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Weekly Stock Market Commentary

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The positive momentum continued in the equity market during the outgoing week ending 19th April, as the benchmark KSE-100 Index gained 595 points, translating into a WoW (week-on-week) return of 0.8%. The majority of index gains were contributed by Commercial Banks, Oil & Gas Exploration, and Power sectors.

The week kicked off on a positive note despite fluid geopolitical conditions in the Middle East after Iran carried out an attack on Israel. During the week, State Bank of Pakistan also successfully repaid USD 1.0 bn against Eurobonds on 12th April and surprisingly, even after this repayment, SBP's reserves remained stable at USD 8 bn. In the remainder part of the week, market performance remained rangebound primarily due to ongoing tensions in the Middle East and volatility in international oil markets. However, after a measured response from Israel against Iran, the market rallied on the last trading day and closed at an all-time high level of 70,910. Foreigners remained net buyers during the week with a net inflow of USD 34 mn. Overall news flows remained encouraging with a high-level Saudi delegation arriving in Pakistan to discuss peotential Saudi investments in the country. As per news flow, Saudi Arabia is moving closer to inking a USD 1 bn deal to buy a stake in the Reko Diq Project from government of Pakistan. As per various news, Pakistan has solicited interest of KSA on multiple projects related to energy, infrastructure, transport, mining and agriculture with a potential investment size of USD 32 bn. The country is also expected to host the Saudi Crown Prince next month, where some of these projects are expected to crystalise.

During the week, Pakistan's economic team led by the Finance Minister arrived in Washington DC to participate in the IMF-WB spring meetings. The FM expressed his optimism in securing a new loan program from the lender within a couple of months. The FM also ruled out a possibility of any significant PKR depreciation as a precondition of the new loan program and said that PKR is likely to depreciate in a typical fashion of 6-8% annually. Also, according to the FM, IMF's Executive Board is expected to approve the last tranche of the SBA program by the end of this month. Asian Development Bank and IMF released their outlook reports during the week, wherein ADB has projected Pakistan's GDP to grow by 1.9% during FY24. Similarly, IMF estimated Pakistan's GDP to grow by 2% in FY24 with inflation easing down to 24.8% from 29.2% in FY23. In another development, the World Bank has approved a USD 1.0 bn loan to Pakistan for 2,160 MW Dasu Hydropower project. During the week, PBS released Large Scale Manufacturing (LSM) numbers that registered a flattish growth of 0.1% YoY in Feb-24. With this 8MFY24 LSM index contracted by 0.5% YoY. On the fiscal front, government raised PKR 6.8 bn and PKR 538 bn through PIBs and T-bills. Cut-off yields in the T-bill auction remain unchanged, while yield on 3-year PIB saw 13 basis points decline in the cut-off yield.

With the conclusion of current IMF loan program, the last tranche of which is still pending subject to the approval of IMF executive board, the authorities have already initiated parleys with IMF for a larger and longer program with more focus on reforms. The detailed discussions surrounding the new program will continue for some more time which will be keenly followed by investors. The size and conditions of the program will set the stage for equities in the near term. Central bank is scheduled to announce Monetary Policy on 29th April, where majority now expect status quo in rates. However, a surprise token rate cut, on the back of moderating inflation can not be ruled out, which can garner investors' interest in equities. The fluid situation in Middle East and its impact on oil will also shape the sentiments in the near term. However, in the medium to long term, we expect strong momentum in equities to continue 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.