

## Stock Market Review

The equities continued to deliver stellar performance during the outgoing month of May-24. The gradually improving macro-economic indicators together with favourable investors' sentiments helped propel the benchmark Index by another 4,776 points in May, translating into a solid return of 6.7% for investors. In the process, KSE-100 Index achieved new highs as the Index surged past 75,000 level at month end. The successive decline in SPI data in all but one week during the month constricted SPI inflation to around 21%, which was the lowest reading in almost 2 years. It energized the investors who again looked to solidify their position in equities. After the visit of high-level Saudi delegation in April, the country hosted heads of prominent Saudi business groups with an aim of signing agreements and MoUs for investment in different sectors. Pakistan 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. Similarly, the country also kick-started initial negotiations with the IMF on a new loan programme after the successful completion of short term USD 3 billion SBA, which concluded on a positive note.

### Market Highlights:

- IMF's mission chief to Pakistan, Nathan Porter, reported that Pakistani authorities & IMF made significant progress towards achieving a Staff Level Agreement (SLA) on a comprehensive economic policy & reform program.
- During the month, the boards of Dawood Hercules Corporation Ltd (DH Corp) and Engro Corporation Ltd (Engro Corp) approved a proposal to restructure the shareholding between the two companies, aimed at optimizing investment opportunities within the enterprise.
- Executives from Saudi Arabian mining company Manara Minerals were also in Islamabad to hold talks about buying a stake in Pakistan's Reko Diq gold & copper mine. Related to this, later on Pakistan and Saudi Arabia agreed in principle to strike a deal where the country will sell 15% of its stake to Saudi investor, which will help unlock value in the government owned Oil & Gas Exploration Companies listed on the bourse.
- Owing to strong investors' interest in equities, we have seen corporates turning to capital markets to raise capital. During the month, Fast Cables, International Packaging Films Limited and TPL REIT Fund I, carried out their IPOs and interestingly all of them were oversubscribed, showing confidence of investors in the new equity listings. Fast Cables was over-subscribed by 1.57 times, International Packaging IPO was oversubscribed by 1.73 times, while TPL REIT Fund I issue was oversubscribed by 1.46x.
- Foreigners further cemented their positions as net inflows during May amounted to USD 16 mn, taking 11MFY24 inflows to around USD 139 mn.
- Secondary market yields came under pressure during May, and yields on shorter tenor witnessed a decline in the range of 39-118 basis points.

### Economic Indicators:

- Continuing the trend of March, a healthy surplus of USD 491 mn was reported during April-24, improving by 13% on a sequential basis compared to March-24. Though there was slight dip in remittances by around USD 142 mn, improvement of USD 197 mn in trade balance on good & services on MoM basis led to higher surplus in April versus the previous month. With that, 10MFY24 current account deficit (CAD) was recorded at USD 202 mn (-95% YoY).
- May-24 inflation clocked in at 11.8% as against 17.3% in April-24, which is materially below consensus estimates. It is pertinent to note that this is the lowest reading since Nov-21. Although it is partly due to high base effect but the ongoing disinflation particularly in food prices had a major role that led to 3.2% MoM drop in CPI basket during the month. With that 11MFY24 average CPI stands at 24.5%.
- FBR tax collection during May-24 clocked in at PKR 760 bn, as against PKR 572 bn in SPLY, reflecting 33% YoY growth. The cumulative tax collection during 11MFY24 was reported at PKR 8.1 trillion, falling short by PKR 40 bn against the target for 11MFY24.
- Trade deficit during May-24 improved by 15% MoM to USD 2.1 bn compared to USD 2.5 bn reported earlier in April-24. As a result, cumulative trade deficit (goods) narrowed by 15% to USD 21.7 bn, down from USD 25.6 bn in same period last year. Exports have risen by around 11% (up by USD 2.7 bn), while imports have contracted by around 2% on a YoY basis (down by USD 1.2 bn).
- The National Accounts Committee (NAC) finalized & approved 3Q GDP numbers where YoY growth was estimated at 2.09% compared to 1.79% recorded in 2Q and 2.71% in 1Q. The NAC also approved provisional GDP growth rate of 2.38% for the ongoing fiscal year FY24 led by estimated agriculture growth rate of 6.25%, while industry and services sectors were estimated to grow at the rate of 1.21% each.

