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Weekly Stock Market Commentary

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During the holiday shortened week ending October 29th, negativity returned to the market as the benchmark KSE 100 Index fell by a massive 1,378 points (3.3%) on a week-on-week basis. Buoyed by the stellar corporate earnings announcements, the market started the week on a positive note as the Index rose by 584 points on Monday, 26th October. However, fear of the second wave of the Coronavirus began to overwhelm the market sentiments that reached its fervour point on Friday with a hefty 3.2% decline in the Index from the previous day's close. However, we view the range-bound market performance of the past few months as a healthy consolidation of the initial leg of this bull market that is likely to run further.

Looking at the participant-wise market activity during the week, Foreign Investors emerged as the largest sellers in the market, liquidating equities worth USD 21 million. On the contrary, Insurance Companies and Individuals stood as major buyers, adding fresh positions to the tune of USD 8 million and USD 6 million, respectively. Alongside, Banks/DFIs and Companies each bought shares amounting to USD 3 million.

Going forward, we reiterate our sanguine outlook on the stock 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, number of new infection cases in the country have started rising with active cases at 12,000 from the lows of 5,500 in mid-September. As we see it, the concern for stock market is not so much the virus itself, but the reaction to it. We do not expect another round of lockdown and significant disruption to the economic activity. On the vaccine development front, researchers are testing 49 vaccines in clinical trials on humans worldwide, with eleven vaccines under large-scale efficacy test and six approved for early / limited use.

Key macroeconomic indicators point to improving business activity after Coronavirus shock. Frequently released economic data such as power generation, cement dispatches, automobile sales, and retail fuel sales have surged by 26%, 3%, 139%, and 14% during July-September 2020 compared with April-June 2020 period. Regarding external account, the country has posted current account surplus of USD 792 million in 1QFY21 versus a deficit of USD 1,492 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. Despite an elevated CPI reading recently, we anticipate inflation to moderate to 8% in FY21 compared with 10.7% in FY20. The SBP is likely to maintain the prevailing accommodative monetary policy regime in the near-term to support nascent economic recovery in the backdrop of challenging global economic outlook.

From the fundamental standpoint, the stock market is very attractive as captured by the forward Price-to-Earnings (P/E) multiple of 7.4, versus 10-year average of 8.5x. On a relative basis, the Earnings Yield of 13.5% offered by the market also looks appealing compared with the 10-year PIB yield of 9.6%. The market also offers a healthy dividend yield of 5.6%. Corporate earnings, the overarching determinant on the market performance are expected to grow at a double-digit rate over the next two years.

Bottom Line: We hold on to our view that the market is well poised to deliver robust returns over the medium to long-term driven by a healthy double-digit corporate earnings growth, attractive dividend yield, and some PE rerating. Therefore, with fundamental story of the stock market intact, we see any market dip as an opportunity to build position in equities.

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