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Weekly Stock Market Commentary

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The stock market performance remained lackluster during the outgoing week ending 23rd April, as the benchmark KSE 100 Index fell by around 599 points (a decline of 1.3%) on a weekly basis. From the onset of the week, the market remained under pressure and closed in red during 4 out of the 5 trading sessions. Although the companies across various sectors, such as cement, steel, pharma and banks posted stellar earnings during the ongoing corporate result season, investors looked past the strong profitability as the focus shifted to the surging number of Covid-19 cases in the third wave with its implications for the business activity. The average daily cases remained around 5k-6k throughout the week, with infection ratios in the low double digit and fatality numbers also remained on the higher side. Though the probability of full blown lockdown remains very slim, it still unhinged the market. Adding to investors angst was ongoing stand-off with the TLP which sporadically turned violent.

In terms of trading activity during the week, Foreign Investors emerged as the largest buyers in the market with net inflows amounting to USD 7 million. Alongside, Individuals and Broker Prop Trading also increased their equity holdings to the tune of USD 4 million and USD 2 million, respectively. On the contrary, Mutual Funds and Companies remained the major sellers with net outflows of around USD 8 million and USD 5 million, respectively.

Looking ahead, the stock market outlook remains sanguine as we draw comfort from the strong rebound in economic activity as evidenced by the frequently released economic data. Large scale manufacturing data also validate that big industry output remains buoyant amidst strong demand. The robust earnings across various sectors also signify that not only demand remains firm, but the companies also command strong pricing power. Based on the initial assessment, bumper wheat crop is expected this season owing to favorable weather and higher support prices. As a result, the GDP looks set to grow at around 2.5-3% in FY21 after Coronavirus-induced contraction of 0.4% in FY20. External account is also favorably placed as 9MFY21 current account number stands in a surplus of around USD 959 million. FX reserves also remain in comfortable position after issuance of Eurobonds of USD 2.5 billion & receipt of IMF tranche of USD 500 million few weeks back. Though recent surge in Covid-19 cases and rising infection ratio is a potential threat to the ongoing economic recovery, we reckon that the valuable experience from the past, and the medical advances/knowledge have allowed the authorities to opt for more targeted controls to restrict the spread of the virus. We believe that the economic cost of the restrictions/smart and targeted lockdowns will be limited.

From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.4x, versus 10-year average of 8.4x. The stock market also offers a healthy dividend yield of 5%. Earnings of the corporate listed sector are well poised to grow at double-digit rate over the next two to three years, based on our estimates.

We reiterate our view that the market holds potential to deliver robust return in CY21, and beyond driven by: (i) double-digit corporate earnings growth rate over the next two to three years; (ii) a healthy 5% dividend yield; and (iii) some P/E re-rating. Therefore, investors with medium to long-term horizon are advised to build position in equities through our NBP stock funds.