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Weekly Stock Market Commentary

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During the outgoing week, range bound activity was witnessed at the local bourse as the benchmark KSE 100 Index shed 320 points (a paltry decline of 0.7%) on a week-on-week basis. The market started off the week on a faltering note as the Index lost 366 points on Monday, August 9th. During the subsequent trading days of the week, after swing between gains and losses the market finished the week with a slight decline in the Index. What has caused this lackluster performance despite attractive market fundamental? As we see it, this lackluster market performance during the last few weeks is attributable to concerns on security situation in Afghanistan, fear of disruption to the economic activity amid rising Covid-19 cases in the country, and emerging risks to the Balance of Payment situation emanating from widening Current Account Deficit (CAD). However, we reiterate that given attractive market valuations and promising corporate earnings prospects, these market levels are an attractive entry point for investors with medium to long-term investment horizon.

On participant-wise activity during the week, Foreign Investors and Companies emerged as major buyers in the market, accumulating fresh position to the tune of USD 4 million and USD 3 million, respectively. On the contrary, Insurance Companies and Individuals stood as main sellers, trimming their equity holdings by USD 7 million and USD 3 million, respectively.

What lies ahead for the stock market? We hold on to our positive view on the market. Our sanguine view on the market is premised on: (i) attractive market valuations as captured in the Price-to-Earnings (P/E) multiple of 6.4x versus 10-year average of 8.4x; (ii) improving economic indicators; (iv) easier financial conditions as reflected by the accommodative monetary policy and tight credit spreads; and (v) double digit corporate earnings growth rate expected over the next two to three years.

Though investors' concerns on widening CAD and rising Covid-19 cases are not needless, we believe that the country is better positioned this time to steer through it. The central bank this time around is not fixated with maintaining a fixed exchange rate and as we have seen in the past 10-12 weeks, the currency has depreciated by around 6-7% against the USD. Finance Minister Shaukat Tarin on Thursday confirmed that the country will receive USD 2.77 billion 'unconditional' funds from the International Monetary Fund (IMF) on August 23rd. These inflows would boost SBP's FX reserves and alleviated pressure on the PKR. On Covid-19 front, the vaccination drive has picked pace in recent days and we expect vaccination of major eligible population in a few weeks, which would allow the economy to continue to operate uninterrupted.

The central bank in its bi-monthly monetary policy review at the end of July, not only maintained the Policy Rate at 7%, but has again reiterated continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward, which also bodes well for the stock market. Taken together, the market holds potential to deliver strong performance in FY22. Therefore, given a strong investment case for the equities, investors with medium to long-term investment horizon are advised to build position in the stock market through our NBP stock funds.