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# Weekly Stock Market Commentary

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During the week ending September 3rd 2021, range bound activity was witnessed at the local bourse as the benchmark KSE 100 Index fell by a paltry 179 points (a decline of 0.4%) on a week-on-week basis. After positive start of the week with a gain of around 283 points in the first two trading days, the market lost steam, erasing all the early gains to close the week with a marginal decline in the Index on a weekly basis. The market shrugged-off significant positive development on the economic front; the most notable being the receipt of USD 2.7 billion on August 24th 2021 as Special Drawing Rights (SDR) from the IMF. Investors seemed worried over the emerging Balance of Payment (BoP) situation emanating from widening trade deficit. Recent PKR depreciation and sharp increase in commodity prices have investors apprehensive over the corporate earnings prospects. Furthermore, ongoing developments in the neighboring Afghanistan also sent jitters in the market. Market participants were also unnerved by the elevated Covid-19 cases in the country. In our view, the prevailing market valuations as captured in the forward P/E multiple of 6.1x reflect bleak economic scenario. As we see it, the above developments are unlikely to derail the ongoing economic growth trajectory. Therefore, we see current market levels as a good entry point for investors with medium to long-term investment horizon.

On participant-wise activity during the week, Individuals and Insurance Companies emerged as major buyers in the market, accumulating fresh positions to the tune of USD 5 million and USD 4 million, respectively. On the contrary, Foreigners stood as the largest sellers, offloading their equity positions by USD 6 million. Likewise, Mutual Funds sold stocks worth USD 4 million.

Going forward, we believe that market is well poised to deliver robust returns in FY22. Our positive view on the equity market is underpinned by attractive market fundamentals; improving economic indicators; easier financial conditions; and healthy corporate profitability. On Balance of Payment position, we believe that the country is better positioned this time to steer through it. Significant PKR devaluation since May 2021 clearly indicates that the central bank is prepared to use this policy tool to contain import-based demand pressure. On Covid-19 front, the vaccination drive has picked-up pace recently and majority of eligible population is likely to be inoculated in the next couple of months, that bodes well for unrestrained economic activity. The peaceful takeover of Afghanistan by Taliban following US troops' withdrawal bodes well for security situation in Pakistan and the entire region.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.1x, versus 10-year average of 8.3x. On relative basis, 16.4% Earnings Yield offered by the stock market along with a healthy 5.4% Dividend Yield (DY) looks appealing compared with 10-year PIB yield of 9.9%. Given robust economic growth trend, strong pricing power, and lower borrowing cost; corporate earnings are expected to grow at double-digit rate over the next two to three years. We expect continuation of prevailing accommodative monetary policy regime in the near term and anticipate a modest 1% hike in the Policy Rate during FY22.

Taken together, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.