NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

December 24, 2020

Sajjad Anwar, CFA
Chief Investment Officer

During the holiday shortened outgoing week, the rally at the local bourse took a breather as the benchmark KSE 100 Index lost 324 points (a decline of 0.7%) on a week-on-week basis. The market started off the week on a faltering note, in line with the sell-off in the global equities after the news of a new strain of the coronavirus in the UK and subsequent re-imposition of lockdowns and travel restrictions. However, the global stock markets reversed the weekly losses subsequently, after announcement of stimulus package in the US and rising expectations of the Brexit trade deal. The positivity was also witnessed at the PSX as the Index recovered around 510 points (1.2%) during the last two trading sessions of the week.

Looking at the participant-wise market activity during the week, Foreign Investors remained the largest sellers in the market, liquidating their positions to the tune of USD 20 million. Alongside, Individual Investors sold shares worth USD 5 million. On the contrary, Companies emerged as the largest buyers in the market, adding fresh positions to the tune of USD 26 million.

What to expect from the stock market going forward? We hold on to our positive view on the market over the medium to long-term. Our constructive view on the market is underpinned by the improving economic prospects, attractive market valuations, and robust corporate fundamentals. Despite elevated infection cases, we do not see major disruption to the economic activity due to better understanding of COVID-19 and a better supply of medical equipment and antiviral drugs. More importantly, the start of vaccination in the developed countries has increased expectation of end of the coronavirus pandemic and the resultant acceleration in the global economic activity.

On the economic front, economic activity has picked up pace as reflected by the frequently released economic data such as cement dispatches, automobile sale volumes, and retail fuel volumes. The buoyancy in the manufacture sector is also corroborated by a hefty 5.46% increase in the overall output of LSMI for July-October 2020-21 compared to the corresponding period last year. The external account, the Achille's heel of the Pakistani economy has continued the improving trend as the current account surplus of USD 1.64 billion was recorded during July-November 2020 vis-à-vis a Current Account Deficit (CAD) of USD 1.75 billion during the same period last year. We expect a CAD of USD 1.6 billion (0.6% of the GDP) during FY21 compared with a CAD of USD 3 billion (1.1% of the GDP) during FY20. 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.

The stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.6x, versus 10-year average of 8.5x, showing a discount of 11%. The Earnings Yield of 13.5% offered by the market looks appealing compared with 10-year PIB yield of 10%. The market also offers a healthy dividend yield of 5.1%. Corporate earnings, the dominant driver of the stock market performance are expected to grow at a double-digit rate over the next two to three years. The historical analysis shows that the stock market has depicted strong performance during the period of low interest rates and manageable current account deficit.

The Bottom Line: In our view, there is a strong case for equities driven by improving economic prospects and attractive stock market fundamentals. Therefore, we advise investors with medium to long-term investment horizon to ignore short-term volatility and build positions in the stock market through our NBP stock funds that have a superior performance track record.