

Faysal Asset Management

PSX's recent corrective trend merits making strategic & tactical investment decisions

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Dear investors,

Judgment has now been reserved in the Panama case. Pakistan's Benchmark equity index PSX-100 (index) has slid 7% since the Supreme Court order on April 20, 2017. It has also seen a recovery of sorts of 2.5% in five trading sessions, ever since the JIT report was submitted to the apex court. Now that the proceedings are over and the final verdict could be announced any day, all eyes are on where the PSX 100 index goes from here.

From the start of the year till April 20, 2017, the intraday movement of benchmark PSX-100 averaged 500 points or roughly 1%. Ever since, it has almost doubled to 960 points or 2%. Market players have put it down to the lingering of the Panama case, as the market was struggling to find any sense of direction. How low could it go is anyone's guess but market pundits anticipate the bottom is not too far off. Reasons are plenty, as the valuations now trade at a multiple of 8.5 times, which is pretty attractive even by Pakistan standards. Granted that the multiples in the past have gone down to as low as 7.5 times, but those were times of high interest rates.

Now that the verdict will come sooner than later, the market should be ready to take off again, if the market's collective sense is anything to go by. Most market players had opined that once the case is over, no matter what the decision is, it should end the anxiety, and the market should head north, preferably with much higher volumes.

The nervousness could be gauged more from the visible dip in trading activity, than the index points. The average daily volume at PSX 100 index has decreased by 33% since the submission of JIT report on April 10, 2017, compared to average volume since the April 20 judgment. The average 100 index volume has shown symmetry to the 10 day period leading to the April 20 verdict, where it had averaged 65 million shares traded per day. Volume in the last seven trading sessions has also averaged 65 million shares.

The market pulse suggests that in either definitive case, of the PM being cleared or being ousted, the market should gain momentum. Should the case linger on, which remains another likely scenario; we expect the market to remain range bound. So, if the market pulse is anything to go by, it is not in the love of the PM, that the market tanked, it is the uncertainty that played its part. Once that goes away, we expect the market to bounce back.

“For the market, uncertainty is worse than bad news”

To the predicament of global capital markets, open eyes and ears do not thrive unless they are complemented by open minds. The knack of jumping to conclusions often hurts where it matters the most. Political noise, be that domestic or international, seems likely to stay for the next whole twelve months. So you've to bear with that. And that could offer good trading opportunities though...!

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