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Wealth Management Pakistan
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Pakistan Market Outlook

Policy is playing a key role

Pakistan is likely to maintain robust growth trajectory. The Government has pledged to stabilise the macro environment and push for GDP growth. The current vaccine drive that targets 100mn of population to be vaccinated by the end of 2021 will likely curb the risks of Covid'19 on the economy and help to sail through the economic head winds generated by the pandemic.

SBP increased policy rate by 25bps to 7.25% observing that economic recovery has been robust. The market narrative is shifting towards questions about rising inflation, current account deficit, fiscal debt, and the pace of increase in interest rates. We believe the economic environment is too fragile hence the tapering of stimulus will be gradual.

We see further room in equities as valuations remain attractive, market continues to draw optimism on strong corporate earnings and macroeconomic indicators. We remain cautiously overweight on equities and expect multi asset strategies to perform better. Deteriorating Covid'19 situation and further lockdowns are the key risks to the view.

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Investment strategy

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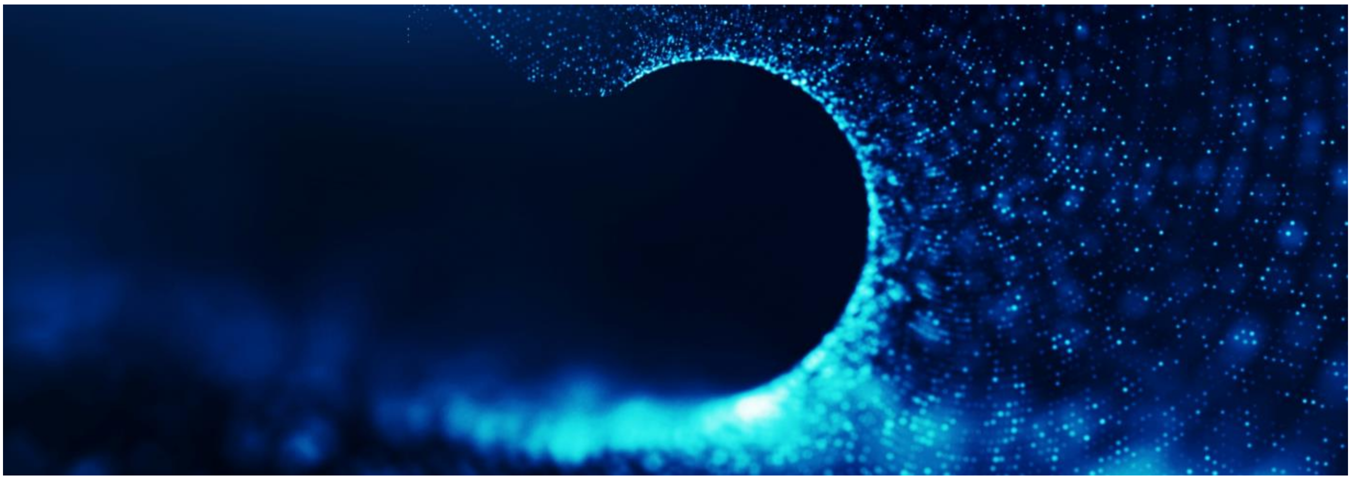


Implications for investors

In the near term SBP's accommodative monetary policy is likely to support the pace of GDP growth. We continue our liking for shorter tenor bonds.

Strong domestic demand will positively continue to drive the business sentiment.

PK Equities are trading at attractive valuations, long term growth prospects look promising.

PKR likely to remain under pressure.

Policy is playing a key role

- Pakistan is witnessing a speedy economic recovery, on the back of govt's initiatives to tackle the pandemic, followed by strong macroeconomic indicators, and accelerating Covid'19 vaccinations.
- In light of a sensitive economic environment and an uncertain future, State Bank continues to adopt accommodative monetary policy to support growth and economic activity in the country. However significant Increase in global commodity prices and domestic inflation can test the central banks tolerance limit of gradual increase in interest rates.
- Equity market has been relatively stable this year and we believe valuations are still attractive. From an asset class perspective, we like equities based on earnings growth, strong consumer demand and govt's continued support towards the private sector.

