. In an attempt to put a lid on loss-making SOEs, the Privatization Commission has also approved a plan to sell 51% of PIA shares.

Key developments in different sectors included a natural gas discovery by Mari Petroleum in the KPK region where gas flowed at the rate of 51 mmcf/d. Furthermore, in the chemical sector, Lucky Core Ventures Pvt Limited terminated the Share Purchase Agreement (SPA) dated January 26th, 2023, signed with Lotte Chemical for the acquisition of 1,135 mn shares.

Looking ahead, we believe that the market will likely consolidate at current levels after sharp price performance seen in recent months. Though the economy has stabilized somewhat owing to prudent economic policies undertaken by the caretaker government, the heightened uncertainty ahead of the upcoming elections is unsettling investors. Since the political noise is expected to remain amplified in the next few weeks, it may weigh on the sentiments of individual investors who might shy away from making fresh allocations. However, with the start of the new year, higher institutional inflows, especially from Foreigners, Insurance, and Banks are likely to support current levels, in our view. Participants will be keenly awaiting the current account numbers for Dec-23, which are expected to be in a healthy surplus on the back of healthy remittances and a declining trade deficit. Furthermore, the market is also divided on the starting point of the monetary easing cycle, where some participants are expecting the first rate cut in the current month.

Despite the robust performance of the equity market, it is important to note that valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.3x, translating into an earnings yield of approximately 23.3%, surpassing the 10-year PIB yield of 14.7%. Additionally, the market boasts a healthy dividend yield of 9-10%.

For investors eyeing a medium to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds. Our funds have demonstrated a track record of delivering superior returns. Notably, our flagship Nafa Stock Fund (NSF) exhibited outstanding performance in the outgoing CY23, yielding an impressive 60.1% return compared to the benchmark KSE-100 Index return of 54.5%. This resulted in a substantial outperformance of 5.6% (net of all expenses) for our valued investors, reaffirming the fund's commitment to generating significant returns beyond market benchmarks.