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Weekly Stock Market Commentary

August 9, 2019

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The week ending August 9th remained challenging for the equity investors as amid lukewarm trading activity, led by Oil & Gas Exploration and Banking sectors, the benchmark KSE-100 Index fell sharply by 2,237 points (7.1%) on a weekly basis. In our view, lacklustre performance of the market of late is mainly driven by the pervasive negativity among the jittery market participants rather than economic and market fundamentals. Investors opted to exit the market indiscriminately or preferred to stay on the side lines despite compelling valuations amid rising political tensions over Kashmir issue with India. Another headwind for equities is attractive double-digit returns on the fixed income avenues such as T-Bills, PIBs, Fixed Income Funds, and National Saving Schemes (NSS). Investors still seems grappling with the slowing economic growth coupled with the tightening policies with its implications for the corporate profitability.

Looking at the participant-wise activity during the week, Mutual Funds remained major sellers in the market, offloading equities worth USD 15 million. On the contrary, Individual Investors and continued to be the largest buyers in the market, accumulating fresh positions to the tune of USD 11 million. Similarly, Banks/DFIs bought shares worth USD 3 million and Foreign Investors trimmed net equity positions, amounting to USD 1 million.

What is next? Faced with the unsustainably large imbalances on the external account front, tightening policies pursued by the incumbent government have started showing results as we expect Current Account Deficit (CAD) to further shrink to USD 600 million for July 2019. Adviser to Prime Minister on Commerce Abdul Razak Dawood said on Wednesday that in July 2019, Pakistan's exports had increased by 14% while imports reduced by 18% as compared to the same month of last year. From the valuation perspective, after a hefty 44% decline in the benchmark KSE 100 Index from all-time high level of 52,878 points hit in May 2017 to 29,429 points, the market is trading at a forward Price-to-Earnings (P/E) multiple of 5.4 and offers around 7% dividend yield. Corporate earnings growth, the overarching determinant of the of the stock market performance remain resilient despite slowing economic growth, which are expected to grow at double-digit rate for 2020 and 2021 helped by the Index heavy Oil & Gas Exploration, Banking, Power, and Fertilizer sectors. Contrary to the foreign portfolio outflows during the last three years, we expect the continuation of foreign portfolio inflows this year.

In view of the foregoing, we advise investors to resist the temptation to exit the stock market at these levels and consider adding their positions gradually, keeping long-term investment objectives in mind.