

**Asim Wahab Khan, CFA**  
**Chief Investment Officer**

During the outgoing week ending March 17th, the stock market receded by 1.1% on a week on week basis, as the benchmark KSE-100 decreased by 464 points. The Index decline was mainly led by Technology, Fertilizer and Banking sectors. However, in terms of sectoral gains, Engineering, Pharma, E&Ps, and Cement sectors outperformed the market.

The equity market remained stable throughout the week, except for Friday, where foreign rebalancing resulted in sharp swings in prices and dragged down the market. The Index traded within a narrow range for the remainder days, as investors anticipated announcement of staff level agreement (SLA) between Pakistan and the IMF, since almost all conditions of the Fund have been met. The outgoing week was marred by rising political unrest, as clashes were witnessed between PTI workers, protestors and police force over the arrest of PTI chairman outside his Zaman Park residence. The lingering delay in the IMF program, despite fulfilling majority of conditions, also soured sentiments. Reports suggested that absence of written pledges/assurances of financing commitments from friendly countries to finance the Balance of Payments gap was the point of contention between the IMF and GoP. In light of the absence of agreement, the GoP also mulled over approaching US diplomats directly to help speed up the process. The week also witnessed an increase in petrol and diesel prices of PKR 5/liter and PKR 13/liter, respectively. Moreover, the country's industrial output decreased by 7.9% in January 2023 over the same month last year, which is the seventh consecutive decline. During the week, international crude oil prices touched a 15-month low over growing recession fears, exacerbated by the failure of Silicon Valley Bank (SVB). The fall in prices will provide a much-needed respite to the country's external account and inflation. We also find it pertinent to mention that the current Arab Light prices are down by around 27% from the average prevailing prices in CY22. In the same manner, the Bloomberg Commodity Index is also down by around 13% from its average in CY22. The softness in the overall commodity space bodes well for the country in terms of its import bill. Lastly, The State Bank of Pakistan's foreign exchange reserves increased by USD 18 mn for the week, maintaining their uptrend for the fifth consecutive week, but still barely covering 4 weeks' imports.

The completion of the IMF program remains imperative for the economy, as well as for market recovery. The conditions set forth by the IMF which included interest rate hike, increase in utility prices, floating exchange rates, additional taxation measures and power surcharges have all been fulfilled by the authorities. Therefore, the agreement now seems likely, in our view. There appears to be an increased likelihood of inflows from other friendly nations as well, exemplified by the recent influx from China. In the recent weeks, the country has received around USD 1.2 billion from China (USD 700 mn from Chine Dev. Bank and USD 500 mn from ICBC). Just yesterday, the country has received another USD 500 million from ICBC, bringing the total of commercial loans to USD 1.7 bn out of the total committed amount of USD 2 bn. Together, the flows would lend support to the dwindling FX reserves and bring about the much-needed respite to the market and the economy. On the political front, any worsening of situation will dent sentiments of investors.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.9 times (earnings yield of around 25.6% as against 10-yr PIB yield of 15.2%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.