Capital Market Review

NBP FUNDS
Managing Your Savings

NBP Fund Management Limited

February 2024

Stock Market Review

Amidst heightened volatility, the benchmark KSE-100 Index rose by 2,599 points on a monthly basis, offering investors robust return of 4.2%. The equities started off on a weak footing, as uncertainty ahead of general elections bred nervousness amongst investors. The elections, that were held on 8th February, after a delay of several months, were marred by accusations of massive irregularities. The ensuing delay in the announcement of results and the subsequent lack of clear-cut majority by any political party further stoked uncertainty, prompting investors to reduce exposure in equities. As a result, the benchmark Index briefly fell below the psychological level of 60k, settling at 59,873 on 16th February. However, as the dust surrounding the elections settled, and political parties attempted to cobble together a coalition government, led by PML(N) together with PPP and MQM-P, investors gained confidence. Consequently, a sharp recovery of around 4,700 points, led to a positive close to the month.

Market Highlights:

- There were 2 major developments in energy chains during February. Firstly, the much-talked circular debt reduction plan submitted by the caretaker govt to IMF was declined by the Fund citing financial risks involved in the transactions along with the provision of supplementary grants, which led to massive sell-off in stocks in energy chain, reversing some of their phenomenal gains made earlier. Secondly, the caretaker government approved much awaited increase in the gas tariffs for various categories of consumers. With this increase, the national weighted average selling price of gas has been increased by c.10-15% from existing rates and we believe that it will bring an end to further build-up in gas sector circular debt. It bodes well for the energy chain companies and will help unlock value in the E&P and Oil Marketing & Gas Distribution sectors as it will pave way for improved dividend payouts going forward.
- Sizeable foreign inflow of around USD 26 million was witnessed in February, taking 8MFY24 inflows to USD 60 mn by foreign investors.
- There was some uptick in fixed income yields in the secondary market which were on a steady decline in erstwhile periods, and yields across various maturities increased as market adjusted its expectations of potential delay in the monetary easing cycle.
- The result season kicked off during January, where corporates across various sectors (banks, cements, automobiles, oil and gas) reported record profitability along with healthy cash payouts. Pertinent to note that 1HFY24 cumulative profits of companies in KSE-100 Index have surged by a staggering 40-45% on a yearly basis.
- 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.
- MSCI announced its quarterly index review wherein BAHL, ILP, and SNGP were added in the MSCI Main Frontier Standard Pakistan index. The main Frontier Market Index now comprises of 20 constituents. After this review, Pakistan's weight in the Index is expected to be around 3.0 percent.

Economic Indicators:

- Current Account Deficit (CAD) of USD 269 mn was recorded for Jan-24 after posting a surplus of USD 404 mn in Dec-23, taking 7MFY24 CAD to USD 1.1 bn (down 71% YoY) from USD 3.8 bn in SPLY.
- LSM data reflected 3.43% YoY increase in output during December-23, with 1HFY24 LSM reflecting slight YoY decline of 0.39%.
- February-24 inflation clocked in at 23.1% (lowest inflation in 20 months), slightly below industry forecast, as price levels remained flat on a monthly basis, driven by 5.4% MoM decline in perishable food basket, which led to an overall drop of 1.6% in food inflation.
- FBR tax collection during Feb-24 came in at PKR 681 bn, versus PKR 519 bn in SPLY, reflecting 32% YoY growth. Revenue collection fell short of target by PKR 33 bn. However, the cumulative tax collection during 8MFY24 clocked-in at PKR 5,8 trillion (up by 30% YoY), surpassing the target by PKR 56 bn.
- PBS released trade data for Feb-24, where trade deficit declined by 13%/2% MoM/YoY to USD 1.7 bn. With that, 8MFY24, trade deficit narrowed by 30% to USD 14.9 bn, down from USD 21.3 bn in corresponding period last year. Exports have risen by around 9% (up by USD 1.7 bn), while imports are down by around 12% on a YoY basis (down by around USD 4.7 bn).
- The rating agency, Moody's, in its announcement of the periodic review, maintained Pakistan's credit rating unchanged at 'Caa3' for long-term issuer rating, with a stable outlook.
- FX reserves held by SBP declined by around USD 212 mn during Feb-24 and were recorded at USD 7.9 bn.

Sectoral Performance:

Outperformers: Auto Assemblers, Commercial Banks, Fertilizers, Food & Personal Care, Pharmaceuticals, Technology & Communication sectors, and transport sectors.
Underperformers: Cable & Electrical Goods, Chemicals, Engineering, Glass & Ceramics, Insurance, Investment Banks/Companies, Leather & Tanneries, Miscellaneous, Oil & Gas Exploration, Oil & Gas Marketing Companies, Paper & Board, Power Generation & Distribution, Sugar & Allied Industries, Textile Composite, Tobacco sectors.

