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Weekly Stock Market Commentary

November 29, 2019

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Amid upbeat investors' sentiments, the rally at the local bourse powered ahead during the outgoing week as the benchmark KSE-100 Index increased handsomely by 1,362 points (3.6%) on a week-on-week basis. Investors were unperturbed by uncertainty surrounding the Supreme Court's review of the notification of extension of Chief of Army Staff as momentum from positive macroeconomic indicators outweighed these concerns. Market sentiments remained upbeat driven by improving macro-economic indicators including surging interest in government securities as reflected by inflow of USD 713million (T-Bills & PIBs) in SCRA account for month of Nov-19; Current Account surplus of 99 million for the first time in almost 4 years; and increasing odds of monetary easing going forward.

During the outgoing week, Mutual Funds, Individuals and Companies were seen as major buyers in the market, accumulating fresh positions to the tune of USD 11 million, USD 7 million, and USD 3 million, respectively. On the other hand, Banks/DFIs and Foreign Investors were main sellers in the market, liquidating positions to the tune of USD 14 million and USD 8 million, respectively.

What lies ahead? In the near term, the market would take cue from the progress on the issuance of the Sukuks/Euro Bonds, in our view. From the valuation standpoint, despite a hefty 37% rise 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 6.9 (Earnings Yield of 14.5%) 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. Moreover, 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. Above all, the odds have increased for the 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.