

## Stock Market Review

During the outgoing month, the stock market staged recovery, as the benchmark KSE-100 Index rose by 1,181 points (2.96%) on a month-on-month basis. On one hand, investors appeared uneasy on rising Covid-19 cases throughout the country as average daily cases rose to 2,200 versus 700 average cases in the prior month. The situation elsewhere in the world was even alarming as daily average new infections surged to 570,000 versus 390,000 in the previous month. Likewise, the delay in the result of US Presidential elections also stoked uncertainty in the global markets. On the other hand, positive news on the vaccine development front, where Pfizer-BioNTech, Moderna and later on Oxford-AstraZeneca announced better-than-expected results of their stage-3 trials on humans with efficacy ranging from 70% to 94%, offering hope for a potent cure of the pandemic. The economic activity continued to gain momentum. LSM numbers for Sept-20, released during the month, showing YoY growth of 7.65%. FBR collection for Nov-20 stood at around PKR 350 billion, up marginally by 4% MoM, taking 5MFY21 collection to PKR 1.7 trillion, up from 1.6 trillion in same period last year. Remittances, for the 4th consecutive month exceeded USD 2 billion and clocked in at USD 2.28 billion during Oct-20, taking 4MFY21 inflow to USD 9.4 billion, posting healthy growth of 26.5% YoY basis. The external account continued its improving trend as the current account surplus of USD 382 million was recorded for October-2020. It was the 4th month in row with current account surplus, with cumulative surplus of USD 1.16 billion in 4MFY21 versus CAD of USD 1.4 billion in same period last year. FX reserves held by SBP also exhibited encouraging trend and stood at USD 13.4 billion as of November 20th, the highest level since Jan-2018. Fiscal deficit, for Sept quarter was also kept under control, which stood at 1.1% of the GDP.

During the month, Commercial Banks, Engineering, Glass & Ceramics, Oil & Gas Exploration, Refinery, Technology, and Textile Composite sectors performed better than the market. On the contrary, Auto Assemblers, Cements, Fertilizers, Insurance, Oil & Gas Marketing Companies, Power Generation & Distribution, and Transport sectors lagged behind. On participant-wise activity, Individual, Insurance and Companies remained major buyers in the market, adding stocks worth USD 34 million, USD 13 million and USD 11 million, respectively. Selling from the Foreigners continued during the month with net outflow amounting to USD 48 million. Mutual Funds and Brokers Proprietary Trading also remained sellers with net outflows to the tune of USD 11 million and USD 3 million, respectively.

What lies ahead for the market? We reiterate our sanguine outlook over the medium to long term horizon. The world is getting closer to the end of Covid-19 pandemic as four companies have already declared positive results of their vaccines while a lot more are in the pipeline. Consequently, the risks to the economic disruption are diminishing gradually. Furthermore, our positive view on the market is underpinned by improving economic prospects, attractive market valuations, and uptrend in the corporate earnings outlook. External account remains comfortable, and core inflation outlook is benign. Accommodative monetary policy is likely to continue and we expect a gradual adjustment in the Policy Rate from 4QFY21. From the valuation perspective, the stock market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.2x, versus 10-year average of 8.5x. Similarly, the market is valued at P/BV of 1x versus the long-term average of 1.75x. In addition to this, the market also offers a healthy dividend yield of 5.5%. Corporate earnings, the key determinant of stock market performance are expected to grow at a double-digit rate over the next two to three years, based on our estimates. Taken it all together, we advise investors to ignore the short term market volatility and consolidate position in equities, focusing on their long-term investment objectives.

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The State Bank of Pakistan (SBP) in its Monetary Policy Committee (MPC) meeting held on 23rd November 2020, decided to maintain the policy rate at 7%. MPC cited that the market confidence has improved and business recovery has gained traction. However, downside risks still exist as there has been an increase in COVID-19 cases in the country. The MPC is of the view that the overall financial conditions remain appropriately accommodative. We expect inflation to moderate in the coming months with improvement in the supply of perishable food items and high base effect. Consequently, we anticipate the SBP to maintain the current accommodative monetary policy stance in the near future with first hike in the Policy Rate in 4QFY21.

During the outgoing month, SBP held two T-Bill auctions with a combined target of Rs. 600 billion against the maturity of Rs. 743 billion. In the first T-Bill auction, an amount of Rs. 328.5 billion was accepted at a cut-off yield of 7.16%, 7.20% and 7.29% for 3-month, 6-month and 12-month tenures, respectively. In the second T-Bill auction, an amount of Rs. 357.6 billion was accepted at a cut-off yield of 7.15%, 7.20% and 7.25% for 3-month, 6-month and 12-month tenures, respectively. In the PIB auction, bids worth Rs. 16.05 billion were realized for 3-year, 15-year & 20-year tenures at a cut-off yield of 8.24%, 9.98% and 10.55%, respectively.

We have calibrated the portfolio of our money market and income funds based on our interest rate outlook and will remain alert to any developments that may influence our investment strategy.