Weekly Stock Market Commentary

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After witnessing nearly 11% correction from the recent peak hit earlier in December, the equities reversed the course and surged by around 1.2% during the outgoing week ending 29th December, as the benchmark KSE-100 Index mounted by around 746 points on a weekly basis. With that, CY23 comes to an end during which the KSE-100 Index has offered investors a solid return of around 54.5%, most of which came about in 2H of the year.

The outgoing week started off on a very frail note and the KSE-100 Index fell sharply by 2,534 points (the highest ever Index decline) on Tuesday, carrying the downward momentum from the previous week. This short-lived weakness emanated from the unwinding of large leverage positions ahead of the year end. It was accelerated by the margin calls faced by investors resulting in very swift index decline. Consequently, the benchmark index retreated from its all-time high closing of 66,427 hit on 12th Dec to 59,171 on this Tuesday. This correction was widely anticipated in the aftermath of an unprecedented bullish surge that propelled the index to a remarkable gain of approximately 60% within a short span of 6 months. However, the market depicted a very sharp recovery in the subsequent days surging by around 3,280 points in the next three trading sessions. There were several positive news during the week, which led to improved investors' sentiments. In a major development, Pakistan and KSA have reached an agreement for a bilateral legal framework required to pave the way for significant Saudi investment, which Pakistan is banking upon. During the week, the reserves of the central bank exhibited marked improvement, rising by USD 852 million on a weekly basis to settle at USD 7.8 bn (highest reserves since Aug-23). The increase in FX reserves was owing to fresh loan disbursements from MDBs (mainly World Bank and ADB). In addition to these receipts, during the week, Asian Infrastructure Investment Bank (AIIB) also approved USD 250 million for sustainable growth. In another much-awaited development, the finance ministry provided PKR 200 billion subsidy to the power sector to partially settle the circular debt prevalent in the energy chain, which will help unlock value in this sector.

Looking ahead, we believe that market will likely consolidate here after sharp price performance seen in recent few months. Though economy has stabilized somewhat owing to prudent economic policies undertaken by the caretake government, the 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 new year, higher institutional inflows, especially from Foreigners, Insurance and Banks are likely to support current levels, in our view. Participants will also be keenly waiting for the IMF's Board meeting, scheduled on 11th January to finalize the release of the second tranche of USD 700 mn that will pave the way for more inflows from MDBs and friendly countries.

"Despite the robust performance of equity market, it is crucial to emphasize that valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.3x, translating to an earnings yield of approximately 23.3%, surpassing the 10-year PIB yield of 14.9%. 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. These funds have consistently 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 60.2% return compared to the benchmark KSE-100 Index return of 54.5%. This resulted in a substantial outperformance of 5.7% (net of all expenses) for our valued investors, reaffirming the fund's commitment to generating significant returns beyond market benchmarks.