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Weekly Stock Market Commentary

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During the holiday shortened outgoing week, rally at the local bourse again gathered steam as the benchmark KSE 100 Index surged by a massive 1,651 points (4.4%) on a week-on-week basis. During July 2020, the market has delivered an eyepopping return of 14.1%, while it has surged by 44% from the recent bottom of 27,229 points it hit on March 25th. In our view, this robust performance of the stock market is a function of multitude of factors: (i) positive developments on the public health front; (ii) bold & timely policy actions by the policymakers; and (iii) encouraging economic data. New infection cases in the country have declined substantially during July, death toll has decreased significantly, and recovery ratio has increased remarkably. Resultantly, active cases have dropped to 25,000 from the peak of 109,000. From the perspective of the external account, the country came out as net beneficiary of Covid-19 induced economic disruption as resilient workers' remittances, a large contraction in imports, and some decline in exports have led to FY20 Current Account Deficit (CAD) of just USD 3 billion versus USD 13.4 billion in FY2019.

Looking at the participant-wise activity during the week, Foreign Investors continued to remain major sellers in the market, offloading positions worth USD 10 million. Alongside, Insurance Companies and Broker Proprietary Trading sold stocks worth USD 3 million and USD 2 million, respectively. On the contrary, Mutual Funds emerged as main buyers in the market, accumulating fresh positions to the tune of USD 11 million. Besides, Companies and Individuals each added equities amounting to USD 2 million.

Going forward, while market may depict large swings sporadically, we maintain our positive view on the market over medium to long-term. Thankfully, infection cases have dropped substantially in the country. On the vaccine development front, according to the WHO, there are more than 150 vaccines in the different stages of development and several are at the final stage of trial. From the valuation perspective, despite a robust rally, the stock market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7.8x and Price-to-Book value of 1.0x. The market also offers a healthy dividend yield of 5.3% that looks appealing compared with a paltry 7% yield on T-Bills. Our sanguine view on the market is underpinned by: (i) increasing expectation of pick-up in economy activity after a sharp drop in infection cases in the country; (ii) attractive valuations as captured in the Earnings Yield of 12.8%; (iii) benign near-term inflation outlook and accommodative monetary policy; (iv) a healthy corporate earnings growth over the next 2-3 years; (v) strong case for flow of funds towards equities, after a sharp drop in returns on alternate fixed income avenues; and (vi) manageable Current Account Deficit (CAD) and fairly valued currency.

Taken it all together, we advise investors with a medium-long term investment horizon to consolidate their position in the stock market through our stock funds.