

Sajjad Anwar, CFA
Chief Investment Officer

During the outgoing week, positivity was witnessed at the local bourse as the benchmark KSE 100 Index surged by a hefty 1,400 points (3.4%) on a week-on-week basis. In our view, investors' optimism was primarily driven by the announcement of development of spectacularly successful vaccines by Oxford-AstraZeneca, Pfizer & BioNTech, and Moderna, with 70% to 94% efficacy at the stage 3 trials. Russia has also claimed 92% effectiveness for its Sputnik V vaccine candidate. Similarly, improving economic trend also contributed to the positive market sentiments.

Looking at the participant-wise market activity during the week, Individuals remained the largest buyers in the market, adding equities worth USD 21 million. Likewise, Broker Proprietary Trading and Insurance Companies were other major buyers, as each accumulated fresh positions to the tune of USD 8 million. On the contrary, Foreign Investors remained the largest sellers, liquidating their positions to the tune of USD 30 million. Alongside, Banks/DFIs and Companies stood as other major sellers, offloading shares worth USD 7 million and USD 5 million, respectively.

Going forward, we maintain our sanguine view on the market over the medium to long-run given improving economic outlook, attractive market valuations, and promising corporate earnings prospects. On the Coronavirus front, though the surging case count 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. With multiple vaccines in sight, the case for earlier than expected acceleration in global economic activity has strengthened that also bodes well for the corporate profitability. We believe that this expected strong earnings growth is not priced into the market.

On the economic front, the external account continued to show improving trend with current account surplus of USD 1.16 billion in 4MFY2021 versus CAD of USD 1.4 billion in same period last year. Inflation as measured by the CPI clocked-in at 8.3% during November versus 9% in October. We expect further moderation in 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.

The stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.4x, versus 10-year average of 8.5x. In addition to this, the market also offers a healthy dividend yield of 5.3%. Corporate earnings, the dominant driver of stock market performance are expected to grow at a double-digit rate over the next two to three years, based on our projections.

Bottom Line: We hold on to our bullish view on the stock market over the medium to long-run. Therefore, we advise investors to build positions in the stock market, keeping their long-term investment objectives in mind.