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Weekly Stock Market Commentary

June 19, 2020

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During the week ending 19th June, the stock market depicted lacklustre performance as the benchmark KSE-100 Index declined by 1,172 points (3.4%) on a week-on-week basis. The market remained under pressure from the outset of the week, post the announcement of Federal Budget 2021. It seems as market participants were expecting tax breaks and relief measures to stimulate the flagging economy battered by the Covid-19 pandemic. The market sentiment was further dampened by the news that a coalition partner has announced to part ways with the government. The imposition of smart lockdown across major cities of the country also dispirited investors. Moreover, the sapless Large-Scale Manufacturing numbers for April-20, which showed 42% YoY and 33% MoM decline endorsed the grim picture of the economy, adding to investors' anxiety. However, workers' remittance for May-20, which rose by 4.6% on a month-on-month basis, allayed concerns on the external front.

In terms of participant-wise activity during the week, Foreign Investors continued to remain main sellers in the market, offloading positions worth USD 5 million. Alongside, Mutual Funds, Companies and Other Organizations also sold stocks worth USD 3 million, USD 2 million and USD 2 million respectively. Net buying was witnessed mainly from Individuals, with net inflow of USD 12 million.

What the future holds for the stock market? The market performance post Federal Budget 2021 shows that investors seem disappointed by the budget and the fresh imposition of smart lockdown has again casted clouds of uncertainty over the magnitude and extent of economic damage inflicted by Covid-19 crisis. Though infection cases during the last few days seem to have regressed somewhat but risks of spike can't be ruled out. In terms of cure, lifesaving anti-inflammatory drug, Dexamethasone has shown some promise in reducing the mortality rate, which offers some hope to the world, battling with ravage of Covid-19 crisis. The outlook on this front will improve with the wider availability of antiviral drug in a few weeks, which has been approved by DRAP and rising odds of a potent vaccine in a few months' time. The unprecedented fiscal and monetary policy measures have somewhat contained the economic damage. In our opinion, the path of the virus would be the key determinant for normalization of the economy activity.

From the valuation standpoint, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 6.9x against the 10-year average of 8x. The market also offers a healthy dividend yield of 6%. We anticipate inflation to continue its downward trend due to weak demand and pass-through of the recent decline in retail fuel prices that warrant a further cut in the Policy Rate in the near-term, in our view. Declining yields on the alternative fixed income avenues such as bank deposits, NSS, T-Bills, and PIBs also make a strong case for flow of funds toward equities. Taken it all together, we advise investors to stay the course, ignore sporadic market swings, and consolidate position in equities gradually; focusing on their long-term investment objectives.

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