NBP FUNDS
Managing Your Savings

AM1
Rated by PACRA

Weekly Stock Market Commentary

November 19, 2021

Sajjad Anwar, CFA
Chief Investment Officer

During the outgoing week ending November 19th, 2021, led by the Index heavy Banking and Oil & Gas Exploration sectors positivity returned to the market as the benchmark KSE 100 Index advanced by 740 points (a gain of 1.6%) on a week-on-week basis. To put things into perspective, the market has delivered an unimpressive 6.2% return during CY21 through November 19th 2021. Investors are asking despite attractive fundamentals what has caused this lackluster market performance? In our view, this anemic market performance is attributable to the following factors: 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 5.1 billion during July-October 2021 versus a current account surplus of USD 1.3 billion during the same period last year; shifting Pak-US relations; and inordinate delay in the conclusion of 6th review of the economy by the IMF under EFF and the resultant release of funds from the IMF and other multilateral financial institutions. In addition to this, steady devaluation of the PKR versus US Dollar that closed the week at 175.24 also weighed on the market performance. Adding to the investors' angst was expected monetary tightening by the SBP to anchor inflation expectation and to contain mounting risks to the BoP position stemming from the large CAD.

Regarding participant-wise activity during the week, Foreigners remained the largest sellers in the market, offloading their equity positions by USD 25 million. Alongside, Banks / DFIs stood as other major sellers, trimming their equity holdings to the tune of USD 4 million. On the other hand, Insurance Companies emerged as the largest buyers, adding equities to the tune of USD 14 million. Likewise, Companies and Mutual Funds were other main buyers in the market with net investment of USD 8 million and USD 6 million, respectively.

What lies ahead for the market? We reiterate our view that the market would take cue from the announcement of the resumption of the IMF programme. Our sanguine view on the market for the medium to long-term is underpinned by attractive market valuations; ongoing economic growth momentum; abundant market liquidity; and promising earnings prospects of the corporate listed sector. Economic recovery is on a firmer footing that bodes well for the corporate profitability, in our view. We also believe that contrary to the past episodes, right mix of the policy tools such as letting the PKR devalue under market determined exchange rate regime; levying of duties on the non-essential imports; expanding the scope of 100% cash margins requirement on import items; and lately 150 bps hike in Policy Rate would bring down trade deficit to a manageable level that would mitigate pressure on the BoP. We believe that soon to be announced successful conclusion of the IMF's review will pave the way for the release of 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.

The market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.8x versus 10-year average of 8.3x. In sum, the stock market holds potential to deliver a healthy double-digit return in FY22, and beyond. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.