Capital Market Review

NBP FUNDS
Managing Your Savings
NBP Fund Management Limited

March 2024

Stock Market Review

Carrying the strong momentum of the previous month, the benchmark KSE-100 Index surged by 2,427 points, translating into a MoM return of 3.8%. March started on a firm footing after the election for Prime Minister concluded smoothly wherein Shahbaz Sharif was elected as the PM for the 2nd time. Political uncertainty further subsided after Asif Ali Zardari clinched victory as the 14th president of Pakistan. Towards the end of the month, equities gathered momentum as sizeable fresh equity allocation by the state-owned and the largest insurance company led to sharp price increases across various sectors. In the process, the KSE-100 Index achieved new highs as the Index surged past slightly above the 67,000 level at month's end.

Market Highlights:
- MPC decided to keep the policy rate unchanged at 22%, in line with expectations.
- Fixed income yields in the secondary market adjusted their expectations of a potential delay in the monetary easing cycle, as yields across various short-term tenures rose while yields across longer tenures declined somewhat.
- Staff-Level Agreement (SLA) was reached with IMF on the second and final review of the 9-month SBA program. Upon approval of the executive board, the last tranche of USD 1.1 bn will be disbursed.
- The IMF noted that Pakistan's economic and financial position has improved with modest growth expected in FY24. Following the successful IMF review, the international Euro Bonds and Sukuks also rallied, as prices of most instruments surged by 10-13% on a MoM basis.
- Foreigners continued to remain net buyers and a sizeable inflow of around USD 15 million was witnessed in March, taking 9MFY24 inflows to USD 75 mn by foreigners.
- Moody's Investor Service improved Pakistan's banking sector outlook to 'stable' from 'negative' based on healthy profits arising out of record interest rates, sufficient funding buffers and the country's expected return to modest growth.
- FTSE Russell has also decided to retain Pakistan's equity market in the secondary emerging market category for the next six months.

Economic Indicators:
- Quarterly GDP numbers were released whereby a modest growth of 1% was recorded during 2Q against the revised 2.5% growth in 1Q. The uptick in the period was on account of 5.2% growth in Agriculture. Industrial sector further contracted by 0.84% (due to a decline in the mining & quarrying industry and slowdown in construction), while the Services sector remained flat.
- The Current Account turned into a surplus of USD 128 mn in Feb-24 versus a deficit of USD 303 mn in Jan-24, taking 8MFY24 deficit to USD 999 mn (-74% YoY), as against USD 3.8 bn in the corresponding period last year.
- March-24 inflation clocked in at 20.7% which is the lowest reading in 22 months. Monthly price increments were recorded at 1.7%, on account of a 2.9% MoM increase in food inflation (mainly driven by steep surge in perishables owing to Ramazan seasonality) and a 1.5% MoM jump in the housing index, as a result of monthly revision in electricity charges.
- FBR tax collection during March 24 came in at PKR 879 bn, versus PKR 662 bn in SPLY, reflecting 33% YoY growth. The cumulative tax collection during 9MFY24 clocked in at PKR 6.7 trillion as against PKR 5.2 trillion in SPLY (up by 30% YoY).
- PBS released trade data for March-24, where trade deficit increased by 25%/56% MoM/YoY to USD 2.2 bn. With that, in 9MFY24, the trade deficit narrowed by 25% to USD 17 bn, down from USD 22.7 bn in the corresponding period last year. Exports have risen by around 9% (up by USD 1.9 bn), while imports are down by around 9% on a YoY basis (down by around USD 3.8 bn).
- FX reserves held by SBP rose slightly by USD 69 mn during Mar-24 and were recorded at USD 8.0 bn.

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

Participant Activity:
- Insurance companies remained the largest buyers with net inflows to the tune of USD 33 million.
- Foreigners also increased their net holding by USD 15 million.
- Companies and Banks/DFIs trimmed their net holdings by USD 26 million and USD 14 million, respectively.

