

Dr. Amjad Waheed, CFA  
Chief Executive Officer

## Stock Market Outlook

### Energy stocks hold tremendous upside potential over the medium term

The local equity market was unable to repeat the robust performance of the past few years in CY15. More specifically, the benchmark KSE-100 Index eked out a paltry 2% return during CY15 year versus a healthy 28% average annual rise witnessed during 2011-2014 period. Nonetheless, our flagship NAFA Stock Fund continued its tradition of out-performance versus the stock market, rising by 11% versus 2% increase in the KSE 100 Index in 2015. This 9% out-performance of the Fund is net of management fee, and all other expenses. During the 4 years (CY11-14) period, when the stock market performed well, NAFA Stock Fund rose by 224% versus 167% rise in the stock, thus out-performing the stock market by a hefty 57% (net of management fee, and all other expenses).

The stock market has struggled in the first two months of 2016 with the KSE-100 Index declining by 4.4%. We ascribe this lackluster performance of the stock market in large part to a short-term corporate earnings slowdown led by oil and gas stocks, driven by continuous decline in crude oil prices and unabated selling by foreign investors. At current levels, these energy stocks offer tremendous upside potential considering even a partial recovery in oil prices to USD 50/bbl over the next 12 months. Further, recent indiscriminate sell-off in the emerging markets, as captured in 24% decline in MSCI Emerging Market Index since June 2015, has created compelling investment opportunities for value investors. Consequently, large global fund managers have recently become bullish on emerging markets. We expect foreign selling in the local bourses to abate given improving domestic economic prospects and attractive stock market valuations as reflected by 8 times forward estimated earnings.

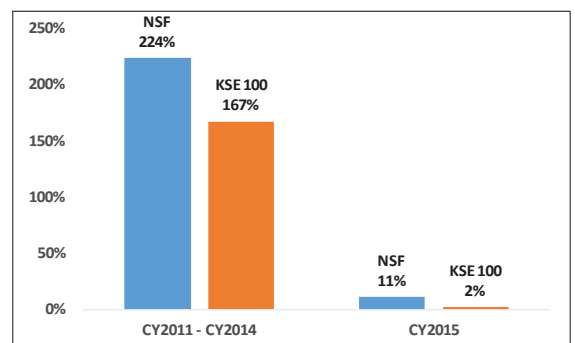
Though it is very difficult to forecast future oil prices in the shifting paradigm, International Energy Agency (IEA), a leading authority on oil, in its recently released Medium-Term Oil Market Report expects oil supply and demand to balance in 2017 with increasing deficits from 2018 onwards. The report notes with concern the 17% expected fall in global oil exploration and production CAPEX in 2016, following a 24% drop in 2015. This insufficient investment increases the odds of supply constraints resulting in a gradual rise in oil price in 2017. IEA expects oil prices to rise gradually to USD80/bbl by 2020.

**Global Oil Balance Summary (million barrels per day)**

	2015	2016	2017	2018	2019	2020	2021
<b>World Demand</b>	<b>94.4</b>	<b>95.6</b>	<b>96.9</b>	<b>98.2</b>	<b>99.3</b>	<b>100.5</b>	<b>101.6</b>
Non-OPEC Supply	57.7	57.1	57	57.6	58.3	58.9	59.7
OPEC Crude	32	32.8	33	33	33.2	33.5	33.6
OPEC NGLS etc	6.7	6.9	7	7.1	7.1	7.1	7.2
<b>Total World Supply</b>	<b>96.4</b>	<b>96.8</b>	<b>97</b>	<b>97.7</b>	<b>98.6</b>	<b>99.5</b>	<b>100.5</b>
<b>Surplus/(deficit)</b>	<b>2</b>	<b>1.2</b>	<b>0.1</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>(1)</b>	<b>(1.1)</b>

Source: International Energy Agency

**Comparative Performance of NAFA Stock Fund (NSF) and Stock Market**



In line with its vision to offer innovative products to help investors meet their varying investment objectives, NAFA is launching a Shariah-Compliant Energy Fund to capture the tremendous upside, offered by beaten down energy stocks. The Fund would invest in upstream and downstream oil and gas, refineries and power shares. We believe the aforesaid Fund would offer good return to investors with a medium-term investment horizon.