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Weekly Stock Market Commentary

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During the outgoing week ending July 9th 2021, the stock market performance remained lackluster. The market oscillated in a narrow range, and at close of the week, the benchmark KSE-100 Index declined by a paltry 123 points (-0.3%) on a week-on-week basis. The market remained under pressure from the beginning of the week, as investors opted profit taking amid uneasiness emanating from uncertainty on geopolitical front (unceremonious and hasty exit of US forces from the last base in Afghanistan) and rising Covid-19 cases of highly contagious Delta variant in the country (after bottoming out last week). However, on Thursday, the market rebounded sharply as massive net buying from select mutual funds prompted by significant net inflow from a pension fund led to a strong recovery whereby the Index surged by around 805 points. However, profit taking on the next day again put pressure on the market.

Regarding the important market related developments during the week, after a gap of 3 months, the country again turned to international debt market and borrowed USD 1 billion, at even better rates compared to the previous issues back in March-21. Another positive development on the external front was a record USD 210 million inflows in RDA accounts. Till June-21, the country has received around USD 1.56 billion in this account, though most of the funds (USD 1.05 billion) are invested in Naya Pakistan Certificates. The foreign exchange reserves reported by the central bank also showed a big jump, in the week ending 1st July, the reserves held by the central bank clocked in at USD 17.2 billion, which is the highest level since Mar-17.

In terms of trading activity during the week, Companies and Mutual Funds emerged as main buyers in the market, as each accumulated fresh positions to the tune of USD 4 million. On the contrary, Foreign Investors Broker Prop Trading and Insurance Companies stood as major sellers in the market, offloading their equity holdings by USD 5 million, USD 4 million, and USD 3 million, respectively.

Looking ahead, we reiterate our positive outlook on the market for FY22. We draw comfort from the attractive stock market fundamentals; positive momentum in economic activity; 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% is achievable. However, meeting the other macro-economic targets may remain a challenge for the authorities. With pick-up in economic activity and a sustained rise in international 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 and is expected to remain downward sticky during the current year. 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 6.5x, 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.