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Weekly Stock Market Commentary

November 13, 2020

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During the week ending November 13th, the market was seen trading in a narrow-range with a paltry 162 points (0.4%) decline in the benchmark KSE 100 Index on a weekly basis. The market seemed contending with improving state of the economy & associated healthy corporate earnings outlook and surging cases of the Coronavirus both worldwide and locally with its implications for the economic activity and noise in the domestic politics. However, we see this lacklustre market performance during the last two months as a healthy and inevitable correction / consolidation in a bull cycle especially after a robust 57% rally during the initial stage.

Looking at the participant-wise market activity during the week, Individuals and Bank/DFIs emerged as major buyers in the market, adding equities worth USD 8 million and USD 3 million, respectively. On the contrary, Foreign Investors and Mutual Funds remained main sellers, liquidating their positions to the tune of USD 7 million and USD 4 million, respectively.

What to expect from the stock market going forward? We reiterate our sanguine outlook on the market over the medium to long-run. Our positive view on the market is underpinned by improving economic prospects and attractive market fundamentals. On the Coronavirus front, the renewed surge in the daily cases has pushed the active cases in the country to around 25,000 from the lows of 5,500 in mid-September. However, in our view, healthcare systems are far better prepared, with a better understanding of COVID-19 and a better supply of medical equipment such as personal protective equipment and antiviral drugs. Therefore, we do not see another round of strict national lockdown and significant disruption to the economic activity. Researchers are testing 54 vaccines in clinical trials on humans worldwide, with twelve vaccines under large-scale efficacy test, and six approved for early / limited use. Moreover, Pfizer, one of the world's premier biopharmaceutical companies, announced that its Coronavirus vaccine data has shown 90% efficacy in trials.

On economic front, recovery is on solid ground as reflected by the frequently released economic data and also corroborated by the Large-Scale Manufacturing Industries (LSMI) numbers. More specifically, for September 2020, the LSMI output increased by 7.65% on a year-on-year basis and around 9.3% on a month-on-month basis. 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. And, we expect a current account surplus of around USD 200 million for the month of October as well. We anticipate continuation of the prevailing accommodative monetary policy regime in the near future, considering clouded global economic outlook.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.2x, versus 10-year average of 8.5x. The Earnings Yield of 13.9% offered by the market also looks appealing compared with the 10-year PIB yield of 9.9%. In addition to this, the market also offers a healthy dividend yield of 5.5%. Corporate earnings are expected to grow at a double-digit rate over the next two years, based on our estimates.

Bottom Line: Taken all together, we believe that the market is well poised to deliver a heathy double-digit return over the medium to long-term. Therefore, we advise investors to ignore short-term price swings based on the headlines, stay focused on the bigger picture, and take any market dip as an opportunity to build position in equities.