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Weekly Stock Market Commentary

June 18, 2021

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During the week ending June 18th 2021, lackluster activity was witnessed at the local bourse with the benchmark KSE 100 Index declining by a paltry 66 points (0.1%) on a weekly basis. To put things into perspective, the market has delivered a robust 40% return during FYTD through June 18th. The market started off the week on a strong note as the Index surged by 421 points (0.9%) on Monday, June 14th. However, the market lost momentum and closed the week with a marginal decline in the Index. We see this lackluster market performance during the last couple of weeks as a healthy consolidation / pause. We hear many investors saying that the market has risen too far too fast and thus it has run its course. However, we see the current market levels as attractive entry point for investors with medium to long term investment horizon given attractive valuations as captured in the forward P/E multiple of 6.6x; improving economic outlook; and promising corporate prospects.

In terms of trading activity during the week, Individuals emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 21 million. Alongside, Mutual Funds stood as other main buyers in the market adding equities to the tune of USD 11 million. On the contrary, Companies were the largest sellers in the market, offloading their equity positions by USD 11 million. Similarly, among other major sellers, Foreign Investors and Insurance Companies each liquidated shares worth USD 7 million & Broker Proprietary Trading sold their equity holdings by USD 6 million.

Looking ahead, we maintain our positive view on the market given attractive market fundamentals; improving economic indicators; easier financial conditions; and more importantly robust corporate profitability. The federal budget FY22 is also positive for the stock market: reduction in Capital Gains Tax (CGT) on securities from 15% to 12.5%; Turnover Tax rate has been lowered to 1.25% from 1.50%; Custom Duties, Additional Custom Duties, and Regulatory Duties on imported raw materials have been brought down; Federal Excise Duties and Sales Tax on some products have also been lowered/abolished; and renewed focus on GDP growth, with significantly higher federal and provincial allocation for development spending.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.6x, versus 10-year average of 8.4x. 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. Furthermore, we expect the SBP to continue with the accommodative monetary policy regime with a modest 0.5%-1% hike in the Policy Rate during CY21.

Given strong investment case for the stock market, we advise investors with medium to long-term horizon to build position in equities through our NBP stock funds.