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Weekly Stock Market Commentary

December 27, 2019

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During the holiday shortened outgoing week, after swinging between losses and gains, the KSE 100 Index increased by a meagre 16 points (0.04%) on a week-on-week basis. The market opened the week on a faltering note as the benchmark KSE 100 Index lost 825 points (2%) on Monday, 23rd December amid large selling by Banks/DFIs. It may me mentioned that the market declined by 0.2% during the previous week. We see the recent sideways market after robust run as a pause in the expected secular bull run at the local bourse.

Regarding the most notable recent developments during the week for the market, on the economic front, the SBP received USD 452 million as a second tranche of the USD 6 billion IMF loan after successful review 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. The decision by the OGRA to increase gas prices only after the approval of the federal government weighed in on the investors' sentiments as it would stoke inflation and hurt the corporate profitability. Provocative statement by Indian Army Chief and escalation along the Line of Control (LoC) also dented confidence of the market participants.

Looking at the participants-wise activity during the outgoing week, Insurance Companies and Mutual Funds emerged as main buyers in the market, accumulating fresh position to the tune of USD 11 million and USD 7 million, respectively. On the other hand, Banks/DFIs and Broker Proprietary Trading were main sellers in the market, liquidating positions to the tune of USD 12 million and USD 6 million, respectively. Alongside, Foreign Investors stood as sellers in the market, amounting to USD 3 million.

What is next? We maintain our sanguine view on the market. Based on the fundamentals, despite a hefty 42% rise from its lows of mid-August 2019, the market is trading at an undemanding Price-to-Earnings multiple of 7 times and offers an attractive dividend yield of about 6%. Corporate earnings, the key determinant of the performance of the stock market are expected to grow at 12% per annum for 2020 and 2021. Moreover, the market is well poised to attract the ample local liquidity sitting on the side lines awaiting further visibility on the economic recovery and the beginning of the monetary easing cycle. We see higher probability of foreign portfolio inflows into the local bourse during 2020 as the economic stabilization takes hold.

Bottom Line: In our view, the market holds potential to exhibit strong performance in CY2020, 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. We recommend investors consider consolidating positions in the stock market through our equity/balanced/asset allocation funds, keeping their long-term investment objectives in mind.