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Weekly Stock Market Commentary

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After closing positive for seven consecutive weeks, heightened uncertainty surrounding the special court's verdict in a high treason case against ex-president Musharraf weighed on investors' sentiments amid fear of clash between state institutions that led to benchmark KSE 100 Index declining by a paltry 83 points (0.2%) on a week-on week basis. The market started off the week on a positive note with the Index hitting a high of 41,769 points on Tuesday, December 17th. However, the market lost 948 points (2.3%) on Thursday as possibility of a strong reaction from the establishment took hold following the release of detailed verdict of the case. That being said, swinging between gains and losses, the market closed the last trading day of the week with an increase of 178 points (0.4%) as investors' focus shifted from politics to the improving economic indicators and strong fundamentals of the stock market.

On the economic front, the IMF Executive Board completed the first review of Pakistan's Extended Fund Facility (EFF), where it mentioned that Pakistan's economic reform program is on track and decisive policy implementation is helping to preserve economic stability. In our view, this endorsement by the IMF would boost the confidence of foreign investors that would pave the way for fetching Foreign Direct Investment (FDI), facilitate access to the international capital markets, and accelerate flows from the multilateral agencies such as the Asian Development Bank, Islamic Development Bank, and World Bank. Helped by 11% growth in exports and 13% contraction in imports, the Current Account Deficit (CAD) for the month of November 2019 went down by 73% on a year-on-year basis to USD 319 million versus USD 1,166 million during the same period last year. Meanwhile, the SBP's FX reserves increased by USD 1.6 billion during the week ending December 13th to USD 10.9 billion.

Looking at the participants-wise activity during the outgoing week, Insurance Companies, Companies, and Foreign Investors stood as main buyers in the market, accumulating fresh position to the tune of USD 9 million, USD 5 million, and USD 3 million, respectively. On the contrary, Mutual Funds, Banks/DFIs, and Other Organizations were main sellers in the market, liquidating positions to the tune of USD 8 million, USD 5 million, and USD 4 million, respectively.

What lies ahead for the stock market? From the valuation standpoint, the market is trading at an undemanding Price-to-Earnings multiple of 7.1 times and offers an attractive dividend yield of about 6.5%. In our view, corporate earnings are expected to grow at 12% per annum for 2020 and 2021. Moreover, there is strong case for abundant local liquidity to enter the market as returns on the alternative investment avenues have become less lucrative. Furthermore, bucking the trend of the last three years, we see strong foreign portfolio inflows into the local bourse during 2020. Taking it all together, we reiterate our view that the market is well poised to deliver strong returns in FY2020, and beyond driven by: (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. With a strong case for equities, we advise investors to consider adding positions in the stock market, keeping their long-term investment objectives in mind.