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Weekly Stock Market Commentary

February 21, 2020

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During the outgoing week, amid thin trading volumes, the market was seen trading in a narrow range with the benchmark KSE-100 Index adding a mere 6 points on a week-on-week basis. Investors seemed grappling with the conflicting media reports related to the fresh taxation measures and hike in utility prices on the demand of the IMF technical team under the Extended Fund Facility (EFF). However, investors took positively the news flow surrounding the agreement for a peace deal between Afghan Taliban and the United States of America as it would strengthen Pak-US relations & bring peace and prosperity in the region. Investors opted cautious approach ahead of a five-day long meeting of the FATF to review Pakistan's progress towards the implementation of its 27-point action plan that was concluded on Friday by retaining Pakistan on the 'grey list' till June, giving it another four months to fully comply with the goals.

Regarding the notable recent economic developments for the market, reversing the trend of the last many months, the Large-Scale Manufacturing (LSM) output increased by around 9.7% in December on a year-on-year basis. On the fiscal account front, despite a massive 46% YoY increase in mark-up payments, amid a hefty 39% growth in revenue, the budget deficit for 1HFY2020 clocked-in at 2.3% versus 2.7% for the same period last year. The Current Account Deficit (CAD) has improved significantly which clocked-in at USD 2.7 billion in 7MFY2020 as compared to USD 9.5 billion for the same period last year. In addition to this, boost to the SBP's FX reserves holding was provided by a hefty USD 3.2 billion foreign inflows in the government securities during FY20-to-date.

Looking at the participants-wise activity during the outgoing week, Insurance Companies and Other Organizations remained major buyers in the market, accumulating fresh positions to the tune of USD 8 million and USD 4 million, respectively. Likewise, Companies bought shares worth USD 2 million. On the other hand, Foreign Investors remained main sellers in the market, liquidating shares worth USD 9 million. Similarly, Individuals and Mutual Funds sold shares amounting to USD 3 million and USD 2 million, respectively.

What is next? We maintain our sanguine market outlook for 2020, and beyond. Our constructive view on the market is underpinned by the improving economic outlook, attractive valuations, and strong market fundamentals. Despite a robust 40% upside from its trough in August 2019, the market is trading an undemanding forward Price-to-Earnings (P/E) multiple of 6.8 and offers around 6% dividend yield. While stabilization policies have led to slowdown in the economic activity, helped by the Index heavy Oil & Gas, Banking, Power, and Fertilizer sectors, corporate earnings are still expected to grow at double-digit rate for 2020 and 2021. Despite some back-up in sovereign yields, soon to begin monetary easing would restore the appeal of the equities vis-à-vis fixed income avenues. We believe that as the ongoing economic stabilization under the IMF Extended Fund Facility (EFF) takes root, the market would restore its lustre for the foreign investors.

To conclude: Given a strong case for equities, we advise investors to consolidate their position in the stock market, keeping their long-term investment objectives in mind.