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The Art of Investment

## 13% Return on Debt Prompts Pakistan Investors to Shun Equities

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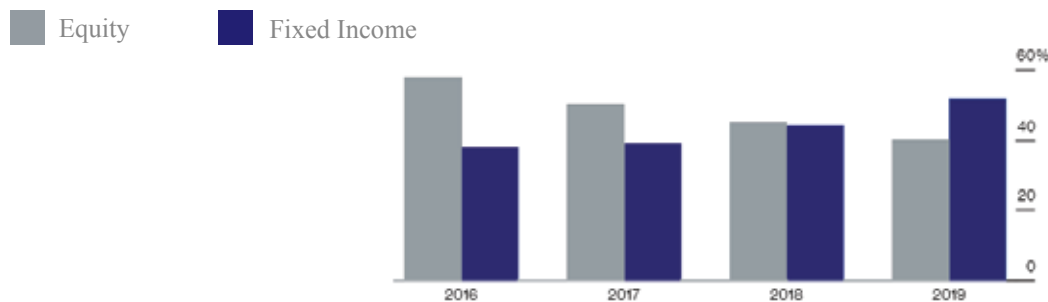
## Dear Valued Investors,

A recovery may elude the world’s worst-performing equity market as investors in Pakistan switch out of stocks and into fixed income offering double-digit returns.

The prospect of earning more than 13% from debt is proving too hard to pass up with the nation’s equity market refusing to show signs of life after being in the doldrums for more than two years. The central bank’s efforts to curb inflation and stabilize its currency by raising borrowing costs will keep fixed income attractive for longer, analysts say.

## Fund Movement

Pakistan's mutual funds increase allocation to fixed income.



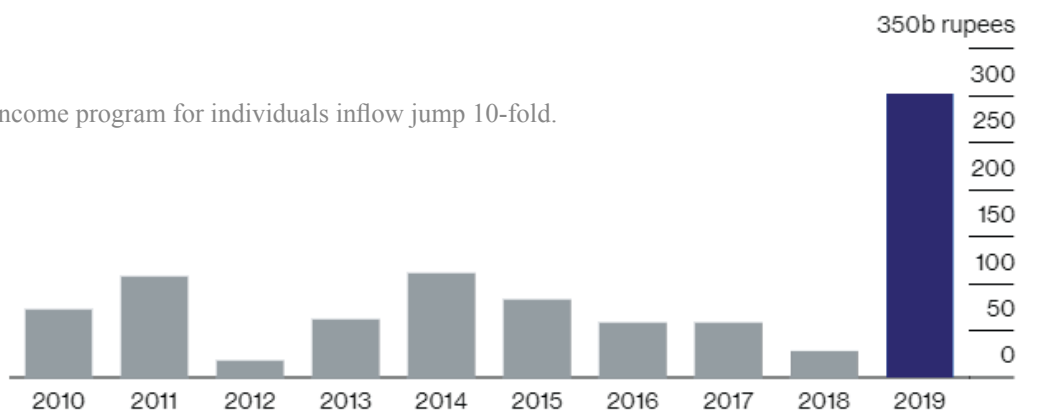
Source: Faysal Asset Management Limited  
\*Till June, 2019

“The outlook for growth and earnings is not there” for equities to perform, Ayub Khuhro, Chief Investment Officer at Faysal Asset Management Ltd., said in an interview. “The only area where you will make money is fixed income.”

The two asset classes have had a turn in fortune. The benchmark equity index has slumped 41% since rallying to a record in May 2017 as Pakistan’s return to emerging-market status sparked outflows instead of the expected inflows. Debt securities have become attractive after the central bank more than doubled its policy rate to 13.25% -- the highest in Asia -- over 10 meetings to help stabilize the economy.

## Savings

Pakistan's fixed income program for individuals inflow jump 10-fold.



Source: Optimus Capital Management, Central Directorate of National Savings  
\* January to April

Pakistan’s mutual fund industry held 52% of its 540 billion rupees of assets in debt, up from 31% two years ago. And inflows into the state-owned fixed income plan for individuals, whose returns are linked to the central bank’s policy rate, jumped 10-fold in the four months ended April from a year earlier, according to the most recent data.

Meanwhile, the average traded volume in members of the KSE-100 equity index dropped 62% in July from a year earlier.

“Why would I go into equity when I can invest at rates as high as 14.25%,” said Khuhro. “Equity should be looked at around December next year.”