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Weekly Stock Market Commentary

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During the outgoing week, the stock market remained under pressure as the benchmark KSE 100 Index shed 738 points (a decline of 1.5%) on a week-on-week basis. As we see it, this lackluster market performance during the last couple of weeks is attributable to two key factors. Firstly, extremely volatile security situation in Afghanistan and its ripple effects on Pakistan sent jitters in the market. Secondly, investors were also unnerved by a sharp increase in positivity rate of Covid-19 in the country and its consequential impact on the economic activity. More so, the Sindh government on Friday, July 30th decided to impose a lockdown in the province from 31st July till August 8th amid rising Covid-19 cases with a ban on inter-city travel and closure of government offices & all markets except groceries and pharmacies. In our view, given attractive market fundamentals, any panic selling should be taken as buying opportunity as we don't see any material impact on the economic activity due to this lockdown.

In terms of trading activity during the week, Banks / DFIs emerged as main buyers in the market, accumulating fresh positions to the tune of USD 6 million. On the contrary, Individuals and Foreign Investors emerged as main sellers in the market as each liquidated their equity holdings by USD 5 million.

What do we expect from the stock market going forward? We reiterate our positive view on the market for FY22, and beyond. Our sanguine view on the market is underpinned by attractive stock market fundamentals; strong momentum in economic activity; easier financial conditions; and promising corporate earnings outlook. From the valuation standpoint, the stock market is trading at 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 5.4%. On a relative basis, Earnings Yield of 15.4% 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. In line with our expectation, the SBP maintained the Policy Rate at 7% in its bi-monthly review on July 27th. The SBP cited that "looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates over time".

Taken together, we maintain our positive view on the stock market for FY22 driven by attractive valuations as captured by the Price-to-Earnings (P/E) multiple of 6.5x; a healthy 5.4% dividend yield; and robust double-digit corporate earnings growth rate expected over the next two to three years.