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Weekly Stock Market Commentary

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Asim Wahab Khan, CFA
Chief Investment Officer

Continuing the positive trend from the previous week, the stock market continued to march up during the current week. At week close, the index was up by 832 points, translating into weekly gain of 1.8%, taking CYTD return to 2.9%.

From the outset, the sentiment turned positive as the country made progress towards the resumption of the IMF program, delay in which had been a major nuisance for the market. On last Friday, the government passed the SBP Amendment Bill from the Senate, which was a key prior condition for IMF nod. During the week, the Executive Board of IMF concluded the 2021 Article IV Consultation with Pakistan & also completed the sixth review under the Extended Fund Facility (EFF), allowing the authorities to draw the equivalent of SDR 750 million (about USD 1 billion), which brings total purchases for budget support under the program to SDR 2,144 million (about USD 3 billion). IMF highlighted that despite robust economic growth, the country remains vulnerable to possible flare-ups of the pandemic, tighter international financial conditions, a rise in geopolitical tensions, as well as delayed implementation of structural reforms. It also pointed out that strengthening the medium-term outlook hinges on ambitious efforts to remove structural impediments and facilitate the structural transformation of the economy and increased focus is needed on measures to strengthen economic productivity, investment, and private sector development. The country now plans to issue another USD 1 billion Euro Bond in the international debt market to further shore up its FX reserves. Pakistan Bureau of Statistics (PBS) released trade numbers for January-22, which were significantly better than the recent run rate, which also propped up the market sentiment. As per PBS, trade deficit for Jan-22 clocked in at USD 5.9 billion, down massively from Dec-21 deficit of USD 7.6 billion.

In terms of activity of the market participants, Other Organizations and Mutual Funds remained the main buyers in the equities as they increased their positions by USD 4 million, and USD 3 million, respectively. On the other hand, main sellers in the market were Foreigner and Insurance, with net sales amounting to around USD 4 million each.

On equity market outlook, we continue to look favorably towards the market in terms of return, whereby we expect the market to provide around 15-20% upside in CY22. The market will draw some comfort from the pause taken by the central bank & the outlook painted by the MPC. However, the market will continue to look keenly at headline numbers on the external side and any softening in the commodity, especially crude oil prices. IMF program has also been restored and subsequently the government is eyeing further flows from the international debt market, along-with the resumptions of flows from other multilateral agencies, such as World Bank, ADB and IDB. These will buttress the reserves and lend stability to PKR, which has also been a cause of concern for the market. The results season is also underway, where we expect continuation of robust corporate profitability along-with healthy dividend payouts, which will buoy the market. It is pertinent to mention here that any global commodity shock could lead to asset prices declining across the globe and PSX will not be an exception.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.3x versus 10-year average of 8.0x. The market also offers healthy dividend yield in excess of 6%. 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.