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Weekly Stock Market Commentary

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During the outgoing week, amid amplified volatility, the benchmark KSE 100 Index rose by 884 points (2.1%) on a week-on-week basis. The market opened the week on a faltering note, slumping by 1,027 points (2.4%) on Monday as mounting tensions in the Middle East (ME) after killing of Iranian military general by the US forces in Baghdad and the former vowing to take revenge raised concerns of war in the Persian Gulf. However, statement by President Trump backing away from further military action against Iran, calling for renewed diplomacy was cheered by the market with eyepopping gains of 1,849 points (4.5%) during the last two trading days of the week. The KSE 100 Index closed the week at a new high of 43,207 points since it hit a low of 28,765 points in mid-Aug-19.

Regarding other notable developments for the market during the week, in the PIB auction held on January 8th, cut-off yields on 10-year PIBs declined by 10 basis points (bps) to 10.9%. Since July 2019 till January 9th, foreign investment in the government securities has reached USD 1,662 million. SBP's FX reserves stood at USD 11,504 million as on January 3rd, equivalent to import cover of 3 months. Meanwhile, the Army Act Amendment Bill 2020 was approved by both houses with a majority that would extend the retirement age of services chiefs (Army, Navy, Air Force). As we see it, this has put to rest noise in the domestic politics.

Looking at the participants-wise activity during the outgoing week, Foreign Investors were the largest buyers in the market, accumulating fresh positions to the tune of USD 7 million. Alongside, Broker Proprietary Trading, Companies, and Insurance Companies each added fresh positions to the tune of USD 2 million. On the other hand, Mutual Funds, Individuals, and Other Organizations stood as major sellers in the market to the tune of USD 6 million, USD 4 million, and USD 3 million, respectively.

What the future holds for the market? We maintain our positive view on the stock market for CY20 and beyond given: (i) despite a staggering 50% upside from its lows in mid-August 2019, valuations of the market are still attractive as captured in the undemanding forward Price-to-Earnings (P/E) multiple of about 7.4, as per our estimates; (ii) notwithstanding slowdown in the economic activity, expectation of double digit corporate earnings growth in 2020 and 2021; (iii) strong case for local liquidity to enter the market amid declining appeal of alternative fixed income and real estate avenues; (iv) with economy well on the path of stabilization, increasing odds of substantial foreign portfolio inflows during 2020.

Bottom Line: 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.