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Weekly Stock Market Commentary

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Continuing the trend from the previous week, the stock market remained under pressure during the current week, as the benchmark KSE-100 Index lost 1,487 points (3.6%) on a week-on-week basis. During the outgoing week, the defensive stocks again remained under pressure as Index heavy Oil & Gas Exploration and Banking sectors contributed the most in the index decline.

Though the market had a blazing start of the calendar year 2020, the past few weeks remained lacklustre for the stock market and the benchmark index is down by a cumulative 7% from its recent peak on 13th January. A slew of factors have contributed to the index decline. The inflation reading of 14.6% for Jan-20, announced over the last weekend, overshot the consensus estimates and set the negative tone for the market from the onset of the week. As was feared, steep surge in food commodity prices pushed up the inflation, and it left investors re-assessing their expectations of early monetary easing cycle. Moreover, the news-flow surrounding the 2nd IMF review also unnerved investors as the Fund seemed unhappy with revenue collection and performance of the power sector, as many commitments remained unmet by the government. Proposal of mini budgets also did not go well with the market either and any stopgap arrangements to bridge the revenue shortfall will likely keep CPI inflated in the near future as cash-strapped government would be compelled to take inflationary measures to overcome fiscal challenges. Moreover, the news of indefinite leave of FBR Chairman, who spearheaded the revenue collection reforms, amid rising noise in the domestic politics has raised questions on the continuity of ongoing structural reforms on the economic front.

In terms of market participation during the outgoing week, Foreign Investors and Mutual Funds were major sellers in the market, offloading positions to the tune of USD 14 million and USD 7 million, respectively. On the other hand, Insurance Companies and Individuals were the largest buyers in the market, accumulating shares worth USD 14 million and USD 8 million, respectively.

What is next? In the short term, the market may depict bouts of volatility sporadically taking cue from the ongoing IMF discussions and the upcoming FATF review. However, from medium to long term perspective, we reiterate our sanguine outlook on the market. From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.7 and offers about 6% dividend yield. Though the GDP growth rate will remain constrained, corporate earnings are expected to grow at double-digit rate for 2020 and 2021, which will drive price performance. Local liquidity, which is sitting on the side line, remains aplenty and is awaiting further signs of the economic recovery and macroeconomic stability before entering the market. Discipline has been achieved on the external front, as the Current Account Deficit (CAD) has been brought down to USD 2.2 billion in 1HFY20 from USD 8.6 billion in the same period last year. Moreover, amid unprecedented interest of the foreign investors in the government securities, FX reserves of the SBP continue to increase and have reached USD 12.2 billion as of January 31st – the highest level in last 2 years. We also expect net foreign buying in the market during 2020 as the ongoing economic stabilization under the IMF Extended Fund Facility (EFF) takes root.

Thus, we advise investors to consolidate their position in stock market, keeping their long term investment objectives in mind, unfazed by the short term volatility.