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Weekly Stock Market Commentary

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During the outgoing week, amid amplified volatility, the benchmark KSE-100 Index managed to provide a paltry gain of 342 points (0.9%) on a week-on-week basis. The market started off the week on a positive note as the KSE-100 Index rose by 980 points (2.6%) during the first two trading days however, panic gripped the market driven by rising noise in the domestic politics with a sharp decline of 1,463 points (3.8%) during the subsequent two trading days. Notwithstanding, the market bucked the downward trend and a strong rebound was witnessed at the local bourse with a hefty gain of 824 points on the last trading day of the week. Among the most notable economic developments, foreign investment in the T-bills has gathered pace and has reached USD 1,072 million. With a USD 45 million increase on a week-on-week basis, the SBP's liquid Foreign Exchange reserves stood at USD 8,442 million as of November 15, 2019. The SBP announced Monetary Policy for the next two months wherein in line with the market expectation, the Policy Rate was left unchanged at 13.25% while reiterating the expectation that inflation is likely to come down to 6-7% in twenty-four months. After three and half years the monthly Current Account Balance has turned positive clocking in at USD 99 million in October 2019. On the flip side, Large Scale Manufacturing (LSM) has dropped 5.9% in 1st quarter of FY2020.

During the week ending November 22, 2019, Individuals and Foreign Investors remained major buyers in the market, accumulating fresh positions to the tune of USD 12 million and USD 8 million, respectively. On the contrary, Banks/DFIs and Insurance Companies remained the main sellers in the market, liquidating positions to the tune of USD 15 million and USD 3 million, respectively.

What is next? We reiterate our positive view on the market given: (i) attractive valuations; (ii) robust corporate earnings growth; (iii) improving economic indicators; (iv) abundant local liquidity; and (v) declining appeal of alternative fixed income and real estate avenues. From the valuation perspective, even after a hefty 32% upside from its recent low of 28,765 points on August 16, 2019, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 6.7 (Earnings Yield of 15%) and is offering an attractive dividend yield of about 6.2%. On a relative basis, the Yield Spread between Earnings Yield of the stock market and yield on 10-year PIBs stands at 3.7% versus the long-term average of 0.9%, indicating a strong case for the P/E re-rating. Helped by the Index heavy Oil & Gas Exploration, Banking, Fertilizer, and Power sectors; earnings of the corporate listed sector are expected to grow at double-digit rates for 2020 and 2021. The recent decline in yields on the fixed income avenues and drive towards the documentation of the property sector have made a strong case for flow of abundant local liquidity toward equities. Above all, given extremely attractive relative valuations, significant improvement in external account position, and the oversight of the IMF during Extended Fund Facility (EFF); the odds have increased for the foreign portfolio inflows.

Taken it all together, in our view, the stock market is well poised 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.