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Weekly Stock Market Commentary

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During the outgoing week, the rally at the local bourse extended with the benchmark KSE 100 Index rising handsomely by 1,220 points (2.7%) on a week-on-week basis. Oil and Gas Exploration & Production, Power Generation & Distribution, and OMC sectors continued their uptrend after the news of agreement between the government and IPPs on schedule for overdue payment of Rs. 450 billion. In addition to this, in terms of Index contribution, the Banking sector remained the star performer driven by robust deposit growth and expectation of healthy full year payouts. More importantly, market participants looked past the emergence of new variant of the Coronavirus as the start of vaccination in the developed countries instilled hope for the end of the Coronavirus pandemic, and earlier than expected acceleration in the global economic activity. Adding to the investors' optimism was improved incoming economic data coupled with the attractive market fundamentals.

Looking at the participant-wise activity during the week, Mutual Funds emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 20 million. Alongside, net buying was witnessed from the Foreign Investors amounting to USD 3 million. On the other hand, Insurance Companies and Banks/DFIs emerged as the largest sellers in the market as each liquidated their positions by USD 8 million. Likewise, Individuals stood as other major sellers of the equities, worth USD 3 million.

What to expect from the market going forward? Despite robust rally, investment case for the equities is constructive given improving economic prospects and attractive market fundamentals. Notwithstanding the elevated infection cases, economic activity has gathered pace as reflected by the frequently released economic data. Buoyancy in the manufacturing sector is also corroborated by a large 5.46% expansion in the output of Large-Scale Manufacturing Industries (LSMI) during July-October 2020 compared with the same period last year. Workers' remittances continued the improving trend, which stood at USD 2.44 billion in December, showing a hefty increase of 16% on a year-on-year basis. With the pick-up in the quantum of demand of industrial raw materials emanating from the ongoing revival of the economic activity and increase in the unit prices of several import items, we expect the CAD to widen to a still manageable level of USD 1.6 billion (0.6% of the GDP) during FY21. Inflation as measured by the CPI moderated to 8% on a year-on-year basis for December 2020 versus 8.35% in November 2020. In our base case scenario, we expect the reversal of the monetary easing from the 4th quarter of FY21.

From the valuation perspective, even after the robust run, 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. Earnings Yield of 13.5% offered by the market looks appealing compared with 10-year PIB yield of 10%. The market is valued at a P/B of 1.1x compared to the long-term average of 1.7x. The market also offers a healthy dividend yield of 5%. Corporate earnings are expected to grow at a double-digit rate over the next two to three years. Cheap valuations, robust corporate earnings growth rate, paltry yields on the alternate saving avenues, and manageable current account deficit make a compelling case for the market rerating.

We reiterate our view that the stock market is well poised to deliver robust returns over the medium to long-term given: (i) attractive market valuation as captured in the attractive forward Price-to-Earnings multiple of 7.4x; (ii) robust corporate earnings growth for the next 2-3 years; (iii) ample local liquidity; and (iv) low returns on the alternate saving avenues. Therefore, we advise investors to build positions in the market through our NBP stock funds, which have a superior long-term performance track record.