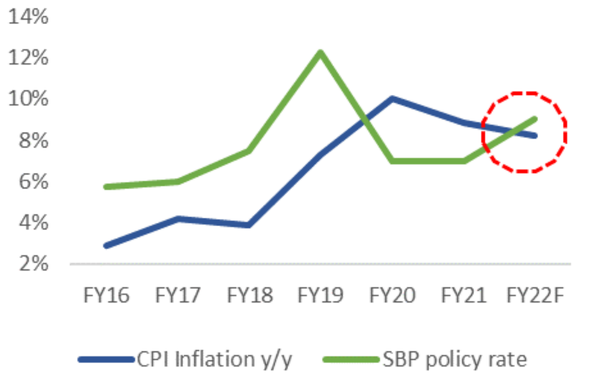
Pakistan Macro

Pakistan's economy so far has sailed through the pandemic storm better than the regional peers. GDP growth rate for FY21 has been projected around 3.9%, which is well above the estimated number provided at the beginning of the fiscal year and way above GDP contraction of (0.4%) in FY20. Economic growth has been on the rise mainly due to governments initiatives (softening of policies, providing subsidies) to boost economic activity backed by strong domestic consumption, uptick in private sector credit growth and resilient large-scale manufacturing. Followed by resumption of the IMF programme which will likely continue to support country's growth with focus on reforms and pushing for fiscal discipline.

In summary, while Pakistan's economic outlook improved in FY21, more is due in the coming months as Covid'19 vaccinations accelerate resulting in opening of the global and domestic economy. However, slowdown in the vaccination drive, deteriorating Covid'19 situation, governments early withdrawal from the economic support package and delay in IMF programme are key risks to the economy.

Fig. 1 **SBP raised the policy rate by 25bps to 7.25%, stance remains pro-growth**

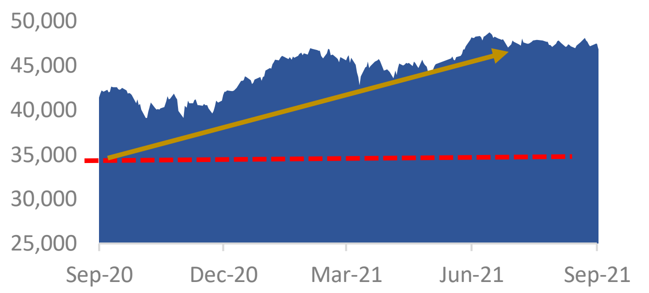
Pakistan CPI y/y and SBP discount rate (FY average)



Source: Bloomberg, Standard Chartered

Fig. 2 **KSE100 Index showing signs of stabilization**

KSE100 Index



Source: Bloomberg, Standard Chartered

Bonds at a glance- outlook for inflation?

State Bank of Pakistan's (SBP) mild monetary stance has kept the yields in check, but somewhat attractive offering a significant risk-free return (1yr bond is offering a yield of 8%) in this highly uncertain time. The unique backdrop stemming from the COVID-19 pandemic has intensified the debate around inflation and rise in the pace of interest rates which is notoriously difficult to predict.

However, we expect the inflation to remain within SBP's band of 7% - 9%. Moderate levels of inflation will continue to support Central banks view of accommodative monetary policy which will likely act as an anchor for sustainable economic growth.

So far this year the yields have remained capped but in our assessment bulk of the increase in yields is ahead of us. Constructive medium-term economic fundamentals and rise in inflation (bolstered by spiking global commodity prices, local utility tariffs) may push the Central Bank for more rate hikes which will likely drive the yields higher, hence we continue to prefer shorter tenor bonds. Longer tenor bonds remain our least preferred asset class.

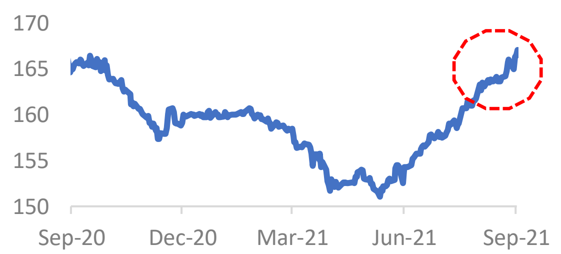
Equity at a glance- can equity market continue the bull run?

The local bourse lacs triggers for a significant upside in the near term, however it has been benefiting from the policy support by the Central Bank. A sustained improvement in corporate earnings, strong domestic demand and continued stimulus from the authorities may help to lift the market sentiment in the future.

From the valuation perspective Pakistan equity market trades at a discounted forward PE multiple compared to its historical PE and a positive earning yield differential compared to a 5yr PIB. Key risks include deteriorating Covid'19 cases, widening current account deficit and derailing from the IMF programme. Hence, we remain cautiously bullish on equities as cyclical recovery is expected to gather pace which can likely push the equity market higher.

Fig. 3 **PKR showed limited strength, downtrend to likely resume**

USD/PKR spot



Source: Bloomberg, Standard Chartered

PKR slips, is the Green back edging higher?

Pakistan's external position is at its strongest in many years, thanks to our allies, IMF and the Pakistani diaspora who have continued to send robust remittances.

Therefore, we are mildly bullish on USD compared to the local rupee because imports are expected to rise, driven by strong domestic demand, import of Covid'19 vaccines and capital goods which will likely widen the current account deficit. Similarly rising oil prices will also weigh on the import bill. On the other hand, exports may continue to increase but might not outpace imports.

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