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Weekly Stock Market Commentary

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During the outgoing week, the stock market came under severe selling pressure, extending the losses of the previous week, with the benchmark KSE 100 Index slumping by a hefty 1,563 points (a decline of 3.4%) on a week-on-week basis. Despite attractive market fundamentals, what caused this bearish trend at the local bourse? On the economic front, around 10% devaluation of the PKR versus US dollar since May 2021 coupled with rising industrial raw material prices have ignited concerns on the corporate profitability. Investors also seemed worried over the Balance of Payment (BoP) position after witnessing Current Account Deficit (CAD) of USD 1.5 billion in August 2021 and USD 800 million in the previous month. In a bid to contain the consumption led demand pressure, the SBP's decision to raise the Policy Rate by 0.25% in its MPC meeting held on September 20th 2021 also added to the investors' concerns. According to the market talks, it was the leveraged positions of retail investors, which received margin calls after continuous decline in the Index in the beginning of the week that accelerated the sell-off of equities during the latter part of week. That said, as we see it, this anemic market performance during the last few months is reflective of a pure doom and gloom on the economic front that is far from the ground reality. Therefore, in our view, these market levels are attractive entry points for investors with medium to long-term investment horizon.

On participant-wise activity during the week, Foreigners emerged as the largest buyers in the market, accumulating fresh positions to the tune of USD 7 million. Alongside, Other Organizations and Banks / DFIs stood as other main buyers, adding shares worth USD 6 million and USD 3 million, respectively. On the contrary, Individuals emerged as the largest sellers, offloading their equity holdings by USD 8 million. Likewise, other major sellers in the market were Broker Proprietary Trading and Companies as each liquidated shares to the tune of USD 3 million.

What lies ahead for the stock market? In our view, the market is well positioned to deliver decent returns in FY22, and beyond driven by: (i) attractive market valuations as captured in the extremely attractive Price-to-Earnings (P/E) multiple of 5.7x; (ii) robust economic activity; (iii) easier financial conditions; and (iv) promising corporate earnings prospects. On the economic front, the recent currency devaluation is unlikely to derail the ongoing growth momentum. More importantly, with respect to corporate profitability, due to strong consumer demand, companies are gradually passing on the increasing input costs to maintain profit margins. In addition to this, many Index heavy sectors such as Oil & Gas Exploration, Textile Composite, and Technology & Communication are net beneficiary of currency devaluation and other sectors such as Commercial Banks and IPPs are currency neutral. With respect to the external account, unlike the past episodes, this time around the central bank seems prepared to better manage the pressure on the Balance of Payment emanating from widening CAD. Consequently, instead of fixation on the fixed exchange rate the SBP has let the PKR reflect economic fundamental as reflected by around 10% devaluation of the PKR versus US Dollar since May 2021.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.7x, versus 10-year average of 8.3x. On a relative basis, 17.5% Earnings Yield offered by the market coupled with a healthy 5.7% dividend yield looks appealing compared with 10-year PIB yield of 10.15%. With respect to the Policy Rate, the SBP cited that "*looking ahead, in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, with possible further gradual tapering of stimulus.*"

The Bottom Line: We advise investors with medium to long-term horizon to build position in the stock market through our NBP stock funds.