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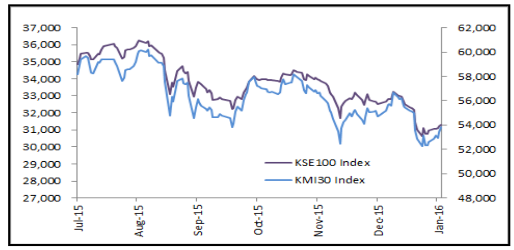
FROM THE CIO's DESK:

Market on the verge of gaining momentum Amid Foreign Sell off!

Melting Oil: Pakistan's Economy Among the biggest Beneficiaries!

Dear Investor,

CY'16 commenced with another round of volatility taking its toll on the regional as well as international markets mainly due to concerns regarding slowdown in the growth of Chinese economy clouding the global economic landscape. This coupled with declining commodities has made the international investors jittery in turn triggering a sell-off across almost all the markets around the globe, the effect of which is evident in the table below. The same has affected the local stock market whereby the KMI-30 and the KSE-100 closed 3.18% and 4.62% down respectively.



Market	Index	31-Dec-15	29-Jan-16	MTD
China	SSEC	3,539	2,738	-22.65%
Egypt	EGX-30	7,006	5,993	-14.46%
Saudi Arabia	TASI	6,912	5,997	-13.24%
Hong Kong	HIS	21,914	19,683	-10.18%
Kuwait	KSE	5,615	5,115	-8.92%
Germany	DAX	10,743	9,798	-8.80%
Srilanka	ASPI	6,895	6,340	-8.04%
Japan	N225	19,034	17,518	-7.96%
USA	Nasdaq	5,007	4,614	-7.86%
Brazil	Bovespa	43,350	40,406	-6.79%
USA	DJI	17,425	16,466	-5.50%
USA	S&P 500	2,044	1,940	-5.07%
Dubai	DFM	3,151	2,998	-4.86%
India	BSE 30	26,118	24,871	-4.77%
France	CAC 40	4,637	4,417	-4.75%
Pakistan	KSE 100	32,816	31,299	-4.62%
Venezula	IBVC	14,588	14,100	-3.34%
Pakistan	KMI 30	55,604	53,835	-3.18%
UK	FTSE	6,242	6,084	-2.54%
Russia	RTSI	757	745	-1.49%

It is pertinent to note however that Pakistan's stock market has once again remained among the lowest affected markets which also reflects on the continuously improving macro-economic fundamentals of the economy which are basically forming the supporting base amid such a volatile economic scenario around the world.

It is also pertinent to note here that another factor pressuring the stock market is the continuous foreign selling from the international investors; January 2016 saw a net sell of around USD 49 million taking the FYTD foreign net sell figure to USD 290.5 million despite which the stock market has sustained above the psychological barrier of 31,000pts. This shows the strength still inherent in this market in the absence of which such a considerable net sell could not have been absorbed with the stock market maintaining such a reasonable level.

Declining commodities, especially oil had been a major reason for some major declines in the stock market last year; this was mainly due to the high weightage of oil & gas exploration sector in the index but it is interesting to note that this weightage now stands significantly reduced to 9.4% as of Jan'16 in comparison to 15.6% in Dec'14, in turn making the market less prone to negative effects of oil price movement going forward.

Interest rate Unchanged

Amid mixed market expectations, the SBP kept the key rate unchanged at 6.50% and the policy rate at 6% in the bimonthly MPS announced during January 2016. In-turn, the secondary market yields and interest rates are expected to adjust upwards since the same had been dragged down by expectations of a rate cut before the MPS.

The Islamic end of the money market is also facing a much better liquidity scenario since the SBP has announced two ijarah auctions, one to be held in February while the next will be carried out in April 2016. These auctions are expected to slightly improve the profit rates in the Shariah compliant fixed income market.

Outlook

After more than five years of subdued investment activity on industrial side, the cycle seems to be picking up with the initiation of large scale energy and infrastructure projects. With FDI up 2.2% YoY, going forward, Pakistan's macro-economic fundamentals are expected to continue improving on the back of development under the China Pakistan Economic Corridor (CPEC), better law and order situation, improved governance mainly due to the reforms implemented under the IMF program and oil price decline impacting the country's current account positively. The forex reserves are also stable while inflation is expected to stay low thereby allowing the SBP to maintain low interest rates in order to further stimulate the economic activity.

With a strong corporate result season anticipated ahead, the market is expected to gain momentum once again post the regulatory concerns between the SECP and the brokers are sorted out and foreign selling withers out. Therefore, in the current low interest rate environment, equities still appear to be a good alternative for higher returns.

Overall, our stance remains positive on Pakistan's stock market; some volatility may persist in the near term but equities are expected to outperform other investment avenues over medium to long term. Investors with relevant risk profiles and investment horizons are advised to go through our Fund Manager Report hereunder for a detailed performance review of our mutual funds.

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