NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

January 22, 2021

Sajjad Anwar, CFA
Chief Investment Officer

During the outgoing week, range bound activity was witnessed at the local bourse as the benchmark KSE 100 Index shed 63 points (a decline of 0.1%) on a week-on-week basis. How do we see this listless market performance during the last two weeks? In our view, this lackluster market performance is a healthy consolidation that is typical of a secular bull market. A secular market is a market that is driven by forces that could be in place for many years, causing the price of a particular investment or asset class to rise or fall over a long period. In a secular bull market, positive conditions such as low-interest rates and strong corporate earnings push stock prices higher. We believe that the conditions are ripe for the bull-run at the local bourse to continue during CY21, and beyond.

Looking at the participant-wise activity during the week, Individual Investors remained the largest buyers in the market, accumulating fresh positions to the tune of USD 15 million. Likewise, Companies and Foreign Investors stood as other major buyers, adding equities to the tune of USD 7 million and USD 6 million, respectively. On the contrary, Mutual Funds emerged as the largest sellers in the market, offloading their positions by USD 20 million. Alongside, Broker Proprietary Trading were other major sellers, trimming shares worth USD 7 million.

What lies ahead for the stock market? We believe that there is a strong case for optimism in 2021. Our sanguine view on the market is driven by improving economic prospects and attractive market fundamentals.

On the economic front, economic recovery has gained traction as manifested by the frequently released economic data such as Cement dispatches, Automobile sales volumes, and sales of the retail fuel. A robust 7.41% growth in the Large Scale Manufacturing Industries (LSMI) during July-November 2020 versus the same period last year also corroborates buoyancy in the economic activity. Similarly, the overall business confidence improved further by 1 point to 56 in December 2020. With strong rebound in the economic activity, following five consecutive months of surpluses, the current account registered a deficit of USD 662 million in December. However, during 1HFY2021, a current account surplus of USD 1.1 billion was recorded compared to a deficit of USD 2 billion during the corresponding period last year. In its meeting held on January 22nd 2021, the MPC left the Policy Rate unchanged at 7%, citing the current accommodative monetary policy appropriate for the nascent economic recovery. We expect a modest 1%-1.5% hike in the Policy Rate during CY21.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.3x, versus 10-year average of 8.5x. On a relative basis, the Earnings Yield of 13.7% offered by the stock market also looks appealing compared with a 10-year PIB yield of 10.1%. In addition to this, the market also offers a healthy dividend yield of 5%. Driven by a strong economic recovery from the pandemic-induced recession, we expect corporate earnings to grow at a double-digit rate over the next two to three years.

In our view, the stock market is well poised to deliver strong returns in CY21, driven by a robust 16% expected corporate earnings growth, a healthy 5% dividend yield, and some PE re-rating. We advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.