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Weekly Stock Market Commentary

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The stock market consolidated during the week and the benchmark KSE-100 index was up by 170 points 0.4% on a weekly basis. Since the start of CY22, the market is up by around 3.3%.

The market continued the positive momentum at start of the week but foreign selling by an ETF Fund, most likely triggered by a redemption, resulted in market consolidating towards the end of the week. In terms of key news during the week, the PM returned from his 4 day visit to China on Sunday. During the visit, a framework agreement on industrial cooperation under CPEC was inked. The objective is to attract foreign direct investment (FDI), promote industrialization, and development of economic zones. As per reports, Chinese businessmen showed a keen interest in expanding investment in Pakistan in projects related to recycling of metal and paper, energy, textile, fiber-optic networks, housing, dairy and water management. During the week, MSCI announced the conclusion of its consultation on the eligibility of the MSCI Pakistan Index for the MSCI Frontier Market Indices. As per the index provider: "after the feedback received from the market participants, Pakistan will become eligible for inclusion in the MSCI Frontier Markets 100 and the MSCI Frontier Markets 15% Country Capped indexes as part of the May 2022 Semi-Annual Index Review (SAIR)". During the week, Ministry of Finance issued numbers on the fiscal operation of 1HFY22 which indicates that budget deficit during the period touched PKR 1.37 trillion amounting to 2.1% of GDP. On the contrary, the Primary Balance remained in surplus of around PKR 81 billion. During the week, SBP reported country's FX reserves, which stood at USD 23.7 billion, rising by around USD 1.6 billion on week-on-week basis. During the week under review, Pakistan received foreign inflows amounting to USD 1.05 billion from IMF under EFF program and USD 1 billion as proceeds against issuance of Sukuk Bond in the international market.

In terms of activity of the market participants, Foreigner, Mutual Funds and Insurance Companies remained the main sellers in the equities as they decreased their positions by USD 6 million, USD 5 million and USD 4 million respectively. On the other hand, main buyers in the market were Other Organizations and Individuals, with net inflows amounting to around USD 11 million and USD 3 million, respectively.

Looking at stock market outlook for CY22, we reiterate our favorable view on the market, whereby the market is expected to provide around 15-20% upside during the year. Our liking for the stock market is underpinned by strong profitability of corporate listed space as evidenced by robust results seen in the ongoing result season, and undemanding valuations. And as highlighted earlier, the inclusion of Pakistan in MSCI FM indices will likely bring inflows of around USD 50 million, as per various estimates, which will provide liquidity in the market and may trigger strong price performance. Other than that, we expect continuation of institutional liquidity to keep pouring in the market. After many years, we have seen Banks turn as net buyers, which is a good omen for the market. Select Pension Funds have also contributed to market participation, though it is surprising that interest from GoP owned financial institutions has been limited despite their significant under allocation to equities. IMF program has 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. Lastly, any sustained improvement on the external side due to softening of demand or any commodity price decline will act as a key catalyst.

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 market valuations are 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.