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Weekly Stock Market Commentary

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The market carried the positive momentum during the outgoing week, as the benchmark KSE-100 index surged by another 1,445 points (3.7%) on a week-on-week basis, during the week ending 6th December, 2019. It was the 6th consecutive week of positive return and on a cumulative basis; the market has risen by a whopping 41.6% since the recent bottom in mid-August.

The outgoing week was a mixed bag in terms of news. On the positive side, Moody's Investors Services upgraded Pakistan's economic outlook from negative to stable on the back of the country's reforms supported by an IMF programme, but kept its credit rating unchanged at B3. The change in outlook to stable is driven by Moody's expectations that the balance of payments dynamics would continue to improve, supported by policy adjustments and currency flexibility. The US-based rating agency has revised upwards the outlook after a gap of around 18 months. Country's foreign exchange reserves continued to show improvement, as reserves held by SBP increased by USD 431 million to USD 9.1 billion, which are at their eight month high. During the week, the Asian Development Bank (ADB) approved a loan of USD 1.3 billion while Pakistan paid back USD 1 billion on maturity of five-year international Sukuk. On the other hand, slightly higher inflation reading of 12.67% for November-19 and news of divestment of shares of OGDC and PPL somewhat soured the taste, but were brushed aside by the investors as sentiment remains elated due to steady improvement being witnessed on the macro-economic front.

During the outgoing week, Individuals, Mutual Funds and Foreigners remained major buyers in the market, accumulating fresh positions to the tune of USD 20 million, USD 7 million and USD 1 million, respectively. On the other hand, Banks/DFIs and Other Organisations were main sellers in the market, liquidating positions amounting to USD 22 million and USD 3 million, respectively.

Looking ahead, we believe that after this dream run in the past few months, the market may take a breather in the short term, which should act as entry points for investors. However, from medium term to long term perspective, we hold sanguine view on the stock market as current account deficit has been tamed, and interest rates are also expected to come down henceforth, as hinted by Mr. Hafeez Sheikh, succeeding the downward trajectory of inflation. From the valuation standpoint, despite a hefty 42% rise from its recent low of 28,765 points on August 16, 2019, the market is still trading at an inexpensive forward Price-to-Earnings (P/E) multiple of 7.1 (Earnings Yield of 14.1%) and is offering an attractive dividend yield of about 6%. Despite slowdown in the economic activity, in our view, corporate earnings are expected to grow at double-digit rates for 2020 and 2021; thanks to the robust profitability of the index heavy Oil & Gas Exploration, Banking, Fertilizer and Power sectors. The case for flow of funds into equities has strengthened amid decline in yields on the fixed income avenues and ongoing drive to document the economy including real-estate sector. Moreover, we expect increased foreign portfolio inflows given attractive relative valuations, significant improvement in the external account position, and the oversight of the IMF during the Extended Fund Facility (EFF) period.

We reiterate our view that the market is well poised to deliver robust returns in FY2020, and beyond given: (i) attractive valuations; (ii) healthy corporate earnings growth; (iii) improving economic indicators; (iv) abundant local liquidity; and (v) declining appeal of alternative fixed income and real estate avenues. Taken it all together, we advise investors to consider adding positions in the stock market, keeping their long-term investment objectives in mind.