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# Weekly Stock Market Commentary

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During the outgoing week, amid amplified volatility, the benchmark KSE-100 Index managed to increase by 844 points (2.1%) on a week-on-week basis. In line with the sell-off in global equities triggered by uncertainty surrounding the US presidential election and resurgence of Covid-19 infection cases worldwide, the local bourse started the week on a faltering note as the Index fell by a hefty 776 points (1.9%) on Monday, 2nd November. However, value buying led to a strong rebound at PSX with a massive 1,369 points (3.5%) surge in the Index on Tuesday, 3rd November. We see this range-bound market performance of the past two months as a healthy correction / consolidation after a robust rally.

Looking at the participant-wise market activity during the week, Individuals, Insurance Companies and Other Organizations emerged as major buyers in the market, adding equities worth USD 5 million, USD 4 million, and USD 2 million, respectively. On the contrary, Foreign Investors, Broker Proprietary Trading, and Mutual Funds stood as main sellers, liquidating their positions to the tune of USD 5 million, USD 3 million, and USD 2 million, respectively.

What lies ahead for the market? We hold on to our positive view on the stock market over the medium to long-run given improving economic prospects and attractive market fundamentals. On the Coronavirus front, the number of new infection cases in the country has started rising with active cases surging to around 17,000 from the lows of 5,500 in mid-September. However, with advances in treatment and having gained experience, medical centers are better prepared to treat the ills as reflected by the low hospitalization rate and mortality ratios. Therefore, we do not see another round of strict lockdown and significant disruption to the economic activity. As we see it, the concern for stock market is not so much the virus itself, but the reaction to it. On the vaccine development front, researchers are testing 50 vaccines in clinical trials on humans worldwide, with eleven vaccines under large-scale efficacy test, and six approved for early / limited use.

Economic activity has gathered pace in the 1QFY21 as reflected by the significant jump in power generation, cement dispatches, automobile sales, and retail fuel sales. On the external account front, the country has posted current account surplus of USD 792 million in 1QFY21 versus a deficit of USD 1,492 million during the same 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. After deterioration in the 4QFY20 on account of revenue shortfall and expenditures slippages, the fiscal account has shown significant improvement with Primary Balance surplus of Rs. 258 billion (0.6% of the GDP) during 1QFY21. We reckon that the SBP is likely to maintain the prevailing accommodative monetary policy regime in the near-term to support economic recovery.

Despite robust rally from its lows in March, valuations of the stock market are very attractive as captured by the forward Price-to-Earnings (P/E) multiple of 7.3x, versus 10-year average of 8.5x. On a relative basis, the Earnings Yield of 13.7% offered by the market also looks appealing compared with the 10-year PIB yield of 9.9%. The market also offers a healthy dividend yield of 5.5%. Based on our estimates, corporate earnings are expected to grow at a double-digit rate over the next two years. Low near-term interest rates and manageable CAD bode well for the stock market.

**Bottom Line:** We stick to our view that the current investment landscape shaped by attractive stock market fundamentals and improving macroeconomic outlook is supportive for equities. Therefore, for long-term investors, we see any market weakness as an opportunity to build position in equities.