Faysal AssetManagement

PSX - potential for upside still remains

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Dear Valued Investors,

Lately, due to ongoing distresses surrounding the political scenario, Pakistan Stock Exchange has been sliding into the negative zone and is now down about 20% from this year's high. In our view, policy inactions (foreign, political and economic) are more a factor rather than any other fundamental intrigues behind this fall. An unnecessary delay from the government in addressing the key issues, particularly on key indicators including Balance of Payment and Fiscal framework is likely to result in even more difficult policy adjustments going forward. Unless foreign currency reserves are shored up, an adjustment in currency can cause the current momentum of growth to break. With the CPEC expected to remain on course, we feel it still offers the potential to help keep the economy stay on broader course, though some slow down cannot be ruled out.

In view of this, equity investors are wondering if things are going to get worse from here or not. Some are worried and are comparing the current market to the market in 2008, when equities crashed and lost more than ~60%. The only similarity to the 2008 market to some extent exists on the external front. Pakistan's trade balance has worsened over the period and currency adjustments appear as part of corrective tools. However, the oil prices remain low, unlike the peak we witnessed in 2007-08.

We would however, wish to emphasize that this fear is misplaced and a comparison with the crisis period is unjustified. We believe negativity in the market continues on the back of sentiments building for political uncertainties and concerns of falling economic indicators. Also, redemptions from Mutual Funds have caused excessive selling pressure.

Sharp recent decline at local bourses by 10.8% in two weeks has put the market into oversold momentum. Expecting some recovery of the benchmark as at current levels valuations have become very attractive with forward P.E. below 8x. Most of the stocks have corrected above 30% from recent highs.

In our view, a policy response is imminent and an adjustment to the currency is on the cards, translating into revived investor confidence and eventually restoring confidence of the foreign investors. Since Pakistan has been trading at a deep discount (~40%) in valuation compared to its emerging market peers, foreign investors are likely to emerge as net buyers. Based on these factors, the downside in the current market remains limited. We expect slight recovery in short term, but perceive volatility to continue over next weeks unless economic indicators and prevailing political scenario improve.

Alongside these factors, it is evident that market has incorporated a stress case scenario to a large extent and valuations have become very attractive at these levels. Even if we incorporate a macroeconomic shock in terms of slowdown in GDP growth and reversal in interest rates, the market still seems to hold decent upside potential from the current levels.

We have adjusted pertinent portfolio allocations according to the recent dynamics in our equity bases funds (FIAAF, FBGF, & FAAF). As such, if the market rebounds, we are confident to outperform the market peers (FIAAF is till date CY17 best performing fund as compared to industry equity peers).

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.

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