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Weekly Stock Market Commentary

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Sajjad Anwar, CFA
Chief Investment Officer

During the week ending June 4th 2021, carrying forward the positive momentum, the benchmark KSE 100 Index surged by 1,085 points (a hefty return of 2.3%) on a week-on-week basis. The market started the week on a strong note, rising by 770 points (1.6%) on Monday, 31st May 2021. It merits highlighting that during the month of May 2021, the market has surged by 8.2% and it has delivered a remarkable return of 40% during FYTD through June 4th 2021. After a lackluster performance during January-April 2021, the renewed optimism at the local bourse is attributable to developments on the healthcare and economic fronts. Encouragingly, coronavirus situation in the country has improved significantly as infection ratio has fallen below 4% from a high of 11.6% recorded on April 20th 2021. The 3.94% GDP growth estimates for the year 2020-21 released by the planning ministry also uplifted market sentiment. More importantly, the statement of Finance Minister, Shaukat Tarin for no new taxes and no power tariff hike in the upcoming budget alleviated investors' worries regarding the expected tax burden and impact on the corporate profitability. Despite robust market rally, we see current market levels as good entry point for investors with medium to long-term investment horizon.

In terms of trading activity during the week, Individual Investors stood as the largest buyers in the market, accumulating fresh positions to the tune of USD 11 million. Alongside, Mutual Funds and Other Organizations emerged as other main buyers in the market as each added equities to the tune of USD 5 million and USD 4 million, respectively. On the other hand, Insurance Companies and Broker Proprietary Trading stood as the major sellers in the market, offloading their equity positions by USD 12 million and USD 6 million, respectively.

A positive market development at the end of the week was the release of the first tranche of 40% to 20 IPPs amounting to Rs. 89.2 billion that would alleviate cashflow problems in the energy chain and unlock the true value of listed companies. In another development, the Asia Pacific Group (APG) on Money Laundering has moved Pakistan status from enhanced (expedited) to enhanced follow-up, while it still requires a continuation of reporting to the APG on progress to strengthen the implementation of (AML/CFT) measures. As per the report, Pakistan has achieved compliant/largely compliant rating in 31 out of 40 FATF Recommendations in Technical Compliance.

What do we expect from the market going forward? We maintain our positive view on the market over the medium to long-term that is underpinned by attractive market fundamentals, promising corporate prospects, and improving economic outlook. The economic recovery is on the firmer footing as manifested by a hefty 8.99% increase in the overall output of Large-Scale Manufacturing Industries (LSMI) for 9MFY21 compared to same period last year. External account is also favorably placed as 10MFY21 current account number stands at a surplus of around USD 773 million compared to a Current Account Deficit (CAD) of USD 4.66 billion in the corresponding period last year. We expect continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate. We expect a pro-growth upcoming federal budget that would provide further impetus to the market.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.7x, versus 10-year average of 8.4x. On a relative basis, the Earnings Yield of around 14.9% offered by the stock market also looks appealing compared to 9.9% yield on 10-year PIBs. In addition to this, the stock market also offers a healthy dividend yield of 5.3%. Earnings of the corporate listed sector are expected to grow at double-digit rate over the next two to three years.

Taken together, there is a strong investment case for equities at the current market levels. Therefore, investors with medium to long-term horizon are advised to build position in equities through our NBP stock funds.