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Weekly Stock Market Commentary

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During the outgoing week, positivity was witnessed at the local bourse as the benchmark KSE 100 Index surged by a hefty 1,270 points (3%) on a week-on-week basis. In our view, this renewed optimism is attributable to shift in investors' focus from business lockdown to vaccination and expectation of the end of Coronavirus pandemic. Declining political temperature after unimpressive PDM's rally in Lahore also buoyed investors' sentiments. More importantly, improved incoming economic data strengthened the case for equities. It merits mention that during FYTD through December 18th, 2020, the stock market has delivered a robust return of 27.1%.

Looking at the participant-wise market activity during the week, Banks/DFIs and Individuals stood as the major buyers in the market, adding fresh positions amounting to USD 7 million and USD 5 million, respectively. Alongside, Mutual Funds bought shares worth USD 3 million. On the contrary, Foreign Investors remained the largest sellers, liquidating their position to the tune of USD 9 million. Likewise, Broker Proprietary Trading offloaded shares worth USD 4 million & Insurance Companies liquidated stocks amounting to USD 1 million.

What lies ahead for the stock market? We reiterate our sanguine view on the market given improving economic prospects and attractive market fundamentals. As mentioned earlier, 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 and antiviral drugs. More importantly, the encouraging progress on the rollout of multiple vaccines has strengthened the case for earlier than expected acceleration in the global economic activity.

On the economic front, frequently released economic data such as cement dispatches, automobile sale volumes, retail fuel volumes reflect pick up in business activity. The overall output of LSMI increased by 5.46% for July-October 2020-21 compared to the corresponding period last year that also corroborate buoyancy in the manufacture sector. The external account continued the improving trend, thanks to robust workers' remittances that stood at USD 11.77 billion in July-November 2020, showing a hefty 27% increase on a year-on-year basis. We anticipate soft inflation readings in the coming months due to high base effect and expected decline in food inflation owing to improved supplies. The SBP is likely to continue with the accommodative monetary policy stance in the coming months with a gradual rise in the Policy Rate from 4QFY21.

From the valuation perspective, despite robust rally, the stock market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7.7x, versus 10-year average of 8.5x. The 13% Earnings Yield offered by the market looks appealing compared with 10-year PIB yield of 10%. In addition to this, the market also offers a healthy dividend yield of 5.1%. Corporate earnings, the dominant determinant of the stock market performance are expected to grow at a double-digit rate over the next two to three years.

The Bottom Line: In our view, the stock market holds potential to deliver healthy double-digit returns over the medium to long-run driven by robust corporate earnings growth, attractive dividend yield, and some PE expansion. 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.