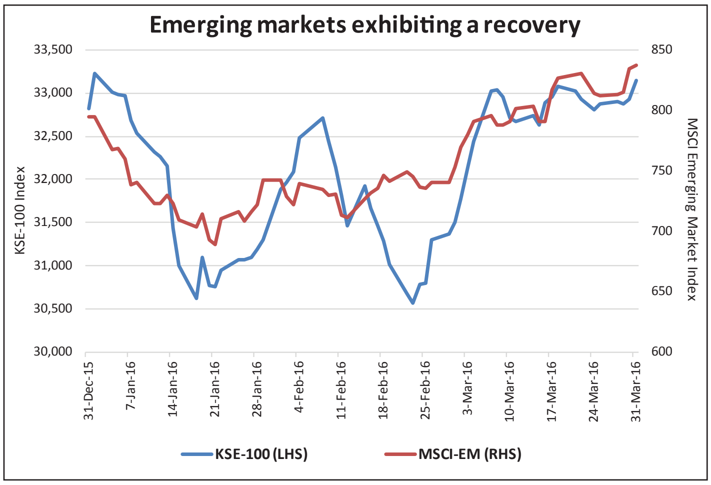
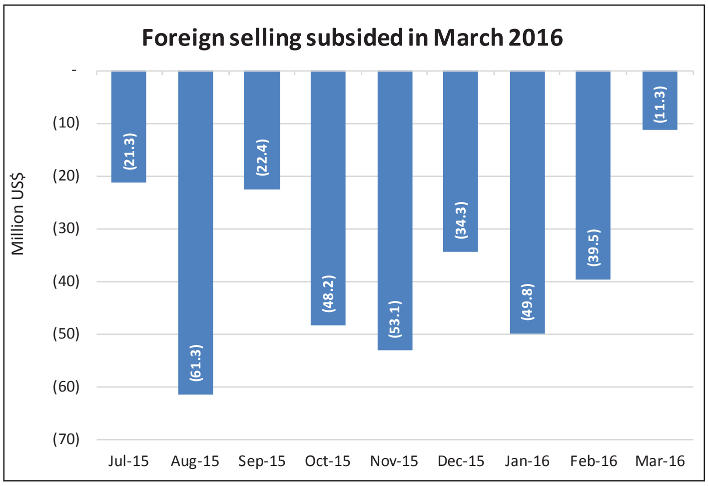
Dr. Amjad Waheed, CFA
Chief Executive Officer

Has the Pakistani stock market bottomed out?

After a volatile 2015 and frenzied start to 2016, the stock market gained traction in March as captured in 5.6% rise in the benchmark KSE 100 Index during the month. During the calendar year- to- date, the stock market is up by around 1.0%. The local bourse is expected to remain sideways over the next few months on FY17 budget related uncertainties and fickle foreign flows. We think that the market has bottomed out. Headwinds to global equities emanating from a strengthening US Dollar, falling commodity prices notably oil, hawkish tone of the US Fed, and fear about the weakening global economic growth have abated. In the wake of this improving investment backdrop, emerging markets as a whole staged an impressive rebound over the past few weeks, with MSCI Emerging Market Index rising 17.7% from February's low and is up by 5.4% during CYTD.





The upside move has been triggered by a sharp recovery in global commodity prices, notably oil. The investor sentiments were further buoyed by Federal Reserve's dovish stance to raise interest rates slowly and gradually in view of a tepid economic recovery. Foreign selling at Pakistani stock market subsided during March as reflected in a minimal net outflow of US $ 11 million during the month compared to an average monthly net outflow of US $ 38million during fiscal year to date.

Notwithstanding short-term hiccups, we expect the stock market to deliver a decent double digit return over the next 12 months with our view premised on:

- An improving macroeconomic outlook as reflected in rising GDP growth, low inflation, and a comfortable external account position.
- Expected renewal of foreign interest in domestic equities as the Pakistani stock market likely reenters the widely tracked MSCI EM Index later in 2016, and foreign investors realize improving growth prospects of the domestic economy in the low commodity prices environment.
- Attractive valuations of the stock market as captured in forward Price to Earnings ratio of 8.1 times and dividend yield of 5.8%.
- Resumption of double-digit corporate earnings growth beyond 2016 as impact of lower commodity price and interest rate decline wanes. Encouragingly, crude oil, a key determinant of listed corporate sector profitability growth, is up 48% from its recent bottom to US $ 40/barrel currently. The oil is expected to gradually rise further.

We advise investors to look beyond the recent lackluster stock market performance and volatility spikes, and focus on improving macroeconomic fundamentals, attractive valuations, and long-term corporate earnings growth, which would drive stock market higher in due course. The stock market is expected to offer higher return than the low interest rates offered by T-bills and bank deposits in 2016 and beyond. The 5.8% dividend yield on the stock market is about the same as the profit on the bank deposits. However, unlike bank deposits, the investment value also grows in due course of time in the stock market as is evident by its historical performance.