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# Weekly Stock Market Commentary

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During the outgoing week, positivity was witnessed at the local bourse after a brief pause / breather in the previous week as the benchmark KSE 100 Index soared by 1,435 points (3.6%) on a week-on-week basis. How do we see the market performance post pandemic-induced recessionary bear market? In our view, the market is in the repair/policy response phase and is on course to recoup the losses of the coronavirus-induced sell-off as investors are betting on the aggressive monetary & fiscal policy responses and easy & predictable liquidity. To put things in to perspective, to cushion the blow to economy from the Covid-19, the SBP slashed the Policy Rate by a cumulative 6.25% and amended regulations for relaxation in loan repayments for corporates, and the government offered a massive Rs. 1.2 trillion stimulus packages. Barring severe second wave of the Coronavirus pandemic, necessitating significant shutdown of the economic activity; this repair/policy response market phase is likely to be followed by the recovery phase where the economic fundamentals would improve and catch-up investors' optimism.

Looking at the participant-wise activity during the week, Mutual Funds emerged as the sole buyers in the market, accumulating fresh positions worth USD 18 million. On the contrary, Insurance Companies, Banks/DFIs and Individual Investors stood as the major sellers in the market, liquidating their positions to the tune of USD 9 million, USD 7 million, and USD 4 million, respectively.

Looking ahead, we hold on to our positive view on the stock market for the medium to long-term. On the healthcare front, encouragingly, the number of active cases of the Covid-19 in the country has further dropped to 8,700 from the peak of 109,000. Researchers are testing 36 vaccines in clinical trials on humans, nine are in large-scale efficacy test, and two are approved for limited or early use.

On the economic front, despite recent spike, inflation as measured by the CPI for FY21 is expected to moderate to 7%-8% after clocking-in at 10.7% in FY20. We expect the central bank to continue with the accommodative monetary policy stance in the near term to stimulate the economy that is hit hard by the Covid-19 induced disruption. External account has so far seemed beneficiary of the Coronavirus as the resilient workers' remittances and a relatively large contraction in the imports vis-à-vis exports, the Current Account Deficit (CAD) has narrowed to USD 3 bn (1.3% of the GDP) in FY20. More so, helped by a record USD 2.77 billion workers' remittances, a healthy 25% growth in exports and a paltry 2% increase in imports on a month-on-month basis, the country has posted current account surplus of USD 424 million in July 2020. We anticipate the CAD to widen to a still manageable level of USD 4.4 bn (1.6% of the GDP) in FY21.

From the valuation perspective, 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%. Barring short-term blip, we expect a strong corporate earnings growth over the next two to three years.

**Bottom Line:** After robust rally, while market may depict extreme swings sporadically, we hold a positive view on the stock market over the medium to long-term. Therefore, we advise investors to build position in equities through our stock funds, keeping their long-term investment objectives in mind.