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| **Pak Equities Outlook** | |
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**Dear Valued Investors,**

As with any large market correction, it is always a combination of both psychology and fundamentals. Post recent correction from its high in May 2017, PSX 100 is already down to months low P.E. of 8x – last seen when the index was around 34k level, compared to Asia Pac regional average of 14.0x and while offering DY of ~6% versus ~2.4% offered by the region. In September, equity market was revived posting 3% positive returns as local and foreign institutional confidence was recouped.

The challenges on economy’s external account have subsided as current account deficit came down during Aug 2017 to $ 550 mn from $ 2.6 bn. Trade deficit declined by 25% MoM to US$2.2bn as exports increased by 15% to US$2.1bn and imports declined by 10% to US$4.2bn. Furthermore, remittances also increased by 27% to US$2bn. Interestingly, the overall balance of payment which also includes financial account and capital account remained in green standing at US$147mn in Aug 2017.

We strongly argue that, similarities should not be drawn with 2008 crisis, as CPEC related economic growth (GDP for FY18 expected to be around 5.5%) will keep Pakistan’s progress on path. While, we believe that Pakistan may go for: PKR depreciation sometime after general elections of 2018, immediate measures being undertaken are: levy of regulatory duty on non-essential imports, export promotion to contain the trade deficit, the ongoing political uncertainty is the only cause of cautious/negative sentiments witnessed at PSX. However history suggests that highest rewards for investors have come via investing during crisis such as these (USD 100 invested in year 2000 would have accumulated to USD 1,550 by now).

For investors looking for a decent long term entry point we believe we are already there. Investors should however at the same time recognize that fundamentals are intact to remain intact. Ongoing references against former premier Nawaz Sharif and his children in the accountability court have held the sentiment in the bearish territory since past two weeks. However, upcoming two months of October to January are strong seasonal months, as the recent dips (PSX 100 down: 9% FYTD) reveal market has priced in all uncertainties’ and panic will fade away going forward.

Thus, we remain bullish: CPEC led infrastructure investments (LSM at historic high of 13%), benign inflation and sustained monetary easing, low international oil prices, a young and growing (208mn) population coupled with a well-developed private sector, are all present to take advantage of the growth ahead. Pakistan has been one of the world’s best equity markets over the last 20 years, in USD. We believe the circumstances for another good 20 years are significantly better today than they were in 1997.

Given the fact that we believe this is a case of changed perceptions rather than changed fundamentals we believe the turning point for investors, who have been selling the market for the last two years. We eye CY17 index target to reach at a range of 43,000-44,000 points.

In view of aforesaid, we have been adjusting pertinent portfolio allocations according to the recent dynamics in our equity based funds (FIAAF, FBGF, & FAAF). As such, if the market rebounds, we are confident to outperform the market peers (FIAAF & FBGF is till date CY17 best performing funds as compared to industry equity peers). Our debt funds (FSGF, FFSOF, FMTSF, FIGF, FISGF, & FMMF) are also well aligned and offering competitively higher returns. Investors with relevant risk profiles and investment horizons are advised to go through our Fund Manager Report for a detailed performance review of our mutual funds and select a scheme for investment according to their risk preference.