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Weekly Stock Market Commentary

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During the outgoing week, the market delivered listless performance as the benchmark KSE 100 Index shed 635 points (a decline of 1.3%) on a week-on-week basis. It may be recalled that the market has delivered a robust 38.3% return during FYTD through June 25th. The market was seen trading in a narrow range swinging between gains and losses as investors seemed weighing the incentives offered and new taxation measures taken in the federal budget FY22. We see this lackluster market performance during the last couple of weeks as a healthy consolidation / pause. Looking ahead, in our view, the current market levels are attractive entry point for investors with medium to long term investment horizon given attractive valuations as captured in the P/E multiple of 6.6x; improved economic outlook; and promising corporate earnings prospects.

In an important market development during the week, the Financial Action Task Force (FATF) announced that Pakistan will continue to remain on the watchdog's "increased monitoring list", commonly known as the grey list. It further said that Pakistan has made significant progress and it has largely addressed 26 out of 27 items but financial terrorism still needed to be addressed.

In terms of trading activity during the week, Individuals, Banks/DFIs and Companies emerged as main buyers in the market, accumulating fresh positions to the tune of USD 14 million, USD 13 million, and USD 6 million, respectively. On the contrary, Insurance Companies, Foreign Investors, and Mutual Funds stood as major sellers in the market, offloading their equity positions by USD 13 million, USD 8 million and USD 7 million, respectively.

Going forward, in our view the market is well poised to deliver strong returns in the medium to long-term driven by attractive market fundamentals; improving economic indicators; easier financial conditions; and robust corporate profitability. It bears repeating that overall, the federal budget FY22 is positive for the stock market: Capital Gains Tax (CGT) on securities has been reduced 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 there is renewed focus on GDP growth, with significantly higher federal and provincial allocation for development spending.

From the fundamental standpoint, the market is valued 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%. Helped by robust demand and strong profit margins, we expect corporate earnings to grow at double-digit rate over the next two to three years. Further, in the last monetary policy review in May 2021, the SBP has hinted continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward. We anticipate a modest 0.5%-1% hike in the Policy Rate during CY21.

Taken together, the market is well placed to show strong performance in FY22. Therefore, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.

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