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# Weekly Stock Market Commentary

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During the holiday shortened outgoing week ending August 20th 2021, the stock market reversed the trend of the previous week and the benchmark KSE 100 Index rose by 430 points (an upside of 0.9%) on a week-on-week basis. The market started off the week on a faltering note amid geopolitical developments in the neighboring Afghanistan as Taliban swept into Kabul on Sunday, August 15th after the collapse of the ruling Afghan government. However, the market regained some confidence on Tuesday, August 17th as this takeover happened without any bloodshed and possible infighting between Taliban & Afghan army. Further, led by the Cement and Steel sectors, the market finished the week on a strong note with a hefty daily gain of 341 points on Friday, August 20th. Many investors are asking us reasons for the lackluster market performance during the last few weeks despite strong market fundamentals. In our view, key factors that contributed to this anemic market performance include security situation in Afghanistan, elevated Covid-19 cases in the country, and high Current Account Deficit (CAD) in June 2021. That being said, we view this range bound market activity as a heathy consolidation before the next leg up, going forward.

On participant-wise activity during the week, Companies and Mutual Funds emerged as major buyers in the market, accumulating fresh positions to the tune of USD 8 million and USD 6 million, respectively. On the contrary, Foreigners stood as the largest sellers, offloading their equity positions by USD 11 million.

What do we expect from the stock market going forward? The market is well poised to deliver strong returns in FY22, and beyond given: undemanding stock market valuations; robust economic activity; supportive monetary conditions; ample local liquidity; and promising corporate earnings prospects. On the economic front, Current Account Deficit (CAD) for July 2021 narrowed to USD 773 million after a hefty USD 1.6 billion CAD for the month of June 2021. Though investors' concerns on rising CAD are not unwarranted, the policymakers seem better prepared this time to navigate it. Instead of fixation on the fixed exchange rate, the SBP has let the currency depreciate by around 6-7% against the USD during the last few weeks to contain emerging demand pressure in the economy. On Covid-19 front, the strategy of smart & targeted lockdowns has worked well; and considering the vaccination progress, major eligible population is expected to get vaccinated in a few weeks, which would allow the economy to continue to operate uninterrupted.

The market is valued at an attractive forward Price-to-Earnings (P/E) multiple of 6.4x, 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 the strong pricing power and robust demand growth, corporate earnings are expected to grow at double-digit rate over the next two to three years. Furthermore, given elevated Covid-19 cases, and still considerable slack in the economy, the SBP is expected to continue with the accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward.

To summarize, in our view, there is a strong investment case for equities driven by attractive market valuations; ample local liquidity; promising corporate earnings prospects; and healthy Balance of Payment (BoP) position. Therefore, investors with medium to long-term investment horizon are advised to build position in the stock market through our NBP stock funds.