NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

December 2023

Stock Market Review

The stock market showcased robust performance in the outgoing month of December. The benchmark KSE-100 Index gained 1,920 points, translating into a 3.2% return. As we bid farewell to a phenomenal CY23, the KSE-100 Index soared by a remarkable 22,031 points, reflecting a solid return of 54.5%.

The month began on a high note, with the KSE-100 Index reaching an all-time high of 66,427 by December 12th. Buoyed investor sentiments, following the earlier IMF SLA in November, and improving macro-economic indicators contributed to this surge. However, towards the latter half of December, the market experienced a correction of approximately 11%, signalling high volatility. Unwinding of margin financing and heightened political uncertainty were contributing factors.

Market Highlights:
- Foreign participation increased, with net inflows of USD 27 million in December.
- Monetary Policy Committee (MPC) maintained the Policy Rate at 22%, emphasizing positive real interest rates on a forward-looking basis.
- Loan agreements & disbursements from Multilateral Development Banks (MDBs) materialized, with significant funds from the Asian Development Bank (ADB), World Bank, and Asian Infrastructure Investment Bank (AIIB).
- Foreign exchange reserves increased by USD 750 million, reaching USD 7.8 billion.
- Corporate developments, such as Aramco's equity stake acquisition and PTCL's agreement with Telenor, sparked investor interest.

Economic Indicators:
- Current account balance reported a surplus of USD 9 million for November 2023, after four consecutive months of deficit.
- LSM data reflected a 4.08% output decline in October 2023.
- December's inflation print came in at 29.7%, slightly higher than industry estimates.

Sectoral Performance:
Outperformers: Cable & Elec. Goods, Commercial Banks, Engineering, Fertilizers, Leather & Tanneries, Oil & Gas Exploration Companies, Paper & Board, Refinery, Sugar & Allied Industries, Textile Composite, and Transport sectors.
Underperformers: Auto Assemblers, Auto Parts & Accessories, Cements, Chemicals, Food & Personal Care, Glass & Ceramics, Miscellaneous, Modarabas, Oil & Gas Marketing Companies, Pharmaceuticals, Power Generation & Distribution, Technology & Communication, and Tobacco sectors.

Participant Activity:
- Foreigners aggressively enhanced their positions by USD 27 million.
- Insurance companies were major buyers with net inflows of around USD 7 million.
- Individuals and Brokers sold stocks amounting to USD 16 million and USD 6 million, respectively.

Market Prospects:
In the near term, we anticipate market consolidation, given the recent sharp price performance. While the economy has stabilized, political uncertainty ahead of the upcoming elections may unsettle investors.
Looking ahead, equities have substantial potential. Robust corporate earnings growth, attractive Price-to-Earnings multiples, and potential liquidity from institutional inflows, especially from foreigners, present positive indicators. IMF's Board meeting on January 11th may pave the way for more inflows, and the global commodity super cycle's decline bodes well for Pakistan's trade deficit.

Despite the robust market performance, valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.3x, translating to earnings yield of 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.

Our flagship NBP Stock Fund (NSF) exhibited outstanding performance in 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.

Money Market Review

The Monetary Policy Committee (MPC) in its latest December 2023 meeting decided to maintain the policy rate at 22%. The decision was based on the successful completion of first staff level agreement review under IMF SBA program, improvement in consumer & business confidence, decrease in international oil prices, improved availability of agriculture produces, positive real interest rate on forward looking basis, and core inflation cooling off gradually. The net liquid foreign exchange reserves held with SBP as at 22-Dec-23 stands at around USD 7.76 billion, amidst tepid official inflows and ongoing debt repayments.

SBP held two T-Bill auctions with a target of Rs. 2,730 billion against the maturity of Rs. 2,883 billion. In the first T-Bill auction, an amount of Rs. 1,802 billion was accepted at a cut-off yield of 21.4499%, 21.4201% and 21.4300% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 1,678 billion was accepted at a cut-off yield of 21.4480%, 21.3999% and 21.4300% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 397 billion were realized for 3-years, 5-years and 10-years at a cut-off yield of 17.20%, 15.88% and 15.00%. However, no bids were received for 15-years, 20-years and 30-years tenures.

We have calibrated the portfolio of our money market and income funds based on our macro-economic outlook and will remain vigilant to any developments that may influence our investment strategy.

