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Weekly Stock Market Commentary

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The equity market witnessed a modest decline during the outgoing week ending 26th July, as the benchmark KSE-100 index lost 2,088 points, translating into a week on week decline of 2.6%. Though correction was seen in almost all the sectors in the Index, bulk of the Index decline was contributed by the Commercial banks, Power, and Oil & Gas Exploration sectors.

Market kicked off this week on a frail note driven by heightened political noise in the country, and start of the rollover week. After losing 1,579 points on the first trading day of the week, market failed to resume its bullish streak. In terms of trading flows, foreigners continue to build position in the equity market with weekly net inflows recording at USD 4.6 mn taking FYTD net inflows to USD 25.6 mn.

Fluid political events in the United States also added to uncertainty as President Biden abruptly ended his re-election campaign and endorsed Vice-President Kamala Harris to succeed him as the Democratic candidate, in an extraordinary decision. On domestic front, Pakistan's Finance & Power Ministers visit to China remained in spotlight during the week. Pakistan has initiated talks on reprofiling its power sector debt to China, alongside talks on structural reforms suggested by the International Monetary Fund. Further, the government would also request for the conversion of USD interest payment on Chinese debt to RMB. Alongside, the incumbent government is also seeking Beijing's assistance to raise initial USD 300 mn through Panda bonds which would later increase to c. USD 700 mn. Pakistan is also in talks with Saudi Arabia, the United Arab Emirates, and China in order to meet gross financing needs under the IMF program for which Islamabad needs a board level approval.

Ahead of the upcoming MPC meeting scheduled on Monday, there was a notable decline in yields across various tenures. The cut-off yields on T-Bills declined in the range of 30-56 basis points in the auction held during the week wherein the government raised PKR 481 bn against target of PKR 150 bn. Similarly, in the Ijarah Sukuk auction cut-off rental on 1-year Ijarah Sukuk declined by 128 basis point. More encouragingly, the inflationary pressures appear to be easing, for now at least. Though high base effect has a major role to play, but price increments have also been at a modest pace. The recent weekly SPI came at the lowest reading in the last two years at 20%. In a positive development, ADB has approved USD 400 mn concessional loan for Pakistan to support the reconstruction of houses and community infrastructure in Sindh province, which were damaged by the devastating floods in 2022.

During FY24, Pakistan's stock market emerged as the world's best-performing stock market, with PKR/USD returns of 89%/94%. We believe the stock market will continue to depict robust performance going ahead, though the majority of returns for FY25 will be driven by re-rating and dividends. Though the shifting political events will test investors' confidence, the gradually improving macro-economic trends will provide vigor to the market. The re-entry into the new IMF program will ensure fiscal discipline, aiming to cement macroeconomic stability and create conditions for a stronger, more inclusive, and resilient growth. Though this agreement is subject to approval by the IMF's Executive Board and the timely confirmation of necessary financing assurances from Pakistan's development and bilateral partners, we expect the country to secure the bailout from IMF very soon, which should further strengthen the confidence of both local and foreign investors. We reiterate that despite the solid stock market performance, valuations remain inexpensive, as evidenced by a forward price-to-earnings (PE) multiple of 4.7 times. Additionally, the market boasts a healthy dividend yield of 8-9%. For investors with a medium- to long-term horizon, we strongly recommend establishing a position in the stock market through our NBP stock funds.