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Weekly Stock Market Commentary

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The equity market saw a strong bullish trend during the outgoing week ending 17th May as the benchmark KSE-100 Index rose sharply by 2,257 points, translating into a week on week return of 3.1% (highest return in 11 weeks). In the process, KSE-100 continues to achieve new highs as the Index closed above 75,000 points for this first time in history. The majority of the index gains were contributed by Commercial Banks and Oil & Gas Exploration sectors.

The strong momentum in equities continued to propel the Index and the Index closed in green in each of the 5 trading sessions of the week, reflecting broader optimism shared by investors. The ongoing disinflationary trend has instilled confidence in market participants and raised expectations of steep Policy Rate cut despite the prolonged delay in the easing cycle. The outgoing Friday marks the 5th consecutive week of weekly decline in SPI led by steep drop in perishable and non-perishable staple. The decline in yields in the auction of treasury bills, particularly in the 12M tenure paper which witnessed a drop of 49 basis points reinforced the view that easing cycle in around the corner. During the week, the International Monetary Fund (IMF) published the country report for Pakistan after the completion of second & final review of 9-months Stand-by Agreement (SBA) program. The report stated that macroeconomic conditions of the country have improved over the course of the program, where GDP growth is expected to be 2% in FY24. The fiscal position continues to strengthen with a primary surplus of 1.8% of GDP in 1HFY24, which is well ahead of FY24 primary target surplus of 0.4% of GDP. Inflation, while still elevated, continues to decline led by tight data driven monetary policy and is expected to reach around 20% by June end. IMF has also lowered the projection of gross external financing needs to USD 21 bn (5.5% of GDP) against USD 25 bn (7.1% of GDP) previously. IMF estimated Pakistan's external financing gap of around USD 9.1 bn over the next three years, that demonstrates the critically of the next bailout program from the IMF. IMF also took stock of the power sector circular debt stock that was contained at PKR 2.6 trn since Oct-23 after some slippage earlier in fiscal year, while gas circular debt saw a modest decline to PKR 2.1 trn led by timely gas tariffs adjustments in line with cost recovery.

During the week, State Bank of Pakistan (SBP) released state of Pakistan's economy report for 1HFY24, where the bank is projecting real GDP growth of 2-3% in FY24. Inflation is estimated to be in a range of 23-25% in FY24, while the central bank reiterated its expectations that inflation will fall in the range of 5-7% by Sep-25. It estimated current account deficits (CAD) to remain lower than earlier estimates, projecting it to remain in a range of 0.5-1.5% of GDP. Later in the week, the country posted third consecutive current account surplus of USD 491 mn (highest since Jun-23) during Apr-24, taking 10MFY24 current account deficit to USD 202 mn (-95% YoY). This is mainly led by 11% YoY growth in goods exports to USD 25.7 bn and 4% YoY growth in remittances to USD 23.9 bn, while goods imports dropped by 5% YoY to USD 43.4 bn. The country witnessed net FDI inflow of USD 359 mn in Apr-24, which is a highest number since Dec-19, taking 10MFY24 inflows to USD 1,458 mn (+8% YoY). Large Scale Manufacturing (LSM) growth came at 2% YoY in Mar-24, taking 9MFY24 numbers to flattish -0.1% YoY. Looking ahead, 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 5-consecutive weeks of price decline, with YoY SPI inflation in outgoing week at 21.2%, 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 in FY24, 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 4.6 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.