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Weekly Stock Market Commentary

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After remaining sideways during the last couple of weeks, the market made a robust gain during the week ending January 3rd with the benchmark KSE 100 Index surging by 1,475 points (3.6%) on a week-on-week basis. The KSE 100 Index closed the week at 42,323 points after making a new high since Aug-18 of 42,481 points on Thursday, January 2nd.

We attribute these strong gains at the local bourse to the rare show of agreement between government and the opposition parties over the proposed amendments in the Pakistan Army Act to pave the way for extension of Chief of the Army Staff Gen Qamar Javed Bajwa. This is seen as a signal of cooling of domestic political temperature. In addition to this, SBP's FX reserves rose by USD 582 million during the week ending December 27th to USD 11,489 million, equivalent to import cover of 3 months. However, mounting tensions in the Middle East (ME) after killing of Iranian military general by the US forces in Baghdad soured investors' sentiment as the market shed 157 points on the last trading day of the week.

Looking at the participants-wise activity during the outgoing week, Mutual Funds and Banks / DFIs stood as main buyers in the market, accumulating fresh positions to the tune of USD 9 million and USD 4 million, respectively. On the contrary, Foreign Investors, Other Organizations, and Companies were noted as major sellers in the market to the tune of USD 7 million, USD 3 million, and USD 2 million, respectively.

What lies ahead for the market in CY2020? In our view, the market is well poised to deliver strong returns in CY2020. Despite a robust rally of 47% from its lows in mid-August 2019, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of about 7.3, as per our estimates. Corporate earnings, the overarching determinant of the performance of the stock market are expected to grow at double digit rates for 2020 and 2021. After anaemic economic activity in FY2020, we expect economic growth to pick-up in FY2021 driven by recovery in industrial and agriculture sectors. There is ample local liquidity that is likely to enter the market amid declining appeal of alternative fixed income and real estate avenues. With economy well on the path of stabilization, the odds of substantial foreign portfolio inflows have increased during 2020.

In sum, with strong case for equities, we advise investors to consider consolidating their position in equities through our stock/balance/asset allocation funds, keeping their long-term investment objectives in mind.