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Weekly Stock Market Commentary

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The equity market remained sideways during the outgoing week ending 22nd March, as the benchmark KSE-100 gained 335 points, translating into a modest WoW (Week-on-Week) return of 0.5%. The majority of the index gains were contributed by Commercial Banks and Fertilizer sectors, while Cement and Oil & Gas Exploration sectors eroded the index points.

The week began with the announcement of the monetary policy, where the Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 22%, in line with the expectations of most market participants. The key observation was that though inflation had declined to 23.1% in Feb-24, the absolute level of headline inflation remained high and was susceptible to risks amidst elevated inflationary pressures, particularly stemming from any adjustment in administrative prices of energy or fiscal measures.

Later in the mid-week, Pakistani authorities and the IMF reached a Staff-Level Agreement (SLA) on the second and final review of the ongoing 9-month SBA program. The IMF noted that Pakistan's economic and financial position had improved with modest growth expected in FY24. However, it cautioned that inflation remained well above target, and ongoing policy & reform efforts were required to address economic vulnerabilities amidst the ongoing challenges posed by elevated external & domestic financing needs. The fund emphasized on maintaining primary balance, with efforts towards broadening of the tax base, timely implementation of adjustments in utility prices to avoid the build-up of circular debt. Lastly, it noted the need for a prudent monetary policy to lower inflation and exchange rate flexibility & transparency in the operations of the FX market.

On the economic front, the current account turned into a surplus of USD 128 mn in Feb-24 against the deficit of USD 303 mn in Jan-24, taking the 8MFY24's deficit to USD 999 mn (-74% YoY), as against USD 3.8 bn in the corresponding period last year. Foreign Direct Investment (FDI) of around USD 821 mn flowed into the country in 8MFY24, posting a decline of 17% YoY basis. Roshan Digital Account witnessed gross foreign inflows of USD 141 mn during Feb-24, taking inflows to USD 7.48 bn since inception. Economic Affairs Division (EAD) revealed that the country borrowed USD 6.7 bn from multiple financing sources during 8MFY24 compared to 7.8 bn in SPLY. Forex reserves held by SBP went up by USD 105 mn to USD 8.0 bn, while overall reserves rose by USD 239 mn to USD 13.4 bn. On the fiscal side, the government's budgetary borrowing surged by 59% to PKR 3.4 trn in the first eight months of FY24 led by significant increase in debt servicing.

The yields went up in the latest T-bill auction by 26-60 bps of 3-month and 12-month papers post the monetary policy announcements. REER index rose by 0.41% MoM to 102.2 in Feb-24 against the 101.8 recorded last month. The LSM output for Jan-24 increased by 1.84% YoY, while overall 7MFY24 data remained flattish at -0.52% compared to last year.

On the sectoral front, auto financing continued its downward trajectory for the 20th consecutive month and dropped to PKR 243 bn at the end of Feb-24. The cumulative decrease over the last 20 months is PKR 125 bn. The FBR decided to fix minimum values of steel products on a quarterly basis for the assessment of sales tax. CPPA-G sought a positive adjustment of PKR 5/unit in Discos' tariffs for Feb-24. Textile exports remained flattish at USD 11.1 bn (+0.65% YoY) in 8MFY24, while the country imported mobile phones worth USD 1.1 bn in 8MFY24, registering a growth of 156% compared to last year.

With the current program concluding on April 11th, the government is considering a new medium-term program with the IMF; detailed discussions for which will commence next month on the occasion of the upcoming spring meetings of Bretton Woods Institutions. The size and conditions of the new loan program will set the stage for equities in the near term. 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 institutional liquidity into equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations. Despite the robust stock market performance, valuations remain remarkably cheap. Our universe's Price-to-Earnings Ratio (P/E) is around 4.3x, translating to an earnings yield of 23.3%, surpassing the 10-year PIB yield of 14.2%. 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.