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Weekly Stock Market Commentary

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During the holiday shortened week ending 29th May, the stock market managed to eke out a paltry gain of 95 points (0.3%) on a week-on-week basis. Investors were initially perturbed over the USD 572 million Current Account Deficit (CAD) for April-20, which was higher than the run rate in the past 9 months, as world-wide closure of businesses dented country's exports. Only two-day future rollover week also weighed on the market sentiment. However, the commitment of USD 500 million each by the Asian Infrastructure Investment Bank (AIIB) and World Bank (WB) to help fight Covid-19 impact was seen as a welcome development for the market.

In terms of participant-wise activity during the week, Foreign Investors and Mutual Funds remained main sellers in the market, each offloading positions worth USD 2 million. Individual investors remained the largest buyers in the market with net inflows amounting to USD 4 million, followed by Broker Proprietary Trading that added stakes to the tune of USD 1 million.

What the future holds for the market? We believe that the recent spike in new Covid-19 cases in the country remains a cause of concern but low mortality rate remains an encouraging point, which has led to gradual re-opening of the economy. Though we do not completely rule out new restrictions (SOPs) to carry out business, the country is gradually returning to normalcy, as we see it. With the rising odds of availability of antiviral drug in a couple of months and a potent vaccine in a few months' time, long-term investors should look past the Covid-19 driven economic disruption. As highlighted earlier in our notes, we expect rebound in economic activity, albeit gradually as this pandemic start to lose vigor. The market will also take cue from the upcoming federal budget for FY2020-21, which will likely focus on relief for people and businesses.

From the valuation perspective, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 6.9x against the 10-year average of 8x. Moreover, 14.5% Earnings yield offered by the market looks attractive compared with 10-year PIB yield of 8.5%. In addition to this, the market also offers a healthy dividend yield of 6%. We believe that the case for flow of funds towards equities from alternative fixed income avenues has strengthened after a large 5.25% reduction in the Policy Rate by the SBP. We hold positive view on the market for 2020, and beyond given: (i) attractive stock market valuations; (ii) benign inflation outlook and expectation of further 100 bps cut in the Policy Rate in the near-term; (iii) barring short-term blip, a healthy corporate earnings growth over the next 2-3 years; (iv) abundant local liquidity awaiting to enter the market; and (v) manageable Current Account Deficit (CAD).