NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

September 11, 2020

Sajjad Anwar, CFA
Chief Investment Officer

During the outgoing week, amid large trade volumes, the stock market swung between gains and losses as the benchmark KSE 100 Index managed to increase by 508 points (1.2%) on a weekly basis. 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%. To many, this remarkable recovery at the local bourse seems inconsistent with the state of the economy. How we see it? Even though it is hard to believe; the bull markets are born from despair and often climb a wall of worry for years. The stock market is forward looking and it is rightly reflecting the improving economic and corporate fundamentals. Encouragingly, new infection cases have dropped significantly, recovery rate has been very high and mortality ratio is extremely low. The consequent lifting of the lockdown has set the stage for earlier than expected economic recovery as corroborated by improving frequently released economic data such as cement dispatches, automobile sales, and retail fuel sale volumes.

Looking at the participant-wise activity during the week, Individuals and Mutual Funds remained major buyers in the market, accumulating fresh position to the tune of USD 23 million and USD 9 million, respectively. On the contrary, Companies, Banks/DFIs, and Foreign Investors stood as major sellers in the market, liquidating their positions to the tune of USD 17 million, USD 6 million, and USD 4 million, respectively.

What lies ahead for the stock market? We maintain our sanguine view on the stock market for the medium to long-term. Our positive view on the market is underpinned by encouraging development on the healthcare front, improving economic prospects, benign inflation outlook & expectation of continuation of accommodative monetary policy in the near-term, and undemanding stock market valuations.

As we see it, the biggest damage to the economy was from the lockdown not from the Coronavirus itself. By the grace of Allah Almighty, the active cases of Covid-19 in the country have dropped to around 6,000 from the peak of 109,000. On the vaccine development front, researchers are testing 38 vaccines in clinical trials on humans worldwide, with nine vaccines under large-scale efficacy test and three approved for early / limited use. On the economic front, inflation as measured by the CPI stood as 8.2% in August after clocking-in at 9.3% in July. We anticipate inflation at 7% to 8% in FY21 after clocking-in at 10.7% in FY20. We expect that central bank would continue with the accommodative monetary policy stance in the near term to stimulate the economy after Covid-19 shock. External account, the Achille's heel of Pakistan economy has so far seemed beneficiary of the Coronavirus as workers' remittances have held up well and trade deficit has improved significantly. From the valuation perspective, the stock market is valued at an attractive 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%. While Coronavirus-induced economic disruption has impacted corporate profitability in the short run, we expect a healthy growth in corporate earnings over the next two to three years.

The Bottom Line: After sharp rally, while we may witness large swings, the stock market holds potential to deliver good returns over the medium to long-term. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.