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Weekly Stock Market Commentary

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After some slight correction witnessed during the last week, during which KSE 100 Index witnessed a decline of 2.3%, the stock market regained upward trajectory, rising by 419 points during the week ending February 19th 2021.

Supported by positive news-flow, the market started off the week on a positive note. Large Scale Manufacturing (LSM) numbers reported during the week revealed solid industrial growth for the month of December during which industrial production rose sharply by 11.4% YoY, taking half year growth to an impressive 8.2%. On Financial Action Task Force (FATF) front, the country has reportedly made substantive progress on the remaining items of the Action Plan, and is believed to have completed 21 of the 27 Action Items. Workers' Remittance again remained healthy for the month of January-21, exceeding USD 2 billion for the eighth straight month, clocking in at USD 2.3 billion, taking seven months cumulative number to USD 16.5 billion, growing by 24% YoY. Likewise, cumulative inflows under Roshan Digital Account also exceeded USD 500 million during the week.

Furthermore, during the week, IMF staff and the country reached staff-level agreement over reforms that will lead to the release of around USD 500 million. IMF acknowledged that the policies and reforms implemented by the Pakistani authorities reduced economic imbalances and set the conditions for improving economic performance prior to Covid-19 and most of the targets under the EFF-supported program were on track to be met. Owing to these positive developments, the index rose by more than 1,000 points in the first 2 days. However, some profit taking and selling pressure in the subsequent days trimmed the gains. The investors were also disappointed by below expected results of select banking sector stocks and relatively low payouts, thus trimming the earlier gains. However, on a weekly basis, the market surged by 419 points, a gain of 0.9% on a week-on-week basis.

Looking at the participant-wise activity during the week, Companies, and Individual Investors remained major buyers in the market, accumulating fresh positions to the tune of USD 6 million, and USD 5 million, respectively. On the contrary, Insurance Companies stood as main sellers in the market, offloading their positions by USD 9 million.

In terms of stock market outlook going forward, we reiterate our sanguine view underpinned by sharp economic recovery, robust corporate earnings growth, attractive stock market valuation, and supportive financial conditions. On the economic front, the V-shape economic recovery has gained traction as evidenced by frequently released economic data such as cement dispatches, automobile sales volumes, and sale of the retail fuels. A hefty 8.16% increase in output of the Large-Scale Manufacturing Industries (LSMI) for July-December 2020-21 compared to same period last year also corroborate buoyancy in the economic activity. Moreover, the ongoing earnings season has been supportive of the economic recovery narrative, with majority of the reporting companies beating expectations both in terms of superior revenue growth and 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.

From the valuation stand point, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 7.2x, versus 10-year average of 8.5x. The market also offers a healthy dividend yield of 5%. Corporate earnings, the dominant stock market driver, are expected to grow at a double-digit rate over the next two to three years. The SBP has signaled the continuation of the accommodative monetary policy in the coming months and we expect a modest 1%-1.5% hike in the Policy Rate during CY21. Given improving economic outlook, promising corporate prospects, attractive stock market valuations, and justified vaccine optimism, we advise investors with medium to long-term investment horizon to build positions in equities.