

# Faysal Asset Management

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## **Downturn of Equity market caused by overplayed concerns of sustainable economic indicators**

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**By: Sania Awan (Acting Head of Research) [sania.awan@faysalfunds.com](mailto:sania.awan@faysalfunds.com)**

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## Dear Valued Investors,

A lot is being said and written these days about Pakistan's national debt and how it has reached a level where it may no longer be sustainable. Meaning in the coming months we either face a default or a re-entry into yet another IMF (International Monetary Fund) program, which by all accounts will not be easy this time around. As if the economic position is already not precarious enough, the focus or debate has shifted from the real merits or de-merits of prevailing economic policies to frivolous point scoring on whether or not national institutions should be allowed cross criticism.

We would like to highlight that the China-Pakistan Economic Corridor (CPEC) is still a work in progress, but it has already helped Pakistan's economy climb several notches on the global competitiveness scale, according to a World Economic Forum Report (WEFR), which placed Pakistan 115th out of the 137 countries ranked. One reason for this improvement is Pakistan's progress in the infrastructure "pillar", where the country is ranked 110th. Paradoxically, while Pakistan climbed in the infrastructure "pillar," its CPEC partner moved in the other direction. China's score for the infrastructure pillar decreased for the second year in a row, due in part to a decline in the quality of port infrastructure and the reliability of electricity supply.

That's certainly not a good sign for the future of the CPEC partnership. It raises doubts as to whether the project will ever be completed without leaving Pakistan deep in debt. Besides, CPEC faces other challenges — like India's claims over areas crossed by the enormous project, and from the persistence of corruption on both sides of the partnership, as was discussed in a previous piece.

It's these doubts, together with the persistence of corruption, that have tempered investor enthusiasm over the country's climb in the global competition scale. In fact, Pakistan's equities have been headed in the opposite direction to that of the country's competitiveness. PSX 100 Index lost 15% CYTD; 13% FYTD as investors have mostly stayed on the sidelines amidst their shattered confidence that has failed to find any support with politics and economy continuing to attract attention for all the wrong reasons.

Notably, Bloomberg reports PSX-100 index is currently trading at cheapest PER of 7.56x (2018) compared to Asia Pac regional average of 14.1x and while offering DY of ~6.2% versus ~2.5% offered by the region. These valuations re-attracted foreign investors and foreign funds accumulated stock worth USD20.56mn for the month of Oct'17 and continue to do so sensibly by cherry picking undervalued stocks as part of long term capital appreciation strategy. Having said that, market is expected to be driven by macro-economic fundamentals and developments on the political front, with likelihood of slight recovery in the coming days is opined. Upcoming quarterly earnings announcements are expected to bring some respite, however upcoming elections-driven politics will continue to dictate investors' sentiments.

We have been adjusting pertinent portfolio allocations in our equity based funds (FIAAF, FBGF, & FAAF) accordingly. Despite the persistent volatility, we have outperformed equity peers since CY17 (FIAAF & FBGF is till date CY17 best performing funds as compared to industry equity peers). Fund Management has applied caution with sufficient liquidity coupled with bulk of the exposure limited to sound dividend paying stocks. Moreover, our debt funds (FSGF, FFSOF, FMSTF, FIGF, FISGF, & FMFMF) are consistently amongst top 5 in category peers and offering competitively higher stable 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.

U 021 111.329.725 (ext. 199)  
F 021 32277284, 32277301

[www.faysalfunds.com](http://www.faysalfunds.com)

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