

# UNCERTAINTY & CAPITAL MARKET

Is uncertainty really that bad for the capital markets? It is evident from the movement of the KSE-100 index from July 07 to September 07. The index saw a mark higher than 14,000 and then witnessed a level lower than 12,000 marking over 15% decline. This decline was in contrast to the movement of the global markets. The main reason for this decline in the Pakistani equity markets was political uncertainty.

We witnessed sharp upside during the first half of the current calendar year. This sharp rise was due to the interest from foreign investors after the merger and acquisition frenzy within the financial sector. This positive interest was reversed amid the political uncertainty as the Presidential elections came closer. The equity market being the leading indicator discounted the current political uncertainty and offered discounts in the prices of equities across several sectors. These discounted prices transpired into demand from the institutional investors including foreign investors. Investors began bargain hunting and building positions in long term value opportunities.

Despite the OMO's as well as other actions taken by SBP we witnessed relatively high liquidity in the market. The recent rate hike of 50 bps (basis points) by the central bank did not have any short term impact on the liquidity present in the market. Due to Ramadan the food inflation could not be curtailed as well. The market is expected to remain fairly liquid in the upcoming month. On the commodity front gold prices reached record levels.

On the international front we witnessed the prices of Oil touching an all time record level of USD 84/bbl. The U.S. market witnessed issue relating to the sub-prime mortgage market and the investor sentiment showed some dampening. The Federal Reserve injected liquidity into the U.S. market and spurred investor interest through a 50 basis point cut in the interest rate. This action of the Fed led to a revitalized rally in the Dow Jones as well as other European and Asian markets. The domino effect led the European and Asian markets higher but the Pakistani markets showed an opposite trend. With the recent clarity on the political front after the Supreme Court's decision, we saw a euphoric rise in the KSE-100 index. The index gained over 9.1% or more than 1000 points in only a few trading sessions. This trend can continue with further clarity as we move closer to the Presidential elections and then the national elections. The growth in the corporate earnings along with a stable political and geo-political situation can bring back the bullish investor sentiment and we can witness rise of a few thousand points in the index. With this in perspective we recommend some allocation in equities and equity funds from the investors taking temporary cover in the income funds.