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During the week ending October 29th, 2021, the stock market extended the gains of the previous week as the benchmark KSE 100 Index surged by 606 points (an increase of 1.3%) on a week-on-week basis. The market started off the outgoing week on a faltering note as the Index lost around 352 points during the first two trading days of the week. However, positivity returned to the market after the news of Kingdom of Saudi Arabia's decision to provide financial support to Pakistan with USD 3 billion safe deposit for one year (till the completion of the International Monetary Fund programme scheduled for September 2022) and USD 1.2 billion deferred oil payment facility. This announcement came a day after the conclusion of PM Imran Khan's three-day long visit to the Kingdom. Robust earnings announcement in the undergoing corporate results season provided further impetus to the market. Resultantly, the Index surged by 958 points during the last three trading days of the week. During the month of October 2021, amid a lot of volatility, the market has delivered a decent return of 2.9%.

Regarding major developments for the market during the outgoing week, after the news of the Saudi support of USD 4.2 billion for Pakistan, Pak Rupee reversed the declining streak and closed the week at PKR 171.65 / USD after witnessing an intra-week low of 175.27 in the interbank market. According to the SBP, Pakistan's Real Effective Exchange Rate (REER) has declined to 95.86 as of September 2021 from 96.54 in August 2021. In the undergoing corporate results seasons, majority of the companies have reported robust earnings growth, surpassing market expectations by a wide margin. On Tuesday, October 26th 2021, the notification from the office of Prime Minister was issued for the appointment of Lt. Gen Nadeem Anjum as DG ISI.

Regarding participant-wise activity during the week, Foreigners remained the largest sellers in the market, liquidating their equity holdings to the tune of USD 3 million. On the other hand, Other Organization stood as the largest buyers, adding their equity positions by USD 2 million.

Looking ahead, we reiterate our sanguine view on the stock market driven by: (i) attractive valuations as captured by the Price-to-Earnings (P/E) multiple of 5.9x; (ii) robust corporate profitability expected over the next two years; (iii) abundant market liquidity; and (iv) easier financial conditions. Contrary to the overblown concerns, we believe that the recent currency devaluation is unlikely to derail the ongoing growth momentum. As the undergoing corporate results season has shown, we expect healthy corporate profitability as companies are gradually passing on the increasing input costs to maintain profit margins due to resilient consumer demand. Unlike the past episodes, this time around, the policymakers seem prepared to better navigate the pressure on the Balance of Payment (BoP) position by deploying the right mix of the available policy tools. The recently enacted policy actions such as large currency devaluation, broadening of the scope of 100% cash margin requirement on imports, levying of regulatory duties on non-essential imported items, and tapering of monetary stimulus by the SBP would contain the import bill going forward and ease pressure on Balance of Payment. In our view, the SBP would gradually scale back the prevailing ultra-loose monetary accommodation. We believe that the IMF and Pakistan would soon reach staff level agreement. The successful completion of the review will pave the way for the release of the USD 1 billion from the IMF and facilitate flows from other multilateral agencies such as the Asian Development Bank, World Bank, and Islamic Development Bank.

The bottom line: The stock market is well poised to deliver a healthy double-digit return in FY22, and beyond. Therefore, investors with medium to long-term investment horizon are advised to build position in the stock market through our NBP stock funds.