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Weekly Stock Market Commentary

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During the week ending November 27th, led by the heavy weight Oil & Gas Exploration sector, the benchmark KSE 100 Index rose by 620 points (1.5%) on a week-on-week basis. In line with the surge in global equities and international crude oil prices, the local bourse celebrated the latest vaccine development news, as the Covid-19 vaccine developed by the Oxford-AstraZeneca has shown 70.4% efficacy. Earlier, the announcement came from the successful stage 3 trial of Coronavirus vaccines by Pfizer & BioNTech two weeks ago with 90% efficacy, and during the last week by Moderna, with 94% efficacy. Russia has also claimed 92% effectiveness for its Sputnik V vaccine candidate.

Looking at the participant-wise market activity during the week, Individuals, Companies and Insurance Companies remained major buyers in the market, as each added equities worth USD 3 million. On the contrary, Foreign Investors and Banks/DFIs stood as main sellers, liquidating their positions to the tune of USD 9 million, and USD 3 million, respectively.

What to expect from the market going forward? We hold on to our view that the market is well poised to deliver robust returns over the medium to long-run. Our bullish view on the market is supported by improving economic prospects, attractive market valuations, and uptrend in the corporate earnings outlook. On the Coronavirus front, though the surging case counts is a cause of concern, we do not see major disruption to the economic activity. In our view, healthcare systems now have a better understanding of COVID-19 and a better supply of medical equipment such as personal protective equipment, ventilators and antiviral drugs. Positive vaccine news reinforces our outlook for sooner than expected acceleration in global economic activity, reducing risks of permanent economic damage. While the logistics of production and distribution of the vaccine worldwide are daunting, there is good reason to be hopeful that the end of the COVID-19 pandemic may now be in sight.

On the economic front, the external account continued to show improving trend as the current account surplus of USD 382 million was recorded for Oct-20. It was the 4th month in row with current account surplus, taking 4MFY21 surplus to USD 1.16 billion versus CAD of USD 1.4 billion in same period last year. SBP's FX reserves also exhibited encouraging trend that stood at USD 13.4 billion as of November 20th, showing an increase of around USD 500 million on a week-on-week basis. Despite elevated recent reading, we expect moderation in CPI inflation in the coming months due to high base effect and food inflation coming down owing to improved supplies of perishable food items. The SBP is likely to maintain accommodative monetary policy stance in the coming months with a gradual rise in the Policy Rate from 4QFY21.

From the valuation perspective, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.3x, versus 10-year average of 8.5x. The market is valued at P/BV of 1x versus the long-term average of 1.75x. In addition to this, the market also offers a healthy dividend yield of 5.5%. Corporate earnings, the key determinant of stock market performance are expected to grow at a double-digit rate over the next two to three years, based on our estimates.

Bottom Line: Taken all together, we believe that the investment landscape is constructive for equities, shaped by improving economic prospects and attractive market fundamentals. Therefore, we advise investors with medium to long-term investment horizon to look through any near-term market volatility and build position in the stock market through our NBP stock funds.