



Stock Market Review and Outlook

Dear Investor,

After experiencing a volatile 2017 in which the Stock market registered a negative return of 15%, the market participants finally appear to be gaining back their lost confidence as 2018 has witnessed a much better performance and resilience of the market so far. This is supported by the recent recovery witnessed in the KSE-100 index which had witnessed a low of 37,919 pts on December 19, 2017; since then, it has regained around 15% after rallying more than 6,000 pts to cross the level of 44,000 pts.

Foreigners' outflow on account of selling by Frontier Market funds when Pakistan entered the MSCI Emerging Market category and political as well as macroeconomic concerns were the chief determinants which pulled the local bourse southwards last year. However, a number of key positive developments have taken place lately that have improved the market outlook and that will set the future course of the stock market going into 2018.

Successful passage of the delimitation bill in Senate was a major trigger, which has potentially paved the way for timely General elections. This has been reinforced further by the successful conclusion of Senate elections, clearing the uncertainty pertaining to General Elections. Furthermore, the impending announcement of tax amnesty scheme, which is expected to widen the tax net and repatriation of foreign assets held by Pakistanis, could prove to be another respite which should also improve the confidence of investors in the market.

The much awaited devaluation of Pak Rupee has also finally materialized, which is expected to draw interest of foreign investors back towards Pakistan's Stock Market. It is pertinent to note here that after being net sellers to the tune of around \$500 m during 2017, foreigners commenced the new calendar year with a net buy of about \$85 m during the month of January 2018. This is a positive indication that the large scale net selling by foreigners has subsided and we can expect net buying during this year given the attractive valuations. The index is trading at a forward P/E of around 8.5x, compared to Asia Pacific regional average of 14.4x, a discount of around 40%.

Ongoing energy and infrastructure development projects worth over \$60 bn under the umbrella of CPEC are also well on track, successful materialization and implementation of which will stimulate economic activity in the country. This, coupled with improved security situation, strong GDP growth, robust corporate profitability and expected announcement of an amnesty scheme shall bode well for our stock market.

The road to General elections might present some volatility given the political scenario and the ongoing cases in the Supreme Court. However, the aforementioned positive developments are poised to set the direction of the market. In light of the strong investment case for Pakistan due to its strong fundamentals, attractive valuation and lucrative dividend yields, we encourage our investors to remain invested in our funds with a long term view.

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