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Weekly Stock Market Commentary

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During the week ending November 15th 2019, the stock market continued positive momentum as the benchmark KSE-100 Index increased handsomely by 1,606 points (4.5%) on a week-on-week basis. In our view, these strong gains of the equities are attributable mainly to improving economic outlook and undemanding valuations of the stock market. The economic data releases, notably on the external account front has shown above expected improvement, allaying investors' concerns on the balance of payment position. Helped by 19% decline in imports and 3.8% increase in exports, the trade deficit for 4MFY2020 has contacted by about 34% to USD 7.8 billion versus USD 11.7 billion for the same period last year. In our opinion, the ongoing rally at the local bourse was sparked by a sharp decline in yields on the government securities as it was seen as a confirmation of beginning of monetary accommodation cycle sooner than the market expectation. Another notable development of the week was USD 345 million foreign portfolio inflows in the government securities in November 2019-to-date, taking the cumulative amount to USD 786 million that has lent much needed support to SBP's FX reserves.

During the outgoing week, Individuals and Foreign Investors remained major buyers in the market, accumulating fresh positions to the tune of USD 17 million and USD 4 million, respectively. Similarly, Mutual Funds also turned out main buyers, accumulating shares worth USD 8 million. On the other hand, Banks/DFIs and Insurance Companies remained the main sellers in the market, liquidating positions to the tune of USD 19 million and USD 9 million, respectively. Alongside, Brokers Proprietary Trading and Other Organizations sold shares amounting to USD 3 million and USD 2 million, respectively.

Looking ahead, we maintain our bullish call on the stock market. From the valuation stand point, despite a strong 31% rally 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 6.6 (Earnings Yield of 15.2%) and is offering an attractive dividend yield of 6%. On a relative basis, the Yield Spread between Earnings Yield of the stock market and yield on 10-year PIBs stands at 3.9% versus the long-term average of 0.9%, indicating a strong case for the P/E re-rating. While lacklustre 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. Declining yields on the fixed income avenues have made a strong case for flow of funds to equities. In addition to this, given extremely attractive relative valuations, improving external account position, and beginning of oversight of the IMF; the odds have increased for the continuation of net foreign buying in the market.

Bottom Line: The stock market holds potential to deliver robust returns in FY2020, and beyond. Therefore, we advise investors to consider adding positions in the stock market, keeping their long-term investment objectives in mind.