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Weekly Stock Market Commentary

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During the week ending February 26th 2021, the stock market remained sideways as investors opted cautious approach during the future rollover week with the KSE 100 Index declining by 363 points (0.8%) on a week-on-week basis. In the backdrop of a very strong outgoing corporate results season, how do we see this lackluster market performance during the last couple of weeks? We believe that this muted market performance is a healthy pause or consolidation that is typical of a secular bull run that lasts for years not months. To put things into perspective, during FYTD through February 26th, the market has delivered a robust return of 33.2% and it has surged by 68% from its bottom hit in March 2020.

Looking at the participant-wise activity during the week, Individual Investors and Insurance Companies emerged as major buyers in the market, accumulating fresh positions to the tune of USD 7 million and USD 5 million, respectively. On the contrary, Broker Proprietary Trading and Mutual Funds stood as main sellers in the market, offloading their positions by USD 11 million and USD 5 million, respectively.

The Financial Action Task Force (FATF) on Thursday decided to keep Pakistan on its 'grey list', with the country's status set to be reviewed next at an extraordinary plenary session in June 2021. FATF announced that out of 27 action points, the country has largely addressed 24 and has partially addressed the remaining three action items.

Going forward, we reiterate our positive view on the stock market underpinned by the improving economic outlook, supportive financial conditions, attractive market valuations, and promising corporate earnings prospects. Economic activity has gathered pace as reflected by the output of the Large Scale Manufacturing Industry (LSMI) that rose sharply by 11.4% for December 2020, taking half year growth to an impressive 8.2%. Moreover, the recently concluded corporate result season also substantiates the economic recovery narrative, with vast majority of the companies beating expectations both in terms of superior revenue growth as well as margin expansion thereby validating the remarkable market rally at the local bourse and paving the way for the next leg up, in our view. Current Account Deficit (CAD) for January clocked-in at USD 229 million, taking seven months' cumulative Current Account surplus to USD 912 million, vis-à-vis a CAD of USD 2.54 billion during the same period last year.

From the valuation stand point, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.1x, versus 10-year average of 8.5x. The market also offers a healthy dividend yield of 5%. We expect corporate earnings to grow at a double-digit rate over the next two to three years. We anticipate continuation of accommodative monetary policy regime in the coming months with a modest 1%-1.5% hike in the Policy Rate during CY21.

We believe that there is a strong investment case for equities. Therefore, we advise investors with medium to long-term investment horizon to build positions in stock market through our NBP stock funds.