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Weekly Stock Market Commentary

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During the week ending October 2nd, the stock market remained under severe pressure as the the benchmark KSE 100 Index fell by a hefty 1,630 points (3.9%) on a weekly basis. And, from its recent peak level of 42,647 hit on September 10th, the market is down by 6%. What has caused this correction? In our view, this lacklustre performance of the market during the last couple of weeks is mainly driven by rising political pressure following 11-party opposition's All Parties Conference (APC) on Sunday, September 20th, demanding resignation of Prime Minister Imran Khan. It was later the arrest of the opposition leader in National Assembly in the money laundering case that sent jitters in the market. We see this market correction as a healthy breather / consolidation after robust run that has also cleared away some speculative froth. Furthermore, bull markets experience corrections along the way, and especially when the initial rally is so powerful. It may be recalled that during fiscal year to-date, the stock market is still up by 16.4% and it has surged by 47.2% from its low on March 25th. With the fundamental story of the stock market intact, we see any dip in the market as a buying opportunity.

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 15 million. Likewise, Banks/DFIs, Companies, and Other Organization stood as other major buyers in the market, adding equities to the tune of USD 12 million, USD 5 million, and USD 4 million, respectively. On the other hand, Mutual Funds emerged as the largest sellers in the market, liquidating positions to the tune of USD 21 million. Alongside, Foreign Investors and Individuals stood as other major sellers as each sold shares worth USD 8 million.

What lies ahead for the market? We maintain our positive view on the stock market over the medium to long-term given improving economic activity, attractive stock market valuations, accommodative monetary policy, abundant local liquidity, and controlled Coronavirus situation in the country. Despite the recent increase, the active cases of Covid-19 in the country stand at around 8,900 compared with the peak number of 109,000. On the vaccine development front, researchers are testing 43 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, despite recent elevated readings, we anticipate inflation to moderate to 8% in FY21 after clocking-in at 10.7% in FY20. The SBP is likely to continue with the accommodative monetary policy stance in the near-term to support the nascent economic recovery. The external account has improved significantly as 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. And, the CAD is expected to widen to a still manageable level of USD 4.4 billion (1.7% of the GDP) in FY21. From the valuation perspective, after the recent correction, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.5x versus the long-term average of 8.5x. The market also offers a healthy dividend yield of 5.5%. We expect corporate earnings to grow at a good rate over the next two to three years.

The Bottom Line: In our view, the stock market is well poised to deliver healthy double-digit returns over the medium to long-run. Therefore, we advise investors with medium to long-term investment horizon to build position in equities through our NBP stock funds.