### Sectoral Performance:

**Outperformers:** Auto Parts & Access., Cable & Elec. Goods, Commercial Banks, Engineering, Insurance, Investment Companies/Banks, Leather & Tanneries, Pharmaceuticals, Power Generation & Distribution, Technology & Communication.

**Underperformers:** Auto Assembler, Cements, Chemicals, Fertilizers, Food & Personal Care, Glass & Ceramics, Miscellaneous, Oil & Gas Exploration, Oil & Gas Marketing Companies, Paper & Board, Refinery, Sugar & Allied, Textile Composite, Tobacco and Transport sectors.

### Participant Activity:

- Insurance Companies remained the largest buyers with net inflows amounting to USD 20 million.
- Foreign Investors continued to remain buyers with net inflows to the tune of USD 16 million.
- Individuals and Other Organizations trimmed their net positions by around USD 13 mn and USD 9 mn, respectively.

### Market Prospects:

Notwithstanding the solid performance of equities since the start of FY24, whereby KSE-100 Index has surged by around 83%, the strong momentum is likely to continue. The improving macro-economic conditions have restored investors' confidence and the continuation of this improvement will sustain this rally in our view. In the short term, we believe that equities may consolidate ahead of the budget as it is expected to entail several new revenue/taxation measures that can potentially trim earnings somewhat and dampen investors sentiments, however these measures will be crucial to secure the new bailout program which is critical for the country. The conditions and size of the new IMF loan program will also shape the sentiments and direction of the market. The CPI numbers of May-23 are also very encouraging, that will prompt the central bank to initiate the much-awaited monetary easing cycle, which will further provide impetus to the equities.

We would like to reiterate that despite the solid stock market performance, the valuations still remain inexpensive, as evidenced by the forward PE multiple of 4.7 times. Additionally, the market boasts a healthy dividend yield of 8-9%. 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) held at end of April maintained the Policy Rate at 22 percent. MPC noted that level of inflation was still high and commodity prices appeared to have bottomed out with ongoing geo-political events further adding to uncertainty. It pointed out that outlook remained susceptible to risks due to the upcoming budgetary measures and potential impact of resolution of circular debt. Therefore, the MPC remained prudent and decided to continue with the status quo to keep inflationary pressures under control. The SBP's net liquid foreign exchange reserves stood at around USD 9.1 billion as at 24-May-2024 (down by USD 33 million compared to April 2024).

SBP conducted two T-Bill auctions targeting Rs. 810 billion against the maturity of Rs. 730 billion. In the first auction, bids totalling around Rs. 578 billion were accepted at cut-off yields of 21.60%, 21.29% and 20.41% for 3-month, 6-month, and 12-month tenures, respectively. In the second auction, bids amounting to Rs. 445 billion were accepted at cut-off yields of 21.00%, 21.00%, and 20.10% for 3-month, 6-month, and 12-month tenures, respectively. In the PIB auction, bids worth around Rs. 96.9 billion were accepted for 3-year, 5-year, and 10-year tenures at cut-off yields of 16.65%, 15.45% and 14.30%, 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.

## Stock Market Review

The equities continued to deliver stellar performance during the outgoing month of May-24. The gradually improving macro-economic indicators together with favourable investors' sentiments helped propel the benchmark Index by another 6,335 points in May, translating into a solid return of 5.3% for investors. In the process, KMI-30 Index achieved new highs as the Index surged past 125,000 level at month end. The successive decline in SPI data in all but one week during the month constricted SPI inflation to around 21%, which was the lowest reading in almost 2 years. It energized the investors who again looked to solidify their position in equities. After the visit of high-level Saudi delegation in April, the country hosted heads of prominent Saudi business groups with an aim of signing agreements and MoUs for investment in different sectors. Pakistan 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. Similarly, the country also kick-started initial negotiations with the IMF on a new loan programme after the successful completion of short term USD 3 billion SBA, which concluded on a positive note.

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### Market Prospects:

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