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Weekly Stock Market Commentary

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During the week ending July 16th 2021, amid subdued trading activity, the stock market was seen trading in a narrow range with the benchmark KSE 100 Index rising by 271 points (0.6%) on a week-on-week basis. What caused this lackluster market performance during the last couple of weeks? Firstly, extremely volatile security situation in Afghanistan after unceremonious and hasty exit of US forces from its last base sent jitters in the market. Secondly, investors were also unnerved by a sharp increase in positivity rate of Covid-19 to above 6% in the country, the highest rate in the last two months. However, the market closed the week on a positive note with a gain of 206 points on Friday, being the last trading day of the week. Looking ahead, our positive view on the stock market for FY22 is underpinned by attractive valuations as captured by the Price-to-Earnings (P/E) multiple of 6.6x; a healthy 5.3% dividend yield; and robust double-digit corporate earnings growth rate expected over the next two to three years.

In terms of trading activity during the week, Insurance Companies emerged as main buyers in the market, accumulating fresh positions to the tune of USD 13 million. Alongside, Foreigners' net buying stood at USD 5 million. On the contrary, Individuals emerged as the largest sellers in the market, liquidating shares worth USD 10 million. Likewise, Broker Proprietary Trading were other main sellers, trimming their equity holdings by USD 6 million.

What lies ahead for the stock market? We reiterate our positive view on the market for FY22, and beyond. We draw comfort from the attractive stock market fundamentals; strong momentum in economic activity; easier financial conditions; and promising corporate earnings outlook. In our view, market would take cue from upcoming corporate results season that is likely to kick-off in the last week of July. On the external account front, with pick-up in economic activity and sustained rise in international commodity prices, Current Account Deficit (CAD) is expected to widen to a still manageable level of USD 5 billion (1.5% of GDP) in FY22. After the receipt of USD 1 billion proceeds from the recently issued Eurobond, SBP's FX reserves as on 13th July, 2021 have reached USD 18.2 billion, which is the highest level since January 2017. We anticipate a modest 1-1.5% hike in the Policy Rate during FY22.

From the valuation standpoint, the stock market is trading at 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%. On a relative basis, Earnings Yield of 15.2% offered by the market looks appealing compared with 10-year PIB yield of 9.95%. 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. Taken together, investors would be wise to ignore short-term market volatility and build position in the stock market through our NBP stock funds, keeping their long-term investment objective in mind.