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Weekly Stock Market Commentary

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During the week ending September 18th, range bound activity was witnessed at the local bourse with a paltry 26 points (0.1%) decline in the benchmark KSE 100 Index on a week-on-week basis. We see this listless performance of the market during the outgoing week as a sign of healthy breather / consolidation after robust run. To put things into perspective, during fiscal year to-date, the stock market has provided a robust return of around 24% and from its trough hit on March 25th, the market has surged by 56%. This remarkable performance of the stock market is attributable to encouraging development on the healthcare front that led to earlier than expected re-opening of the economy from the Coronavirus-induced shutdown.

Regarding the key developments for the market during the week, due to restricted economic activity in the 4QFY20, mixed showing was witnessed in the ongoing corporate results season while, cash constraints led to below expected payouts by select stocks. As part of the efforts to escape from being blacklisted by the global money laundering and terrorist financing watchdog, the parliament passed three crucial Financial Action Task Force-related legislations. In another development, the World Bank's International Centre for Settlement of Investment Disputes has granted Pakistan a stay order of six months on the enforcement of a whopping $6 billion fine in the Reko Diq case.

Looking at the participant-wise activity during the week, Insurance Companies emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 11 million. Alongside, Mutual Funds remained as other major buyers in the market, adding equities to the tune of USD 4 million. On the contrary, Banks/DFIs, and Individuals stood as major sellers in the market as each liquidated their positions by USD 5 million. Foreign Investors sold shares worth USD 2 million.

Looking ahead, we reiterate our positive view on the stock market for the medium to long-term given: (i) despite some recent increase in infection cases, encouraging development on the healthcare front; (ii) improving economic prospects as reflected by the high frequency data such as cement dispatches, automobile sale numbers, and retail fuel sale volumes; (iii) benign inflation outlook & continuation of the accommodative monetary policy in the near-term; (iv) strong case for flow of funds towards equities due to paltry yields on the alternate fixed income investment avenues after aggressive monetary easing; and (v) undemanding stock market valuations.

Despite the recent increase, the active cases of Covid-19 in the country stand at around 6,600 compared with the peak numbers of 109,000. On the vaccine development front, researchers are testing 40 vaccines in clinical trials on humans worldwide, with nine vaccines under large-scale efficacy test and five approved for early / limited use. On the economic front, we anticipate inflation to moderate to 7% to 8% in FY21 after clocking-in at 10.7% in FY20. The central bank is likely to continue with the accommodative monetary policy stance in the near term to stimulate the economy after Covid-19 shock. We expect the Current Account Deficit (CAD) to widen to a still manageable level of USD 4.4 billion (1.7% of the GDP). From the valuation standpoint, the stock market is valued at an undemanding forward Price-to-Earnings (P/E) multiple of 8x and Price-to-Book Value (P/BV) of 1.1x. The market also offers a healthy dividend yield of 5%.

The Bottom Line: Given our positive view on the market, we advise investors with medium to long-term investment horizon to build position in equities through our NBP stock funds.