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Weekly Stock Market Commentary

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During the week ending January 15th 2020, amid healthy trade volumes, the market was seen trading in a narrow range on the closing basis as the benchmark KSE 100 Index managed to advance by 277 points (0.6%) on a week-on-week basis. We see this range-bound market performance during the outgoing week as a healthy consolidation after robust run during the last few weeks. To put things into perspective, during FYTD through January 15th, the market has delivered robust returns of 33.4% and a staggering 69% upside from its bottom hit in March 2020. We hear many investors asking if the market has run its course. We believe that the bull-run at the local bourse has room to run further as despite sharp rally, it is still 13% down from its 2017 peak level of 52,876.

Looking at the participant-wise activity during the week, Individual Investors emerged as the major buyers in the market, accumulating fresh positions to the tune of USD 24 million. On the other hand, Insurance Companies and Mutual Funds stood as the largest sellers in the market, trimming their positions by USD 11 million and USD 8 million, respectively. Foreign selling tapered to the tune of USD 2 million.

We believe that the investment landscape is constructive for equities, shaped by improving economic prospects and attractive market fundamentals:

(i) **Attractive stock market valuations.** The market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.4x, versus 10-year average of 8.5x. On a relative basis, the Earnings Yield of 13.5% offered by the stock market also looks appealing compared with a 10-year PIB yield of 10.2%. The market is valued at P/BV of 1.1x versus the long-term average of 1.75x. In addition to this, the market also offers a healthy dividend yield of 5%.

(ii) **Improving economic prospects.** Economic activity has gathered steam as manifested by the frequently released economic data and LSMI numbers; a manageable anticipated CAD of USD 5 billion (1.8% of the GDP) during CY21 & expectation of a measured 5-7% devaluation against the US Dollar during CY21; and likelihood of continuation of accommodative monetary policy in the coming months with a modest 1%-1.5% hike in the Policy Rate during CY21.

(iii) **Upswing in the corporate earnings outlook.** After a V-shape economic recovery from the pandemic-induced recession & abatement of impact of contractionary policies pursued during the better part of FY19 & FY20, the stage is set for the corporate earnings to grow at a double-digit rate over the next two to three years, as per our estimates.

Taken together, the stock market is well poised to deliver robust returns in CY21, driven by 16% expected corporate earnings growth, 5% dividend yield, and some PE re-rating. Investors with medium to long-term investment horizon are advised to ignore any short-term volatility and build position in the stock market through our NBP stock funds.