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Weekly Stock Market Commentary

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During the outgoing week, amid large daily swings, after swinging between gains and losses, the benchmark KSE 100 Index declined by a paltry 28 points (0.1%) on a week-on-week basis. What caused this lackluster market performance during the last couple of weeks despite a robust outgoing corporate result season? We reiterate our view that this muted market performance is a healthy pause or consolidation that is typical of a secular bull run. In addition to this, investors opted cautions approach amid domestic political uncertainty surrounding the senate election. To recall, during FYTD through March 5th, the market has delivered a robust return of 33% and it has surged by 68% from its bottom hit in March 2020.

Looking at the participant-wise activity during the week, Banks/DFIs and Insurance Companies emerged as major buyers in the market, as each accumulated fresh positions to the tune of USD 8 million. Alongside, Other Organizations were other major buyer, adding equities worth USD 5 million. On the contrary, Foreign Investors and Mutual Funds stood as main sellers in the market, offloading their positions by USD 11 million and USD 9 million, respectively.

What do we expect from the market going forward? We hold on to our view that the market is well poised to deliver robust returns in CY21, and beyond given improving economic outlook, supportive financial conditions, attractive market valuations, and promising corporate earnings prospects. Economic activity is in full swing as reflected by the output of the Large Scale Manufacturing Industry (LSMI) that rose sharply by 11.4% during December 2020, taking half year growth to an impressive 8.2%. Remarkable growth in profitability of the corporate listed sector in the recently concluded result season also substantiates the V-shaped economic recovery from the Coronavirus shock. More importantly, this robust earnings growth has validated the remarkable market rally at the local bourse, thereby setting the stage for the next leg up, in our view. External account, the Achilles' heel of our economy is in much better shape as during 7MFY21 cumulative Current Account surplus of USD 912 million was recorded, vis-à-vis a CAD of USD 2.54 billion during the same period last year.

Valuations of the market are very attractive as captured by the forward Price-to-Earnings (P/E) multiple of 6.8x, versus 10-year average of 8.5x, trading at a deep discount of 20%. 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. Despite elevated inflation readings, 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.

Given our constructive view on the stock market, we advise investors with medium to long-term investment horizon to build positions in equities through our NBP stock funds.