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The equity market again resumed its upward trajectory during the outgoing week ending 10<sup>th</sup> May after experiencing a blip last week. The benchmark KSE-100 Index gained 1,183 points, translating into a healthy week on week return of 1.6%. In the process, KSE-100 continues to achieve new highs as the index closed above 73,000 points for the first time in history. The majority of the index gains were contributed by the Pharmaceuticals, Cements, and Power sectors.

The index rallied on the first day of the week as the two days Pak-Saudi investment conference kicked off with a focus on business-to-business engagement. A 50-member delegation comprised of 30 Saudi companies from the fields of IT, construction, mining exploration, energy etc. participated in the meeting. Executives from Saudi Arabian mining company Manara Minerals were also in Islamabad to continue talks about buying a stake in Pakistan's Reko Diq gold & copper mine. In mid of the week, Pakistan also commenced fresh negotiations with World Bank (WB) for 4-5 years Country Partnership Strategy (CPS) policy framework with an expectation of committing USD 8 bn for major priority areas. The country is also seeking USD 2 bn from WB for next budget FY24-25 including seeking approval of USD 1 bn additional loan for Dasu Hydropower Project. Later in the week, it emerged that a mission of the International Monetary Fund (IMF) has already landed in Pakistan to discuss a new program ahead of the annual budget for FY25, while the remaining members including Mission Chief Nathan Porter, are expected to arrive next week.

The proposals for budget FY24-25 began to surface, where IMF has asked Pakistan to impose additional PKR 1.3 trn taxes in next budget, taking annual tax target to whopping PKR 12.3 trn for the next year. The half of the additional target is proposed to collect from salaried and business individuals. IMF has also suggested to rationalize tax rates for individuals by removing salaried/non-salaried distinction by reducing number of rate slabs to no more than four. The proposals are also circulating to slap 10% fixed tax rate on pensions exceeding PKR 100k per month.

Remittance inflows have increased by 28% YoY to USD 2.8 bn during April-24. This takes total inflows to USD 23.8 bn in 10MFY24 as compared to USD 23.0 bn last year, showing an increase of 3.5% YoY. SBP reserves soared to nearly two year high of USD 9.1 bn boosted by IMF's final tranche of USD 1.1 bn, taking total country forex reserves to USD 14.5 bn. The government's borrowings from banks have surged to a record PKR 6 trn during 10MFY24, rising 124% YoY mainly due to higher interest on borrowed amount and loan repayments.

In the stock market, two new IPO's, International Packaging Films (IPAK) Limited and TPL REIT Fund I, were oversubscribed, showing confidence of investors in the new equity listings. IPAK issue was oversubscribed by 1.73 times, with a strike price of PKR 25.2/share compared to the floor price of PKR 21.0/ share. This resulted in a total amount of PKR 1.8 bn raised from the market. TPL REIT Fund I issue was oversubscribed by 1.46x.

The size and conditions of the new IMF program will set the stage for equities in the near term. The geo-political tensions in the Middle East have also eased off in recent days and crude oil prices have also retreated from the recent highs, that augurs well for the country. The precipitation in the weekly SPI data is also very encouraging which is showing a steady drop in price increments of basic commodities on a weekly basis. This marks the 4-consecutive weeks of price decline, with YoY SPI inflation in outgoing week at 22.3%, which is the lowest number in nearly 2 years. Moderating inflationary pressures have already ignited strong investors' interest in leveraged sectors/companies and the trend will accelerate with eventual decline in Policy Rates. 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 visible disinflationary trends, 2) sizeable inflow of foreign and institutional liquidity into equities, 3) strong earnings momentum of listed companies, and 4) inexpensive valuations.

The cumulative PAT of KSE-100 Index has surged by 27% in 9MFY24 over the previous year which is why despite solid stock market performance, the valuation still remains inexpensive, as evidenced by the forward PE multiple of 4.5 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.