

Weekly Stock Market Commentary

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During the outgoing week, the stock market staged a sharp rebound, reversing the bearish trend of the last couple of months, with the benchmark KSE-100 Index surging by 12.5% on a weekly basis to settle at 31,622 points.

The sentiments turned positive as the ECC accorded its approval to the fiscal stimulus package of PKR 1.2 trillion to provide relief to common man, businesses, and industries. SBP also stepped up its effort to shield both banks / corporates and consumers from the fallout of the pandemic. And as the investors looked beyond the current situation, extremely attractive valuations prompted strong value buying across the board. The steep surge in crude oil prices as President Trump hoped for a truce between KSA and Russia, and the promulgation of construction package by the PM drew investors' interest in the select sectors.

In terms of participant-wise activity during the week, Foreign Investors were again major sellers in the market, trimming down their positions amounting to USD 36 million. Other than that, Broker Proprietary Trading remained other major seller in the market, liquidating shares worth USD 2 million. On the other hand, Individuals Investors, Mutual Funds, and Insurance Companies remained major buyers in the market, accumulating fresh positions to the tune of USD 13 million, USD 10 million, and USD 9 million, respectively.

There is no denying that Covid-19 pandemic has sent shock waves across the world, crippling the global economy. It is unlike anything that the world has seen before. With effective lockdowns, and enhancing the scope of testing, the country can materially slow down the spread of this contagious virus. Though the cases in the country are still on the rise, we expect these to moderate in coming days as the country observes lockdown for another 14 days. Though the business closures are certainly going to decelerate economic growth for the ongoing year, however, we remain optimistic that the recovery will also be strong, given the policy response in the form of strong monetary easing and fiscal expansion. Though oil prices have risen from their bottom, the levels still remain benign and the case for aggressive monetary easing in the next 3 quarters is intact. Moreover, as multilateral agencies/donors have hinted to soften loan daypack conditions for the developing countries hit by the pandemic, any relief on that front will mitigate risks facing the economy that bodes well for the stock market.

Though near-term earnings of listed corporate sector are likely to be impacted, we see normalcy in the economy activity from 1QFY21 and expect corporate profitability to remain robust in the next 2-3 years. From the valuation perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.4x against the 10-year average of 8x.

Bottom line: We advise investors to look past the short-term market volatility and build position in the market via our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.