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Weekly Stock Market Commentary

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Sajjad Anwar, CFA
Chief Investment Officer

The rally at the local bourse that started from the market low of 28,765 points hit on August 16, 2019 continued during the outgoing week as the benchmark KSE-100 Index increased handsomely by 1,601 points (4.7%) on week-on-week basis. We attribute these strong gains of the stock market to improving economic indicators and attractive valuations of the stock market. On the economic front, encouragingly, the Current Account Deficit (CAD) in 1QFY2020 has clocked-in at USD 1.55 billion versus USD 4.29 billion in 1QFY2019. The market also cheered government's decisions to defer axle load limit and relax conditions on retailers for a smoother transition to bring this sector into the tax net. Barring some reversal during the week, declining yields on the government securities have sent positive signal to the market. The most notable development of the week was increase in SBP's FX reserves by USD 443 million during the week ending November 1st 2019 to USD 8,358 million.

During the outgoing week, Banks/DFIs and Insurance Companies were the main sellers in the market, liquidating positions to the tune of USD 6 million and USD 5 million, respectively. On the contrary, Foreign Investors and Individuals were main buyers in the market, accumulating positions to the tune of USD 6 million and USD 4 million, respectively.

What lies ahead? We reiterate our positive view on the stock market. We believe that market would take cue from the move by the central bank in the upcoming Monetary Policy Review in November. Under the Extended Fund Facility, at the end of its mission the IMF's issued press release dated November 8, 2019 that mentions that "all performance criteria for end- September were met with comfortable margins and progress continues towards meeting all structural benchmarks". We see this endorsement positively as it would help access the global capital markets for floatation of Euro Bonds/sukuk to shore up the FX reserves.

From the valuation perspective, despite a strong 25% recovery from its recent low of 28,765 points on August 16, 2019, the market is trading at a cheap forward Price-to-Earnings (P/E) multiple of 6.3 (Earnings Yield of 15.9%) and is offering an attractive dividend yield of 7%. While slowing economic activity has hurt the profitability of the cyclical sectors, overall, the profitability of the corporate listed sector remains resilient. We expect corporate earnings to grow at double-digit rates for 2020 and 2021. Furthermore, odds are increasing for the continuation of net foreign buying in the market. Declining yields on the fixed income avenues have made a strong case for flow of funds to equities.

Taken it all together, we advise investors to consider adding positions in the stock market, keeping their long-term investment objectives in mind.