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Weekly Stock Market Commentary

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During the week ending July 2nd 2021, range bound activity was witnessed at the local bourse as the benchmark KSE 100 Index managed to increase by a paltry 83 points (a marginal gain of 0.2%) on a week-on-week basis. The market started off the week on a faltering note as the Index slumped by 601 points (1.3%) on Monday, June 28th. However, the market recovered the lost ground during the subsequent trading days of the week and closed the week with a marginal gain in the Index. It may be recalled that the market has delivered a robust 38% return during FY21. Looking ahead, we believe that despite strong rally in FY21, the current market levels are still attractive entry point for investors with medium to long term investment horizon.

Regarding the important market related developments during the week, the PTI-led coalition government on Tuesday smoothly approved federal budget FY2021-22, without facing any resistance by opposition parties. On the economic front, despite raging Covid-19, the Federal Board of Revenue's (FBR) collection stood at Rs. 4,732 billion during FY21, surpassing the revised target, and ending up with very close to the ambitious original target of Rs. 4,963 billion. In another key development, National Accountability Bureau (NAB) has reportedly given its approval to the Power Division for clearing the pending dues of Independent Power Producers (IPPs) established under the Power Policy 2002. It is pertinent to mention that the government has so far released first tranche of Rs. 89.2 billion to 20 IPPs excluding those under the Power Policy 2002.

In terms of trading activity during the week, Individuals and Companies emerged as main buyers in the market, accumulating fresh positions to the tune of USD 14 million and USD 13 million, respectively. On the contrary, Insurance Companies, Mutual Funds, and Foreign Investors stood as major sellers in the market, offloading their equity holdings by USD 18 million, USD 11 million, and USD 8 million, respectively.

What do we expect from the stock market going forward? We maintain our positive view on the market for FY22. Our sanguine view on the market is underpinned by attractive market fundamentals; upward economic growth trajectory; easier financial conditions; and promising corporate earnings outlook. Given positive developments on the global front following the re-opening of global economies; supportive fiscal and monetary policies; and renewed focus of the government on faster economic growth, FY22 GDP growth target of 4.8% looks feasible. With pick-up in economic activity and a quantum jump in commodity prices, CAD is expected to widen to a still manageable level at USD 5 billion (1.5% of GDP) in FY22. Average CPI inflation clocked-in at 8.9% in FY21. Our estimates suggest inflation to remain elevated at around 8% in FY22. Despite elevated inflation readings, the SBP has hinted continuation of accommodative monetary policy regime in the near-term with a gradual and measured hike in the Policy Rate, going forward. We anticipate a modest 1-1.5% hike in the Policy Rate during FY22.

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