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Weekly Stock Market Commentary

April 26, 2024

Asim Wahab Khan, CFA
Chief Investment Officer

The equity market continued its bullish momentum during the outgoing week ending 26th April, as the benchmark KSE-100 gained 1,833 points, translating into a healthy WoW (week-on-week) return of 2.6%, making it the sixth consecutive week of positive return. In the process, KSE-100 Index continue to achieve new highs as the index surged past 72,000 points at close of the week. The majority of the index gains were contributed by the Fertilizer, Cements and Commercial Bank sectors.

The key catalyst for strong performance during the week was shifting expectations ahead of coming MPC meeting. The SPI data released on 19th April led to significantly lower inflation estimation of market participants, which revived hopes of rate cut in upcoming MPC meeting scheduled on Monday. Previously, majority of people were seeing the central bank holding rates until the successful negotiation of the new IMF loan program. Also, one of the largest shareholders in Pakistan Suzuki Motors sold his significant holding in the company to the sponsors of the company, in its delisting program, which was deployed elsewhere, which had a spillover impact in other stocks. Furthermore, we have also started to see gradual shift from fixed income investment to equity investment, which also had a snowball effect. During the week, central bank released numbers related to external account, whereby the country posted current account surplus of USD 619 million, which is the highest number since February-15. The record surplus was driven by staggering remittance flows. It also provided further impetus to the market.

The week kicked off with a visit of Iranian President Ebrahim Raisi to Pakistan accompanied by a high-level delegation comprising Foreign Minister of Iran H.E. Amir Abdollahian, as well as other members of the cabinet and senior officials. Pakistan and Iran signed eight agreements and MoUs and also agreed to increase bilateral trade volume to USD 10 bn in next five years. During the week, the IMF published its calender whereby the executive board of IMF is scheduled to meet on 29th April to finalize the last review of Pakistan and approve the last tranche of USD 1.1 bn of USD 3 bn Stand-by Agreement (SBA).

The country fetched Foreign Direct Investment (FDI) amounting to USD 1.1 bn in 9MFY24 as compared to USD 1.2 bn in SPLY, depicting a decline of 10%. Pakistan has also received fresh healthy inflows of USD 182 mn under Roshan Digital Account (RDA) in Mar-24 (highest in last 19 months), which is a jump of around USD 43 mn as compared to average of 139 mn in last 12 months. This takes the gross inflows to USD 7.7 bn under RDA since inception. Forex exchange reserves of the country fell by USD 93 mn during last week and currently stands at USD 13.3 bn. Out of USD 93 mn, SBP reserves declined by USD 74 mn due to external debt repayments and commercial banks' reserves declined by USD 20 mn.

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 the participants are still divided on the rate cut. We reckon that broad based moderation in inflation provides strong grounds for a token rate cut, 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 4.5x, translating to an earnings yield of 22.2%, 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.