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Weekly Stock Market Commentary

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Carrying forward the negative sentiments, the stock market started off the outgoing week on a frail note as the benchmark KSE 100 Index slumped by 998 points (2.5%) on Monday, October 5th. On Tuesday, the Index saw an intraday low level of 38,569 points, a sharp decline of around 500 points from the previous day's close, before value buying helped the Index to close the day with paltry gains of 50 points. Led by Index heavy Oil & Gas Exploration and Banking sectors, the positive momentum at the local bourse gathered steam during the subsequent three trading days of the week as the market advanced by 728 points (1.8%) on a week-on-week basis.

Looking at the participant-wise activity during the week, Insurance Companies and Banks / DFIs stood as the largest buyers in the market as each accumulated fresh positions to the tune of USD 7 million. Likewise, Broker Proprietary Trading and Companies were other major buyers in the market, adding equities amounting to USD 4 million and USD 3 million, respectively. On the contrary, Individual Investors emerged as the largest sellers in the market, liquidating positions to the tune of USD 11 million. Alongside, Foreign Investors and Mutual Funds were other major sellers in the market, selling shares worth USD 7 million and USD 4 million, respectively.

What to expect from the stock market going forward? We reiterate our view that the market is well poised to deliver healthy returns over the medium to long-term. In our view, investment landscape for equities is supportive given improving economic activity, attractive stock market valuations, benign near-term inflation outlook & accommodative monetary policy, comfortable external account situation & stable PKR-USD parity, plentiful local liquidity, and contained Coronavirus situation in the country. Despite some recent increase, the active cases of Covid-19 in the country stand at around 8,600 compared with the peak number of 109,000. On the vaccine development front, researchers are testing 44 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, with the gradual re-opening of the economy from the Coronavirus-induced shutdown, the economic activity has started picking-up as indicated by the frequently released economic data. During June-Aug 2020 versus Mar-May 2020, automobile sales have witnessed an increase of 155%, and retail fuel sales volume have shown a robust growth of 36%. During 1QFY21, cement dispatches have shown a staggering 26% growth on a quarter-on-quarter basis. CPI inflation for September clocked-in at 9% due to spike in prices of perishable food items. Despite recent elevated readings, we expect the inflation to moderate to 8% in FY21 compared with 10.7% in FY20. Given uncertain global and local business environment, the central bank is expected to maintain the accommodative monetary policy regime 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 corresponding period last year. We anticipate the CAD to widen to a still manageable level of USD 4.4 billion (1.7% of the GDP) in FY21.

From the valuation standpoint, the stock market is very attractive, offering Earnings Yield of 13.2% versus 10-year PIB yield of 9.9%, translating into a Yield Spread of 3.3% versus 10-year average of 0.9%. The market also offers a healthy dividend yield of 5.4%. As the economic activity has gradually picked-up pace as indicated by the frequently released economic data, we expect corporate earnings to grow at a good rate over the next two to three years.

The Bottom Line: While the stock market may depict large swings sporadically, we hold on to our positive view on stock market over the medium to long-run. Therefore, we advise investors to resist the urge to exit the market amid volatility, and instead, consider any dip in the market as a buying opportunity.