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Weekly Stock Market Commentary

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The week ending January 24th remained lacklustre for the market, as the benchmark KSE 100 Index declined by 535 points (1.2%) on a week-on-week basis. However, the market is still up by a handsome 1,898 points (4.7%) during January 2020 to-date.

Investors seemed worried about the proposal by the Petroleum Ministry, which sought considerable increase in industrial gas tariffs, with negative implications for the profitability of multiple sectors. Furthermore, the news-flow surrounding the proposed divestment of up to seven percent shares of OGDCL whereby the Privatization Commission appointed the Financial Advisor (FA) for the transaction also dampened the investors' sentiment. The decline in international crude oil prices - though it bodes well for the country's economy - also weighed on select E&P sector stocks which dragged the Index down. Investors also remained wary of the steep increase in prices of select food commodities with negative impact on the inflation reading.

Looking at the participants-wise activity during the outgoing week, Companies, Foreigners, and Banks/DFIs were buyers in the market, with net inflows amounting to USD 9 million, USD 5 million and USD 3 million, respectively. On the other hand, Individuals were the largest seller in the market, liquidating shares worth USD 19 million, along with Broker Prop Trading that sold shares to the tune of USD 3 million.

Since hitting the bottom in August 2019, the market has staged a remarkable recovery of 48%, and we reckon that conditions remain ripe for further upside. The optimism surrounding the FATF, whereby Pakistan seems to have made great strides towards compliance remains a key trigger. Continuation of foreign currency inflows mainly in government securities that have gained traction in last few months coupled with likely USD 2-3 billion inflows in international Euro Bonds / Sukuks, will augment FX reserve position. Our optimism on the market is also underpinned by the following factors: (i) valuations of the market are still undemanding as reflected in the forward Price-to-Earnings (P/E) multiple of about 7.3, 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.

With strong case for equities, 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.