Market Prospects:
We believe the strong stock market performance will extend beyond the current year and well into FY25. There may be hiccups in between, as the current IMF program is concluding on April 11th and investors will be keenly following the next IMF loan program. However, in the medium to long term, equities are poised to deliver robust returns owing to gradually improving economic conditions. Inflation has started to taper off from its peak and soon it will prompt a monetary easing cycle, given that spot real interest rates have already turned positive.

In the recently concluded results season, corporates have showcased stellar performance whereby the cumulative PAT of the KSE-100 Index has surged by 43% in CY23 over the previous year which is why despite the solid stock market performance, the valuation remains inexpensive, as evidenced by the forward PE multiple of 4.4 times. 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) decided to maintain the policy rate in its March 18, 2024 meeting. Despite a notable decrease in inflation towards the end of the fiscal year, the MPC stressed that inflation levels remain high, posing risks to the macroeconomic outlook. It emphasized a cautious approach to tackle inflation and ensure macroeconomic stability. The State Bank of Pakistan (SBP) currently holds net liquid foreign exchange reserves of approximately USD 8 billion (as of 22-Mar-24).

SBP conducted two T-Bill auctions targeting Rs. 565 billion against the maturity of Rs. 624 billion. In the first auction, bids totalling around Rs. 464 billion were accepted at cut-off yields of 21.40%, 20.39%, and 20.30% for 3-month, 6-month, and 12-month tenures respectively. In the second auction, bids amounting to Rs. 657 billion were accepted at cut-off yields of 21.66%, 20.39%, and 20.90% for 3-month, 6-month, and 12-month tenures respectively. In the PIB auction, bids worth Rs. 56 billion were accepted for 3-year, 5-year, and 10-year tenures at cut-off yields of 16.78%, 15.49%-, and 14.35% respectively. However, no bids were received for the 15-year, 20-year, and 30-year 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.

March 2024

Stock Market Review

Carrying the strong momentum of the previous month, the benchmark KMI-30 Index surged by 3,512 points, translating into MoM return of 3.2%. March started on a firm footing after the election for Prime Minister concluded smoothly wherein Shahbaz Sharif was elected as the PM for the 2nd time. Political uncertainty further subsided after Asif Ali Zardari clinched victory as the 14th president of Pakistan. Towards the end of the month, equities gathered momentum as sizeable fresh equity allocation by the state owned and the largest insurance company led to sharp price increases across various sectors. In the process, the KMI-30 Index achieved new highs as the Index settled at 112,364 at the month's end.

Market Highlights:

- MPC decided to keep the policy rate unchanged at 22%, in line with expectations.
- Fixed income yields in the secondary market adjusted their expectations of a potential delay in the monetary easing cycle, as yields across various short-term tenures rose while yields across longer tenures declined somewhat.
- Staff-Level Agreement (SLA) was reached with IMF on second and the final review of the 9-month SBA program. Upon approval of the executive board, the last tranche of USD 1.1 bn will be disbursed.
- The IMF noted that Pakistan's economic and financial position has improved with modest growth expected in FY24. Following the successful IMF review, the international Euro Bonds and Sukuks also rallied, as prices of most instruments surged by 10-13% on a MoM basis.
- Foreigners continued to remain net buyers and a sizeable inflow of around USD 15 million was witnessed in March, taking 9MFY24 inflows to USD 75 mn by foreigners.
- Moody's Investor Service improved Pakistan's banking sector outlook to 'stable' from 'negative' based on healthy profits arising out of record interest rates, sufficient funding buffers and the country's expected return to modest growth.
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- The Current Account turned into a surplus of USD 128 mn in Feb-24 versus a deficit of USD 303 mn in Jan-24, taking 8MFY24 deficit to USD 999 mn (-74% YoY), as against USD 3.8 bn in the corresponding period last year.
- March-24 inflation clocked in at 20.7% which is the lowest reading in 22 months. Monthly price increments were recorded at 1.7%, on account of a 2.9% MoM increase in food inflation (mainly driven by steep surge in perishables owing to Ramazan seasonality) and a 1.5% MoM jump in the housing index, as a result of monthly revision in electricity charges.
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