

## Weekly Stock Market Commentary

May 01, 2020

**Sajjad Anwar, CFA**  
Chief Investment Officer

During the holiday shortened outgoing week, the stock market continued to show strong performance, as the benchmark KSE-100 Index surged by around 1,305 points (4%) on a week-on-week basis. From its recent bottom hit on 25th March, 2020, amid heightened volatility a robust rally was witnessed at the local bourse with the benchmark Index gaining by around 25% in a matter of 26 trading sessions.

The market started off the week on a faltering note as the Index declined by 492 points on Monday, as investors remained concerned about the lacklustre corporate earnings announcements in the on-going corporate results season amid Covid-19 induced economic slowdown. It was later on some progress on the potential treatment of Coronavirus that lifted the sentiment of the market participants. A sharp recovery in the global crude oil prices also provided impetus to the market. The market rally was broad-based as almost all sectors, barring banks, contributed to the gain in the Index. Investors also looked favourably towards the April inflation reading, expecting a material drop in MoM price levels, solidifying the case for further monetary easing by the SBP.

In terms of participant-wise activity during the week, Foreign Investors again remained sellers in the market, offloading their positions worth USD 12 million. Most of the local participants remained on the buying side this week, with the exception of small outflows from Banks/DFIs and Insurance. Mutual Funds, Companies, Individuals, and Broker Proprietary Trading added positions to the tune of USD 4.3 million, USD 3.6 million, USD 2.3 million and USD 1.5 million, respectively.

What lies ahead for the market? There is no denying that the recent turmoil in economic activity and sell-off of the equities from the January peak were primarily caused by the spread of coronavirus pandemic. So, any progress on the potential treatment or respite in the infection cases, will determine the course of the economic and stock market recovery. While the world is racing to find the cure of this illness, and work is underway on as many as 100 vaccines/treatments currently, some potential candidates offer high hopes, such as Remdesvir by Gilead Pharma, which FDA has recently approved for emergency use. Though the Covid-19 cases in Pakistan are still on the rise, experts say that the country would hit the peak in May/June. We contend that post-pandemic economic recovery will gain strength gradually as the pent-up demand will unleash, buttressed by supportive government and central bank policies 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 have mitigated the risks to the Balance of Payment (BoP) position, at least in the short to medium term. Furthermore, after more than expected drop in monthly inflation reading of April-20 and expectation of further moderation in the inflationary trend henceforth, the case for further monetary easing in the near-term has strengthened.

From the valuation perspective, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7x against the 10-year average of 8x. The market also offers a healthy dividend yield of 6.5%. Taken it all together, we advise investors to ignore short-term swings in the market and build position in equities via our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.