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Weekly Stock Market Commentary

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During the week ending November 12th, 2021, the market came under severe selling pressure, erasing the gains of the previous two week as the benchmark KSE 100 Index slumped by 1,547 points (a decline of 3.3%) on a week-on-week basis. What has caused these bearish sentiments at PSX? Market was unnerved by the weakening Pak Rupee that closed the week at 175.73 / US dollar in the inter-bank market as a result of delay in the conclusion of 6th review of the economy under the IMF's USD 6 billion Extended Fund Facility. Moreover, market is still awaiting the receipt of USD 3 billion safe deposit that is a part of Saudi financial support to Pakistan announced at end-October 2021 that also added to investors' concerns. Lastly, the lower than expected weight of Pakistan in MSCI's Frontier Market Index, in the recent Semi-Annual Index Review was also another turn-off for the participants. That being said, we maintain our optimistic outlook on the stock market on the back of attractive market fundamentals.

Regarding participant-wise activity during the week, Individuals and Foreigners emerged as large sellers in the market, liquidating their equity holdings to the tune of USD 10 million and USD 5 million, respectively. On the contrary, Companies and Insurance Companies stood as main buyers as each bought equities worth USD 6 million.

Looking ahead, we believe that the market would take cue from the announcement of conclusion of the IMF's sixth review. Given attractive market fundamentals, we foresee a strong rebound in market post resumption of the IMF programme. We reiterate over view that the ongoing growth momentum is unlikely to be derailed by the recent demand compression policy measures such as monetary tightening and currency devaluation. We also believe that contrary to the past episodes, right mix of the available policy tools being used by the policymakers could bring down trade deficit to a manageable level. Moreover, 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. This in turn would mitigate pressure on the Balance of payment (BoP) position.

From the fundamental stand point, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.7x versus 10-year average of 8.3x. The market also offers a healthy 5.8% dividend yield. We expect healthy corporate profitability over the next two years as corporate listed sector holds strong pricing power (as reflected by the recent earnings announcements) due to resilient consumer demand. As cited by the SBP in its last monetary policy statement in September, we anticipate a gradual and measured hike in the Policy Rate, going forward.

In summary, the market holds potential to deliver a healthy double-digit return in FY22, and beyond. Given our positive outlook on the market, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.