

# Weekly Stock Market Commentary

February 23, 2024

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The equity market bounced back sharply during the outgoing week ending 23rd February as the benchmark KSE-100 index gained 2,943 points, translating into a significant WoW increase of 4.9%, which is the highest weekly return since early Dec-23. The majority of the index gain was contributed by Oil & Gas Exploration Companies, Commercial Banks, and Technology & Communication sectors.

After touching the all-time high in early Dec-23, the stock market (KSE-100 Index) has remained sideways. The uncertainty ahead of elections and the indecisive outcome of the electoral process, which resulted in heightened political uncertainty dented sentiments and prompted investors to square their positions. However, the week started off on a favorable note as investor sentiments improved led by some positive progress in the matter of forming government between PML-N and PPP, after several rounds of negotiations. MQM-P also reaffirmed its full support to the formation of coalition government in the centre. Later in the mid-week, the major political parties – PML-N and PPP reached an agreement to form a coalition government after drawn-out consultations. Shahbaz Sharif will be the joint candidate for the post of Prime Minister, while Asif Ali Zardari will run for the office of the President.

On the economic front, the current account turned into deficit of USD 269 mn for Jan-24 after posting a surplus of USD 404 mn in previous month, taking 7MFY24 CAD to USD 1.1 bn (down 71% YoY) from USD 3.8 bn in comparative period last year. Pakistan witnessed net FDI outflow of USD 173 mn during Jan-24 led by big power sector net outflow of USD 243 mn, mainly due to dividend repatriation to Chinese investors. RDA scheme witnessed an inflow of USD 142 mn in Jan-24, taking total gross inflows to USD 7.3 bn since inception. During July to mid-Feb, the FBR collected revenue of PKR 5.15 trn depicting significant growth of 30% YoY. SBP reserves fell slightly by USD 44 mn to USD 8.0 bn. In latest T-bill auction, the yields on three-months paper went up in the range of 25bps to 126 bps reflecting market shifting expectations of market of potential delay in the interest rate reversal cycle.

In terms of key sectoral developments, Pharmaceutical sector remained in the limelight, as the caretaker government approved deregulation of prices for non-essential drugs, which was later on suspended by Lahore High Court. Power generation data revealed that average cost of power production went up by 36% MoM to PKR 13.8/kWh as the share of RLNG and Furnace Oil increased in overall power mix, while power generation in the country declined by 2.4% YoY. Power sector circular debt has also reached to PKR 2.6 trn in first seven months of FY24.

Looking ahead, we believe that the investors will be keenly following the developments on the political front where formation of government and appointment of people at key ministries will be closely looked at. The incoming government will be holding back-to-back negotiations for the review of the ongoing loan program and the new extended loan facility, which will also hold the attention of market participants. However, in the medium to long term, we expect continuation of strong price performance in equities given the favorable conditions in the backdrop of 1) steep decline in Policy Rate expected in CY24 on the back of easing inflationary pressures, 2) sizeable inflow of foreign and as well as institutional liquidity in equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations. The result season has also kicked-off from January, wherein corporates continue to declare stellar results along-with the healthy cash payouts, that will anchor the market.

Despite the robust stock market performance, as the valuations still remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) is around 4.2x, translating to earnings yield of 23.8%, surpassing the 10-year PIB yield of 14.4%. 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.