

Weekly Stock Market Commentary

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During the outgoing week, positive momentum at the local bourse gained steam as the benchmark KSE 100 Index again surged by 3.2% on a week-on-week basis. It merits highlighting that during the month-to-date, the market has delivered a hefty return of 8.5%. This remarkable performance of the market is attributable to positive developments on the public health front, encouraging economic data, and timely & bold policy actions by the government and central bank. New infection cases in the country have declined substantially since last month, fatalities have decreased significantly, and recovery ratio has increased remarkably. To provide further relief to the export sector, the SBP has reduced mark-up rate on investment under Temporary Economic Refinance Facility (TERF) to 5% from 7% and on Long-Term Financing Facility (LTFF) to 5% from 6%. Sizeable inflows from the multilateral agencies and loan disbursements from Chinese banks have led to the SBP's FX reserves cross USD 12 billion after falling below the psychological level of USD 10 billion in week ending June 19th. Workers' remittances for June 2020 clocked-in at a record USD 2.47 billion, showing an increase of 51% on a year-on-year basis and 32% increase on a month-on-month basis. Resultantly, the Current Account Deficit (CAD) for FY2020 is expected at USD 3.4 billion (1.3% of the GDP).

In terms of participant-wise activity during the week, Foreign Investors continued to remain main sellers in the market, offloading positions worth USD 27 million. Alongside, Banks/DFIs sold stocks worth USD 5 million. On the contrary, net buying was witnessed mainly from Individuals, Insurance, and Mutual Funds to the tune of USD 16 million, USD 14 million, and USD 3 million, respectively.

What the future holds for the market? We maintain our view that the market would take cue from the path of virus and development of an effective & universal vaccine. Nearly two dozen coronavirus vaccines are in clinical trials while another 140 are in early development. In terms of treatment, Remdesvir is helping some, and the steroid Dexamethasone is preventing deaths among the severely ill. Encouragingly, infection cases in Pakistan have dropped significantly and according to some studies, cases are expected to peak in July.

From the valuation perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.7x and also offers a healthy dividend yield of 5.6%. In our view, the stock market is well poised to deliver strong returns in the medium to long-term given: (i) attractive valuations as captured in the Earnings Yield of 13%; (ii) benign near-term inflation outlook and loose monetary conditions; (iii) a healthy corporate earnings growth over the next 2-3 years; (iv) strong case for flow of funds towards equities after aggressive monetary easing by the SBP; and (v) manageable Current Account Deficit (CAD) and fairly valued currency. We advocate that investors with medium to long-term investment horizon should focus on an end to the public health crisis; and ensuing economic recovery and pick-up in corporate profitability in FY21. Taken it all together, we advise investors with a medium to long term investment time horizon to consider investing in the stock market through our stock funds, which have a track record of outperforming the stock market.