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Weekly Stock Market Commentary

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Sajjad Anwar, CFA
Chief Investment Officer

During the week ending December 11th, the market was seen trading in a narrow range with the benchmark KSE 100 Index managing to increase by 263 points (0.6%) on a week-on-week basis. In our view, investors preferred to opt cautious approach in the wake of rising temperature in the domestic politics amid PDM's vow to hold protest rally in Lahore despite government citing concerns of risk of coronavirus spreading and warning of legal action. On the contrary, the news flows regarding the rollout of the coronavirus vaccines developed by Oxford-AstraZeneca, Pfizer & BioNTech, and Moderna contributed to the positive market sentiments.

Looking at the participant-wise market activity during the week, Insurance Companies and Individuals remained the major buyers in the market, adding equities worth USD 11 million and USD 3 million, respectively. On the contrary, Foreign Investors remained the largest sellers, liquidating their positions to the tune of USD 10 million. Alongside, Banks/DFIs stood as other major sellers, offloading shares worth USD 6 million.

What to expect from the market going forward? In our view, despite robust rally off the March lows, the market holds potential to deliver strong returns over the medium to long-run. Our sanguine view on the stock market is supported by improving economic prospects and attractive market fundamentals. We do not see major disruption to the economic activity despite elevated infection cases due to better understanding of COVID-19 and a better supply of medical equipment & antiviral drugs. The case for earlier than expected acceleration in global economic activity has also strengthened, considering the encouraging progress on the rollout of vaccines.

On the economic front, economic activity has picked up pace as reflected by the frequently released economic data such as cement dispatches, automobile sales, and retail fuel volumes. The LSM numbers also corroborate buoyancy in the manufacture sector. The external account, the Achilles' heel of our economy continued to improve, thanks to robust workers' remittances that stood at USD 2.3 billion in November 2020, showing a hefty 28% increase on a year-on-year basis. 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. We anticpate continuation of accommodative monetary policy stance in the coming months with a gradual rise in the Policy Rate from 4QFY21.

On the valuation standpoint, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.5x, versus 10-year average of 8.5x. In addition to this, the market also offers a healthy dividend yield of 5.3%. We expect corporate earnings to grow at a double-digit rate over the next two to three years, driven by a combination of top line growth, improving profit margins, and decline in finance cost.

Bottom Line: In our view, the stock market is well poised to deliver a healthy double-digit return over the medium to long-run. Therefore, we advise investors with medium to long-term investment horizon to build positions in the stock market through our NBP stock funds that have a superior performance track record.