Participant Activity:

- Foreigners' remained the largest net buyers with inflows of USD 26 million.
- Mutual Funds were also buyers with net inflows of around USD 4 million.
- Companies, Banks/DFIs and Individual trimmed their net holdings by USD 8 million, USD 7 million and USD 6 million, respectively.

Market Prospects:

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 back drop 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. Most of the results are already in, wherein listed corporates continue to declare stellar results along-with the healthy cash payouts, that will anchor the market. It is pertinent to note that cumulative profitability of KSE-100 Index has surged by around 45% in 1HFY24, compared to SPLY.

Despite the robust stock market performance, as the valuations still remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) is around 4.3x, translating to earnings yield of 23.3%, surpassing the 10-year PIB yield of 14.3%. 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.

Money Market Review

The Monetary Policy Committee (MPC) kept the policy rate unchanged in its last meeting held in January. The MPC, in its statement, stated that the frequent & sizeable adjustments in administered energy prices have impeded a sustained decrease in inflation expectations. The average inflation is anticipated to fall in the range of 25 percent in FY24 and continue decreasing trend in FY25. However, positive developments such as improved FX reserves, fiscal consolidation, and improving business sentiments were offset by geopolitical tensions, posing risks to global trade and commodity prices. The net liquid foreign exchange reserves with SBP stand at around USD 7.9 billion (as at 23-Feb-24).

SBP held two T-Bill auctions with a target of Rs. 780 billion against the maturity of Rs. 861 billion. In the first T-Bill auction, bids worth Rs. 58.2 billion were accepted at cut-off yields of 20.44%, 20.40% & 20.08% for 3-month, 6-month & 12-month tenures respectively. In the second T-Bill auction, bids worth Rs. 341.2 billion were accepted at cut-off yields of 21.70%, 20.40% & 20.33% for 3-month, 6-month & 12-month tenures respectively. In the PIB auction, bids worth Rs. 85 billion were accepted in 3-years, 5-years & 10-years tenures at cut-off yields of 16.80%, 15.55% & 14.50% respectively. However, no bids were received for 15-years, 20-years & 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.

Disclaimer: This publication is for informational purposes only and nothing herein should be construed as a solicitation, recommendation or an offer to buy or sell any fund. All investments in mutual funds are subject to market risks. The price of units may go up as well as down. Past performance is not necessarily indicative of future results. Please read the Offering Documents to understand the investment policies and the risks involved. NBP Funds or any of its sales representative cannot guarantee preservation / protection of capital and / or expected returns / profit on investments. The use of the name and logo of National Bank of Pakistan does not mean that it is responsible for the liabilities/ obligations of the Company (NBP Fund Management Limited) or any investment scheme managed by it.

Capital Market Review

Stock Market Review

Amidst heightened volatility, the benchmark KMI-30 Index rose by 5,139 points on a monthly basis, offering investors robust return of 5.0%. The equities started off on a weak footing, as uncertainty ahead of general elections bred nervousness amongst investors. The elections, that were held on 8th February, after a delay of several months, were marred by accusations of massive irregularities. The ensuing delay in the announcement of results and the subsequent lack of clear-cut majority by any political party further stoked uncertainty, prompting investors to reduce exposure in equities. As a result, the benchmark Index briefly fell below the psychological level of 100k, settling at 98,506 on 16th February. However, as the dust surrounding the elections settled, and political parties attempted to cobble together a coalition government, led by PML(N) together with PPP and MQM-P, investors gained confidence. Consequently, a sharp recovery of around 10,347 points, led to a positive close to the month.

Market Highlights:

- There were 2 major developments in energy chains during February. Firstly, the much-talked circular debt reduction plan submitted by the caretaker govt to IMF was declined by the Fund citing financial risks involved in the transactions along with the provision of supplementary grants, which led to massive sell-off in stocks in energy chain, reversing some of their phenomenal gains made earlier. Secondly, the caretaker government approved much awaited increase in the gas tariffs for various categories of consumers. With this increase, the national weighted average selling price of gas has been increased by c.10-15% from existing rates and we believe that it will bring an end to further build-up in gas sector circular debt. It bodes well for the energy chain companies and will help unlock value in the E&P and Oil Marketing & Gas Distribution sectors as it will pave way for improved dividend payouts going forward.
- Sizeable foreign inflow of around USD 26 million was witnessed in February, taking 8MFY24 inflows to USD 60 mn by foreign investors.
- There was some uptick in fixed income yields in the secondary market which were on a steady decline in erstwhile periods, and yields across various maturities increased as market adjusted its expectations of potential delay in the monetary easing cycle.
- The result season kicked off during January, where corporates across various sectors (banks, cements, automobiles, oil and gas) reported record profitability along with healthy cash payouts. Pertinent to note that 1HFY24 cumulative profits of companies in KSE-100 Index have surged by a staggering 40-45% on a yearly basis.
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