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Weekly Stock Market Commentary

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During the outgoing week, the market was seen trading in a narrow range as the benchmark KSE 100 Index shed 39 points (-0.1%) on a week-on-week basis. It merits highlighting that during January 2020 to-date, the market has provided a hefty return of 6%. Investors seemed weighting improving external account position, declining bond yields, and undemanding valuations; and still-subdued economic activity.

Regarding notable developments for the market during the week, helped by around 5% increase in exports and 20% contraction in imports, the Current Account Deficit (CAD) for December 2019 clocked-in at USD 367 million versus USD 1,881 million during the corresponding period last year. Foreign investment in government securities gathered pace with a hefty USD 797 million inflows during January to-date, taking the aggregate net inflows during FY20TD to USD 2,257 million. This inflow has lent much needed support to the SBP's FX reserves position that stood at USD 11,586 million as on January 10th, equivalent to 3 months of import cover. However, tightening policies continued to weigh on the economic activity as the latest data released by the Pakistan Bureau of Statistics (PBS) suggests that Large Scale Manufacturing (LSM) has declined by 4.6% on a year-on-year basis in November 2019.

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 3 million. Alongside, Banks added fresh positions to the tune of USD 2 million. On the other hand, Insurance Companies were the largest sellers in the market, liquidating shares worth USD 3 million. Likewise, Individuals, and Other Organizations each sold shares to the tune of USD 2 million.

Looking ahead, while market may exhibit bouts of volatility, we maintain our bullish call on the stock market for CY20. Our positive view on the market is underpinned by the following factors: (i) despite a robust 50% upside from its low in mid-August 2019, valuations of the market are still undemanding as reflected in the forward Price-to-Earnings (P/E) multiple of about 7.4, in our view; (ii) expectation of double digit corporate earnings growth in 2020 and 2021; (iii) abundant local liquidity is likely to enter the market amid declining appeal of alternative fixed income and real estate avenues; (iv) increasing odds of substantial foreign portfolio inflows during 2020 as economic stabilization takes root.

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