

Weekly Stock Market Commentary

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During the outgoing week, the benchmark KSE-100 Index increased by 501 points (1.5%) on a week-on-week basis. After lacklustre performance in the previous week, some positivity returned to the market. Market concerns on external account were allayed with recording of Current Account surplus of USD 13 million for the month of May-20. Though the SBP reserves showed a drop of around USD 146 million during the week ending 19th June, major inflows of USD 1.73 bn were received during the current week from multilateral agencies that will improve reserves and provide some stability to the rupee. During the week, the FATF plenary decided continuation of Pakistan in Grey List till its next meeting scheduled to be held in October this year, providing the country more time to take the necessary actions. In another emergency meeting, the Monetary Policy Committee decided to further cut the Policy Rate by 100 basis points to 7%.

In terms of participant-wise activity during the week, Foreign Investors continued to remain main sellers in the market, offloading positions worth USD 10 million. Alongside, Broker Prop Trading, Companies and Individual also sold stocks worth USD 2 million, USD 1 million and USD 1 million respectively. Net buying was witnessed mainly from Insurance Companies and Mutual Funds, with net inflow of worth USD 7 million and USD 3 million, respectively.

In terms of outlook of the stock market, much would depend on the shape and magnitude of the economic recovery that in turn hinges upon the path of Covid-19. Though the renewed imposition of smart lockdown has again casted clouds of uncertainty over the magnitude and extent of economic damage inflicted by Covid-19 crisis, the flattening of active cases is encouraging, although it may be a little early to deduce a trend here. The historic fiscal and monetary policy actions would somewhat contain the economic damage and we expect economic activity to return to some normalcy during 1st quarter of FY21 as the spread of pandemic abates. From the standpoint of valuation, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7x against the 10-year average of 8x. 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 6.25% reduction in the Policy Rate by the SBP. Historical analysis shows that the stock market performs well in a declining inflation and interest rate environment.

Taken it all together, we advise investors to ignore short-term swings in the market and build position in equities via our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.