

# Faysal Asset Management

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## PSX hammered by “Political” noise

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## Dear investors,

Equities listed on the Pakistan Stock Exchange are going through a rough period, due to the ongoing political uncertainty arising from the Panama Papers Case, which you might have heard of in the news.

The past week particularly on Tuesday was in for a rude awakening as the PSX-100 index took a plunge of 1,000 points even before the opening bell had died down.

As all the investors stared at the trading board in disbelief, the market saw shares close at their lower circuits in droves. By the close of trading, the benchmark index tanked 2,153 points, the biggest-ever single-day decline. The 4.65% decrease is the biggest decline in percentage terms since the last great fall on Feb 25, 2009. The market has dipped 7.5% since January. This appears quite bearable, although the market has dropped 16.2% from the index peak on May 24. On Tuesday, PKR 403bn was wiped off the shareholders' wealth.

Only a day earlier, the market seemed to have scored a relief rally with a gain of 1,052 points or 2.33%. The rally on Monday was led by mutual funds, which turned out to be massive sellers on Tuesday when they disposed of stocks worth \$11.6 million. Banks also jettisoned shares worth \$11.1m. Other local participants cherry-picked, including individuals who bought back stocks worth \$3.15m to cover their Monday's oversold positions of \$14.7m.

Foreign investors followed the old market maxim: "It's time to buy when there is blood on the streets." They bought stocks worth \$11.49m, much of it being cherry-picking of heavyweights that had attained attractive valuations following consistent bleeding since their peak on May 25.

The current situation is not related to market mechanism, correction or any fundamental reason. It is only a reaction to the ongoing political situation. Moreover, SECP had tightened regulations, improved reporting standards and closely monitored the brokers. Crackdowns had also struck fear in the hearts of the brokers who had put an end to the practice of 'in-house badla,' which led to large-scale defaults by the brokers in the previous market declines.

It is too early to say if Tuesday's steep fall would turn out to be a trend or the market would recover. It would be childish to form an opinion on a day's trend just as a 'single swallow does not a summer make'. It is pertinent to mention that valuations had turned attractive though.

As the JIT has recommended filing of reference against PM and his sons with NAB, the fate of Premier remains contingent upon the hearing of Panama Papers case in the Supreme Court from July 17. As a reaction to the news, the market has tumbled to reach near 44k, a level not seen before December 2016.

The problem is that there seems to be no viable solution to the political impasse and the risk of confrontation is not too far away. Bottom fishers may be on the lookout but we think this might be akin to catching a falling knife.

We expect the turbulence to continue for the near term until some clarity emerges how the government is expected to continue its remaining tenure. The Prime Minister has the option to resign or continue contesting the JIT findings in courts. However, considering the fact that this is the last year before new elections, the current year seems to be of utmost importance as government firmly rolls out its expenditure plans to attract public votes. The expenditure induces aggregate demand, driving the

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economic growth. Since Equities tend to perform in tandem with the economic growth, the continuation of current government is necessary to ensure stability in the financial markets.

Despite all the negative news, we believe the market has factored in most of the uncertainties in its valuations, which are now below their long term historical averages, indicating any positive development can trigger a sharp upward rally.

We feel long term investors should consider the opportunity to build into market weakness because of two reasons. One, most of the stocks are now priced very favorably with respect to dividend yield and earnings yield differential with interest rates, both of which are now their 12 year and 5 year best levels respectively. Secondly, attractiveness of local market versus MSCI Emerging Market Index has also increased because of more than 15% correction in the Index and thus increases likelihood of inflow from foreign investors that have been waiting for better opportunity due to concerns on local currency. Since 2008, the market has been twice down by more than 15% and it has resurrected sharply. We thus advise our long term investors to build into current weakness to realize healthy returns potential

In fact this is the time to put money.....!

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