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Weekly Stock Market Commentary

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Sajjad Anwar, CFA
Chief Investment Officer

The stock market remained flat during the week ending 24th April, after three weeks of impressive gains. The benchmark KSE-100 Index declined by a paltry 26 points on a weekly basis and settled at 32,806 points at market close on Friday.

The market started off the week on a positive note, carrying forward positive momentum from the previous week, where sentiment was lifted by the surprise 2% cut in the Policy Rate, bringing it down to single digit. However, slew of negative news later on dampened the confidence. Historic decline in crude oil prices left the investors dismayed, raising questions over the extent of damage caused by Covid-19 on the global economic growth. The government's apparent move towards re-renegotiation of the power tariff agreements with the objective to bring down electricity prices also weighed on the market sentiment. As a result, the benchmark Index fell steeply by 1,077 points on Tuesday, April 21st. Later on, the positive news-flow somewhat restored the confidence, whereby the country received USD 1.4 billion from the IMF that not only helped bolster FX reserves, but also supported PKR against the USD. The Current Account Deficit (CAD) for March clocked in at USD 6 million, taking 9MFY20 CAD to USD 2.77 billion, versus USD 10.28 billion for the same period last year.

In terms of participant-wise activity during the week, Foreign Investors continued to remain sellers in the market, trimming down their positions worth USD 2.5 million. Other than that, Individuals, Broker Proprietary Trading, and Banks/DFIs were other major seller in the market, liquidating shares amounting to USD 11.7 million, USD 4.7 million and USD 3.7 million, respectively. On the other hand, Mutual Funds, and Companies emerged major buyers in the market, accumulating fresh positions to the tune of USD 18.4 million, USD 5.9 million, respectively.

Though the Covid -19 cases in the country are still on the rise, the country is expected to hit the peak in June-20. As the country is moving towards smart lockdown with partial resumption of activity across various industries, it provides the way forward for the complete lifting of economic shutdown. Though the ongoing closure is certainly going to decelerate our growth for the current year, and the duration and severity of the pandemic will have spillover effect on the next year GDP as well, we contend that the recovery will also be strong as the impact of Covid-19 subsides. On the positive side, the government and central bank are cognizant and remain steadfast in offering relief to businesses and common man, in the form of strong monetary easing and fiscal expansion. The sharp decline in the global oil prices and major debt relief offered by the multilateral agencies mitigate the risks to the Balance of Payment (BoP) position. And with single digit monthly inflation reading for April-20 and expectation of downward trend in the coming months, further decline in interest rate remains on the cards, thereby rendering domestic investment landscape constructive for equities.

Barring short-term blip, earnings of the listed corporate sector remains resilient over the next 2-3 years. From the valuation perspective, even after incorporating the short-term earnings decline, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6x against the 10-year average of 8x. The market is also offering a healthy 7% dividend yield. 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.