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Weekly Stock Market Commentary

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During the outgoing week, amplified volatility was witnessed at the local bourse with the benchmark KSE 100 Index managing to eke out a gain of 236 points (0.6%) on a week-on-week basis. The market started off the week on a strong note with a hefty gain of 1,313 points (3.5%) on Monday, March 2nd, as better than expected inflation reading for February 2020 revived the hope for a policy rate cut earlier than previously anticipated by the market participants. However, the market failed to maintain positive momentum amid sell-off in global equities and commodities triggered by risks to the global economy caused by the spread of coronavirus. Led by the Index heavy Oil & Gas and Banking sectors, the market closed the week with an eyepopping loss of 1,162 points (3%) on Friday, March 6th.

Looking at the participants-wise activity during the week, Foreign Investors remained main sellers in the market, liquidating shares worth USD 17 million. Similarly, Individual Investors and Broker Proprietary Trading were also net sellers, off-loading shares worth USD 11 million and USD 4 million, respectively. On the contrary, Mutual Funds emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 15 million. Likewise, Companies and Insurance Companies emerged as other major buyers, adding positions worth USD 11 million and USD 4 million, respectively.

Looking ahead, we reiterate our positive outlook on the market for 2020, and beyond. We acknowledge that developments on the global economic front and domestic policy front may cause large swings in the market sporadically. However, the domestic investment landscape is shaping up to be supportive for equities. From the valuation perspective, after a 12% correction from its recent high of 43,219 points hit on January 13th, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6. The Current Account Deficit (CAD) for 7-months of FY2020 has clocked-in at USD 2.65 billion versus USD 9.48 billion for the same period last year. Better than expected inflation reading for February and sharply falling global oil prices have made a strong case for Policy Rate cut in the upcoming Monetary Policy Review scheduled for next week. We do not see any significant downside in terms of our corporate earnings estimates, which are expected to grow at double digit rates for 2020 and 2021.

With a strong case for equities, we advise investors to ignore short-term volatility and build position in the market via our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.