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Weekly Stock Market Commentary

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The stock market witnessed another volatile week though it closed 505 points (up 1.2% on a week on week basis), exhibiting some recovery for the week ending Dec 17 2021. The rebound in the index was mainly driven by cyclical sector stocks, like Cements, Steel and Technology.

The market started off the week on a negative note as investors appeared jittery ahead of the MPC meeting scheduled on 14th December. Although the central bank raised the Policy Rate by 100 basis points, which was in line with the market expectations, the forward guidance provided by the central bank hinted towards the peaking of the current monetary tightening cycle. SBP in its MPS suggested no further hike in the near term and also highlighted that it was close to achieving mildly positive real interest rates. Furthermore, the bank also raised its near-term inflation forecast to around 9-11%, along-with the revision in the current account deficit (CAD) estimate to around 4% of the GDP for FY22, which in our opinion has some upside risks. Remittance numbers for the month of November were also reported during the week, which stood at USD 2.35 billion, that were down by 6.6% (USD 166 million) on a monthly basis (up by a marginal 0.6% on a YoY basis). Cumulatively, the 5MFY22 remittances clocked in at USD 12.9 billion, up by 9.7% from USD 11.8 billion, in same period last year. Large Scale Manufacturing (LSM) numbers also came in during the outgoing week, which revealed that industrial growth in 4MFY22 moderated to 3.56% on a YoY basis.

Regarding participant-wise activity during the week, Companies and Individuals emerged as the largest buyers in the market, accumulating stocks worth USD 5 million and USD 3 million, respectively. On the contrary, Foreigners and Other Organizations remained the largest sellers, as each liquidated equities amounting to USD 3 million.

In terms of stock market outlook, we maintain our sanguine view in the medium to long term. Although the economy is facing challenges in the form of elevated current account deficit (CAD) & inflationary pressure due to commodity upcycle and higher aggregate demand, we highlight that government and central bank have been very proactive this time around to bring stability and preserve growth. The current monetary tightening, coupled with the higher Cash Reserve Requirement (CRR) of banks attempt to cool down domestic demand that will help arrest CAD and ease off inflationary pressures going forward. In addition to the steep currency devaluation, enhanced scope of cash margin on imports, the government is looking to further enhance the duties and restrict import of non-essential items. More importantly, the commodity cycle also appears to have eased off somewhat (iron ore, coal, crude oil, palm oil prices have moderated), that will help soften the trade deficit going forward. And as and when the impact of TERF/LTFF led machinery and vaccines imports wane off, the external numbers should improve. Lastly the revival of EFF facility with the IMF will not only allow resumption of multilateral flows of IFIs, easing pressure on the BoP, it will also bring discipline on part of the government towards macroprudential measures.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.6x versus 10-year average of 8.3x. The market also offers a healthy 5.9% dividend yield. The recent sell-off has sent the market valuations near the crisis eras. Given the attractive valuations, double digit corporate profitability growth, and expected ease-off in foreign selling from the next calendar, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.