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During the outgoing week, the stock market remained under pressure with the benchmark KSE 100 Index declining by 804 points (1.9%) on a week-on-week basis. In our view, this lacklustre performance of the market during the last two weeks is more of a sign of healthy breather / consolidation after robust run. It may be recalled that during fiscal year to-date, the stock market is still up by 21% and it has surged by 53% off the market low on March 25th. We see any pullback as an opportunity to build position in the stock market given supportive investment landscape shaped by accommodative monetary policy, comfortable external account position, benign near-term inflation outlook, and undemanding stock market valuations.

Regarding the recent key developments for the market, 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. Investors were also perturbed by rising noise in the domestic politics following 11-party opposition's All Parties Conference (APC) on Sunday, September 20th, demanding resignation of Prime Minister Imran Khan. In its meeting held on September 21st, 2020, the SBP kept the Policy Rate unchanged at 7%, citing it appropriate level to support economic recovery and safeguard inflation expectation and financial stability. On the economic front, the country posted Current Account surplus of USD 297 million in August 2020, thanks to a healthy 24% year-on-year growth in the workers' remittances. During 2 months of FY21, the Current Account surplus stands at USD 805 million versus a Current Account Deficit (CAD) of USD 1,214 million during the same period last year. Cement sector came under some pressure following the news of CCP's raid of Lahore office of cement manufacturers' association as a part of an enquiry to investigate the possible anti-competitive practices by the cement manufacturers.

Looking at the participant-wise activity during the week, Insurance Companies remained the largest buyers in the market, accumulating fresh positions to the tune of USD 9 million. Alongside, Companies, Other Organization, and Individuals stood as other major buyers in the market, adding equities to the tune of USD 7 million, USD 4 million, and USD 3 million, respectively. On the contrary, Foreign Investors, Mutual Funds, and Broker Proprietary Trading emerged as major sellers in the market, reducing their positions by USD 10 million, USD 8 million, and USD 4 million, respectively.

Going forward, we hold on to our view that the stock market is well poised to deliver healthy returns over the medium to long-term. Our positive view on the market is supported by improving economic activity, attractive stock market valuations, accommodative monetary policy, and more importantly, controlled Coronavirus situation in the country. Despite the recent increase, active cases of Covid-19 in the country stand at around 7,800 compared with the peak number of 109,000. On the vaccine development front, researchers are testing 42 vaccines in clinical trials on humans worldwide, with eleven 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 has also acknowledged that the recent accommodative monetary policy stance is vital for the nascent economic recovery. We expect the Current Account Deficit (CAD) to widen to a still manageable level of USD 4.1 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 7.8x and Price-to-Book Value (P/BV) of 1.1x. The market also offers a healthy dividend yield of 5%.

**The Bottom Line:** In our view, the stock market holds potential to deliver good returns over the medium to long-run driven by healthy expected corporate earnings growth over two to three years; an attractive 5% dividend yield; and some PE re-rating. Therefore, we advise investors with medium to long-term investment horizon to build position in equities through our NBP stock funds.