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Weekly Stock Market Commentary

October 01, 2021

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During the week ending October 1st 2021, after swinging between gains and losses, the benchmark KSE 100 Index closed the week with a paltry slide of 202 points (a decline of 0.4%) on a week-on-week basis. We hear many investors asking what has caused this bearish trend at the local bourse despite attractive market valuations? In our view, this lackluster market performance is attributable to: concerns on the corporate profitability after a sharp currency devaluation & steep surge in global commodity prices; worries over the Balance of Payment (BoP) position after a large Current Account Deficit (CAD) of USD 1.5 billion in August 2021 and USD 800 million in July 2021; the developments in the neighboring Afghanistan, Pak-US relations and recognition of Taliban government by international powers. In addition to this, according to the market talks, leveraged positions of retail investors, who received margin calls after continuous decline in the Index accelerated the sell-off of equities during the week ending September 24th 2021. 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, in our view.

Regarding participant-wise activity during the week, Foreigners stood as the largest sellers in the market, liquidating their equity holdings to the tune of USD 22 million. Alongside, Broker Proprietary Trading were other main sellers, offloading shares worth USD 4 million. On the other hand, Banks / DFI, Insurance Companies, and Other Organization emerged as major buyers in the market, accumulating shares worth USD 10 million, USD 8 million, and USD 5 million, respectively.

Looking ahead, what do we expect from the market? We reiterate our positive view on the market driven by: attractive market valuations; robust economic activity; easier financial conditions; and abundant market liquidity. On the economic front, the recent currency devaluation is unlikely to derail the ongoing growth momentum. 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. The central bank looks set to navigate pressure on the Balance of Payment through a flexible exchange rate policy as manifested by over 10% devaluation of the PKR since May-21. Furthermore, to curb imports of luxury items, the SBP has imposed 100% cash margin requirement and the government has levied regulatory duties on non-essential imported items.

From the fundamental standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.9x, versus 10-year average of 8.3x. The market also offers a healthy 5.7% dividend yield. In its recent bi-monthly monetary policy review on September 20th, the MPC 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.*" In our view, the SBP would gradually dial back the prevailing ultra-loose monetary accommodation that is unlikely to lead to disruptive financial tightening.

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

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