Interest Rates & Global Economic Turmoil

This month was a very eventful month on the national and international economic fronts. The underlying interest rates have a close relationship with the various financial markets in the respective economy. Today, we live in a global village and the impact of slow down in the large economies of the world can adversely impact our economy as well. We witnessed changes in the international interest rates in different directions impacting the international capital markets.

On the international front, we witnessed a decline in the equity markets from the U.S., Europe to the Asian markets. This decline was related to the economic data suggesting further slow down in the U.S. economy highlighting the threat of a recession in the country. The U.S. population, being only around 2% of the world population utilizes approximately 25% of the world consumption. The declining consumer and investment sentiment in the U.S. led to the decline of the equity markets around the globe. The declining U.S. economy will have a negative impact on the large emerging Asian economies of China and India as the manufacturing and services sectors in these economies can take a toll. The rising international oil and other commodity prices impacted the inflation data negatively. The U.S. housing market remained distressed after the impact of gigantic losses by the financial sector from sub-prime mortgage turmoil. The Federal Reserve in the U.S. tackled the issue at hand immediately by reducing interest rates by 125 basis points and a large tax rebate for the public to revive the economy. These actions of the Fed and the U.S. government provided temporary stability to the declining international equity markets.

In Pakistan, the situation was very different as the equity markets were still awaiting visibility on the political front. The Pakistani stock market did not take an impact of either side movement of the international equity markets. The declining volumes also indicated lack of institutional interest in the short-term. The month was also very significant as the fund managers anxiously awaited the State Bank's monetary policy towards the end of the month. The tightening stance of the monetary policy resulting in the increase in interest rate by 50 basis points and reserve requirement by 100 basis points clearly highlighted the inflationary concerns in the country. Although this concern is valid, the current account deficit increased by 31% YoY to USD 6.14 billion. The Trade deficit reached a level of USD 8.23 billion. The month also witnessed another outflow of over USD 101 million in the SCRA (special rupee convertible account), indicating further outflow of foreign investment from the country's equity markets. The economic data and the industrial output suggest a slowdown in the growth rate of the economy. The increase in the interest rates will also impact the KIBOR rates to increase which can adversely impact further credit demand by the industrial sector.

Faysal Asset Management and its Funds under management performed well during this volatile month and sustained their outperforming behavior highlighting the pragmatic fund management approach. The asset quality and conservative asset allocation during these short-term uncertain times have enabled FAML funds to provide stable returns for its valued investors.