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Weekly Stock Market Commentary

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During the outgoing week, amid large daily swings, the benchmark KSE 100 Index managed to increase by a paltry 241 points (a gain of 0.5%) on a week-on-week basis. The market started off the week on a faltering note, shedding around 561 points (a decline of 1.2%) in the first three trading days. The selling pressure at the local bourse in the beginning of the week is attributable to MSCI decision to reclassify Pakistan from Emerging Market (EM) to Frontier Market (FM) that may lead to an outflow of around USD 100-150 million from EM funds, according to various estimates. However, during the subsequent two days, the market reversed the negative trend, recouping all the early losses to close the week with a gain of 0.5% in the Index on a weekly basis. We reiterate our sanguine view on the equities given attractive market valuation, strong momentum in economic activity, upbeat business confidence, robust expected corporate earnings growth, and easier financial conditions.

Regarding participant-wise activity during the week, Individuals stood as the largest buyers in the market, accumulating fresh positions to the tune of USD 13 million. Similarly, among other main buyers, Insurance Companies added equities worth USD 6 million and Other Organization & Broker Proprietary Tarding each bough shares worth USD 3 million. On the other hand, Foreigners remained the largest sellers, offloading their equity holdings by USD 19 million. Likewise, other major sellers were Banks / DFIs and Mutual Funds, liquidating shares to the tune of USD 4 million and USD 3 million, respectively.

What lies ahead for the market? We believe that market holds potential to deliver robust returns in FY22, given: (i) attractive market fundamentals; (ii) upswing in the economic activity; (iii) easier financial conditions; and (iv) healthy corporate profitability. While investors' concerns on the widening Current Account Deficit (CAD) are not unwarranted, we believe that the country is better positioned this time to navigate it. Since May 2021, significant PKR devaluation clearly indicates that the central bank is prepared to use this policy tool to contain import-based demand pressure. Moreover, despite fears of decline, workers' remittances stood at USD 2.7 billion for August 2021.

Based on various estimates, potential inflows and outflows may largely net off after the completion of inclusion in Frontier Market (FM). To put things into perspective, net foreign selling stood at USD 744 million since Dec 31, 2019, and during CYTD, Foreigners liquidated equities worth USD 170 million. We anticipate foreign selling at the local bourse to continue at the usual pace till Nov-2021. However, we believe the reclassification to Frontier Market from Emerging Market may turn out to be beneficial for Pakistan in terms of reduction in foreign selling.

From the fundamental standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.1x, versus 10-year average of 8.3x. The market also offers a healthy dividend yield of 5.4%. Corporate earnings are expected to grow at double-digit rate over the next two to three years. We anticipate continuation of prevailing accommodative monetary policy with a gradual and measured increase in the Policy Rate, going forward. On the Covid-19 situation in the country, with pick up in pace of vaccination and smart & selected lockdowns strategy, the infection ratio has come down to 5.5%, allowing the economy to continue to operate uninterrupted.

The Bottom Line: Given strong investment case for equities, we advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.