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Weekly Stock Market Commentary

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During the outgoing week, positivity was witnessed at the local bourse, closing in the green in all five trading days, with the benchmark KSE 100 Index surging by 1,112 points (3.3%) on a week-on-week basis. The market cheered the approval of Federal Budget FY2021 on Monday, despite the opposition's vow to not let it sail through the lower house. After sizeable inflows of USD 1.75 billion from the Asian Development Bank, World Bank and Asian Infrastructure Investment Bank last week; the country received further USD 1.3 billion as loan disbursements from Chinese banks, taking cumulative inflows to USD 3 billion since 23rd June. These foreign inflows provided boost to the fast depleting FX Reserves of the country and lent stability to the Rupee. Earlier, the Current Account balance for May 2020 showed a surplus of USD 13 million driven by a large contraction in imports and healthy workers' remittances, despite a 45% YoY decline in exports.

In terms of participant-wise activity during the week, Foreign Investors continued to remain main sellers in the market, offloading positions worth USD 21 million. Alongside, Individuals sold stocks worth USD 7 million. Net buying was witnessed mainly from Insurance and Companies to the tune of USD 17 million and USD 10 million, respectively.

Going forward, in our view, the stock market would take cue from the timeline for an effective Coronavirus vaccine & intermediate medical treatments and path of the pandemic. More than 140 vaccines are in the works with many in the advanced stage of development. For instance, Moderna is expected to begin Phase 3 trials for its vaccine candidate in July, with up to 30,000 people getting a small dose. Other vaccine candidates are close behind, with Pfizer and BioNtech's entry proving safe and to have prompted patients to produce antibodies in a small early trial. During the last few days, though Covid-19 cases in Pakistan seem to have regressed somewhat but risks of spike can't be ruled out. According to some studies, Coronavirus cases are expected to peak in July. Investors with medium to long-term investment horizon should look past whatever deterioration we get in the short-term and turn focus to an end to the public health crisis; and ensuing economic recovery and pick-up in corporate profitability in FY21.

In our view, at current levels, the stock market is attractively valued as captured in the forward Price-to-Earnings (P/E) multiple of 7.2 against the 10-year average of 8x. The market also offers a healthy dividend yield of 6%. To cushion the economy from the Coronavirus shock, and considering moderate inflation expectation & comfortable external account situation; the SBP has aggressively cut the Policy Rate by 6.25% to 7%. The consequent decline in yields on the alternative fixed income avenues such as bank deposits, NSS, T-Bills, and PIBs have strengthened the case for flow of funds toward equities. Barring short-term blip, earnings of the corporate listed sector are expected to grow at a healthy rate over the next 2-3 years. While a short-term decline in corporate earnings has some drag, but a large cut in the interest rates justifies a higher stock market valuation (P/E). In our view, the stock market is well poised to deliver strong returns in the medium to long-term. Therefore, we advise investors to build position in equities, keeping their long-term investment objectives in mind.