December 2023

Stock Market Review

The stock market showcased robust performance in the outgoing month of December. The benchmark KMI-30 Index gained 3,028 points, translating into a 3.0% return. As we bid farewell to a phenomenal CY23, the KMI-30 Index soared by a remarkable 36,451 points, reflecting a solid return of 53.4%.

The month began on a high note, with the KSE-100 Index reaching an all-time high of 66,427 by December 12th. Buoyed investor sentiments, following the earlier IMF SLA in November, and improving macro-economic indicators contributed to this surge. However, towards the latter half of December, the market experienced a correction of approximately 11%, signalling high volatility. Unwinding of margin financing and heightened political uncertainty were contributing factors.

Market Highlights:

- Foreign participation increased, with net inflows of USD 27 million in December.
- Monetary Policy Committee (MPC) maintained the Policy Rate at 22%, emphasizing positive real interest rates on a forward-looking basis.
- Loan agreements & disbursements from Multilateral Development Banks (MDBs) materialized, with significant funds from the Asian Development Bank (ADB), World Bank, and Asian Infrastructure Investment Bank (AIIB).
- Foreign exchange reserves increased by USD 750 million, reaching USD 7.8 billion.
- Corporate developments, such as Aramco's equity stake acquisition and PTCL's agreement with Telenor, sparked investor interest.

Economic Indicators:

- Current account balance reported a surplus of USD 9 million for November 2023, after four consecutive months of deficit.
- LSM data reflected a 4.08% output decline in October 2023.
- December's inflation print came in at 29.7%, slightly higher than industry estimates.

Sectoral Performance:
Outperformers: Cable & Elec. Goods, Commercial Banks, Engineering, Fertilizers, Leather & Tanneries, Oil & Gas Exploration Companies, Paper & Board, Refinery, Sugar & Allied Industries, Textile Composite, and Transport sectors.
Underperformers: Auto Assemblers, Auto Parts & Accessories, Cements, Chemicals, Food & Personal Care, Glass & Ceramics, Miscellaneous, Modarabas, Oil & Gas Marketing Companies, Pharmaceuticals, Power Generation & Distribution, Technology & Communication, and Tobacco sectors.

Participant Activity:

- Foreigners aggressively enhanced their positions by USD 27 million.
- Insurance companies were major buyers with net inflows of around USD 7 million.
- Individuals and Brokers sold stocks amounting to USD 16 million and USD 6 million, respectively.

Market Prospects:
In the near term, we anticipate market consolidation, given the recent sharp price performance. While the economy has stabilized, political uncertainty ahead of the upcoming elections may unsettle investors.
Looking ahead, equities have substantial potential. Robust corporate earnings growth, attractive Price-to-Earnings multiples, and potential liquidity from institutional inflows, especially from foreigners, present positive indicators. IMF's Board meeting on January 11th may pave the way for more inflows, and the global commodity super cycle's decline bodes well for Pakistan's trade deficit.

Despite the robust market performance, valuations remain remarkably attractive. Our universe's Price-to-Earnings Ratio (P/E) stands at a modest 4.3x, translating to earnings yield of 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.

Our flagship NBP Stock Fund (NSF) exhibited outstanding performance in 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.

Money Market Review

The Monetary Policy Committee (MPC) in its latest December 2023 meeting decided to maintain the policy rate at 22%. The decision was based on the successful completion of first staff level agreement review under IMF SBA program, improvement in consumer & business confidence, decrease in international oil prices, improved availability of agriculture produces, positive real interest rate on forward looking basis, and core inflation cooling off gradually. The net liquid foreign exchange reserves held with SBP as at 22-Dec-23 stands at around USD 7.76 billion, amidst tepid official inflows and ongoing debt repayments.

SBP held two T-Bill auctions with a target of Rs. 2,730 billion against the maturity of Rs. 2,883 billion. In the first T-Bill auction, an amount of Rs. 1,802 billion was accepted at a cut-off yield of 21.4499%, 21.4201% and 21.4300% for 3-month, 6-month and 12-month tenures respectively. In the second T-Bill auction, an amount of around Rs. 1,678 billion was accepted at a cut-off yield of 21.4480%, 21.3999% and 21.4300% for 3-month, 6-month and 12-month tenures respectively. In the PIB auction, bids worth around Rs. 397 billion were realized for 3-years, 5-years and 10-years at a cut-off yield of 17.20%, 15.88% and 15.00%. However, no bids were received for 15-years, 20-years and 30-years tenures.

We have calibrated the portfolio of our money market and income funds based on our macro-economic outlook and will remain vigilant to any developments that may influence our investment strategy.