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Weekly Stock Market Commentary

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During the week ending November 26th, 2021, amid large foreign outflows, sell-off was witnessed at the local bourse as the benchmark KSE 100 Index slumped by 2,375 points (a hefty decline of 5.1%) on a week-on-week basis. The market started off the week on a faltering note and lost around 744 points on Monday, 22nd November 2021. The market remained under severe selling pressure throughout the week to close the Index at 44,114 points after witnessing an intraday low of 43,736 points. This negativity at the PSX is attributable to the following factors. Sell-off of equities was triggered by an above expected 150 bps hike in the Policy Rate by the SBP along with a forward guidance of further increase in the benchmark rate to achieve mildly positive interest rate over time given recent uptick in inflation and downward sticky Current Account Deficit (CAD). The selling pressure was also fueled by outflow from the foreign corporates ahead of MSCI reclassification of Pakistan from Emerging Index to Frontier Index. Moreover, the government on Monday committed to introducing a supplementary budget as part of an agreement with the IMF for a net fiscal adjustment of almost Rs. 550 billion during the remaining part of the current fiscal year through cut in development spending, withdrawal of sales tax exemptions, and hike in Petroleum Development Levey (PDL).

Regarding participant-wise activity during the week, Foreigners remained the largest sellers in the market, offloading their equity positions by USD 39 million. On the contrary, Individuals emerged as the largest buyers, adding equities to the tune of USD 16 million. Alongside, Companies, Banks / DFIs and Mutual Funds were other main buyers in the market with net investment of USD 13 million, USD 8 million, and USD 5 million, respectively.

Looking ahead, we maintain our positive view on the market given attractive market valuations; ongoing economic growth momentum; abundant market liquidity; and promising earnings prospects of the corporate listed sector. We believe that the stabilization policies would not derail the ongoing economic growth momentum that bodes well for the corporate profitability, in our view. We also expect that the 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 the safe deposit of USD 3 billion by Saudi Arabia; release of USD 1 billion from the IMF after board approval in January 2022; and subsequent commencement of flows from other multilateral agencies would mitigate pressure on the Balance of payment (BoP) position and lend strength to the PKR. The global crude oil prices have declined sharply during the outgoing week that will also provide some respite to the import bill and anchor inflation expectation.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.5x versus 10-year average of 8.3x. The market also offers a healthy 5.9% dividend yield. As we see it, the recent sell-off has sent the market valuations to the equivalent of the crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.