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Weekly Stock Market Commentary

March 19, 2021

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During the outgoing week, bucking the previous week's bearish trend, positivity returned to the market, as the benchmark KSE 100 Index rose by a hefty 1,113 points (2.5%) on a week-on-week basis. From its recent low level of 42,780 hit on March 11th, the market has recovered by 5% as smart money entered the market after indiscriminate sell-off during the week ending March 12th 2021 opened-up valuation gap in some parts of the market. It bears repeating that during FYTD through March 19th, the market has delivered robust return of 30% and it has urged by a hefty 65% from its bottom hit during the Coronavirus crash in March 2020.

Looking at the participant-wise activity during the week, Mutual Funds and Insurance emerged as large buyers in the market, accumulating fresh positions worth USD 10 million and USD 8 million, respectively. Alongside, Foreign Investors bought shares worth USD 3 million. On the contrary, Banks/DFIs and Companies stood as main sellers in the market, offloading their equity holdings by USD 11 million and USD 8 million, respectively.

Going forward, we hold on to our view that the market is well poised to deliver robust returns over the medium to long-term. Our sanguine view on the market is underpinned by improving economic outlook, supportive financial conditions, attractive market valuations, and promising corporate earnings prospects. Economic momentum has gained traction as corroborated by the output of the Large Scale Manufacturing Industry (LSMI) that rose sharply by 9.13% in January 2021, taking 7MFY21 growth to an impressive 7.85%. External account, the Achilles' heel of our economy & a key determinant of our stock market performance is in much better shape, thanks to a large 24% year-on-year growth in the workers' remittances during 8MFY21. Moreover, 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.

On valuation, the market is trading at a forward Price-to-Earnings (P/E) multiple of 6.6x, versus 10-year average of 8.5x. The Earnings Yield of 15.2% offered by the market also looks appealing compared with 10-year PIB Yield of 10.45%. The stock market also offers a healthy dividend yield of 5%. Given pick-up in economic activity, we expect corporate earnings to grow at a double-digit rate over the next two to three years. In line with the market expectation, the SBP maintained the Policy Rate at 7% in its recent bi-monthly Monetary Policy review. We anticipate continuation of the prevailing easier financial conditions with a modest 1%-1.5% hike in the Policy Rate during CY21.

The Bottom Line: In our view, the market holds potential to deliver robust returns in CY21, driven by double digit corporate earnings growth; a healthy 5% dividend yield; and some PE rerating. Therefore, we advise investors with medium to long-term investment horizon to build positions in equities through our NBP stock funds.