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Weekly Stock Market Commentary

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After a brief pause in the previous week, the stock market again turned positive during the week ending May 16th, 2020 with the benchmark KSE-100 Index surging by 741 points (2.2%) on a week-on-week basis. In the process, the market closed out the week at 34,008 points.

Whereas the high frequency numbers related to the real economy such as subdued cement despatches and retail fuel sales were responsible for dampening the market sentiment last week, the slow and gradual re-opening of economy by the federal and provincial governments provided much-needed optimism to the investors. The announcement of recommencement of work on the mega hydropower project also invigorated confidence of the investors. Moreover, to provide a boost to the Agri sector, the ECC approved a PKR 50 bn incentive package that include subsidy on fertilizers and tractors, and loan scheme to provide support to cash strapped farmers. Workers' remittances for the month of April held up well at USD 1.79 bn, allaying the fears of a steep drop due to the lockdown in major expat destinations. During the MSCI Semi-Annual Index Review, Pakistan remained part of the Emerging Market Index. Global crude oil prices rebounded during the week, which also sparked rally in select energy stocks. Investors also pinned their hopes on further monetary easing in the upcoming Monetary Policy Statement scheduled for May 15th, 2020. In line with the market expectation, the Policy Rate was slashed by 1% to 8%, bringing the cumulative reduction since mid-March 2020 to 5.25%.

In terms of participant-wise activity during the week, Foreign Investors remained sellers in the market, offloading their positions worth USD 11 million. Amongst the local participants, other than USD 3.3 million outflow from Banks/DFIs, local participants enhanced their positions in equites. Individuals, Mutual Funds, Other Organization and Companies bought shares worth USD 6 million and USD 5 million, USD 2 million and USD 1 million, respectively.

The path of the pandemic and timing of reopening of domestic & global economic activity remains the biggest risk to our outlook on the economy. Considering the perils of the prolong shutdown of the economic activity, the lockdown has been lifted cautiously for some sectors of the economy for almost a week now even though numbers of Coronavirus cases are still on the rise. However, the development of anti-viral drug by local manufacturer, Ferozsons, with Gilead for domestic use offers hopes. Given the accelerated research and development on Coronavirus worldwide, we remain optimistic on the prospects of a better cure soon, in the form of a vaccine. Therefore, we reckon that disruption due to the ongoing pandemic is not likely to last long. Furthermore, what is more encouraging is that despite relatively poor healthcare infrastructure, the low death toll so far raises optimism that Pakistan may be spared from the worst as feared earlier.

From the valuation stand point, the market is trading at an attractive P/E multiple of 7x versus long-term average of 8x. The near-term corporate earnings are expected to remain under pressure due to the constrained economic activity, and owing to almost 2-month of shutdown. However, we expect a steady economic recovery in FY2021 and strong corporate earnings growth over the next 2-3 years. A large 4% to 5% decline in returns on alternative fixed income avenues such as bank deposits, NSS, money market & fixed income mutual funds has strengthened the case for flow of funds toward equities. More so, we expect a further 100 bps cut in the benchmark rate in the near term. Historical analysis shows that during the period of declining inflation & interest rates and manageable Current Account Deficit (CAD), the stock market has generally delivered remarkable returns.