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Weekly Stock Market Commentary

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During the outgoing week, the stock market remained lackluster, inching up marginally by 0.1% on a week on week basis. The market started off the week on a weak footing but recovered later on and the benchmark KSE-100 index increased by a modest 60 points at close of the week.

Over the last weekend, State Bank of Pakistan (SBP) released external trade numbers, which again remained on the higher side. The current account deficit (CAD) for December-21 stood at an elevated level of USD 1.9 billion, same as the last month, taking 1HFY22 CAD to USD 9.1 billion, compared to surplus of USD 1.25 billion, in comparative period last year. The Monetary Policy Committee (MPC) of the SBP met on Monday, to take stock of the economic numbers & other macro-economic variables and announce monetary policy. In line with the industry expectations, the MPC kept the Policy Rate unchanged at 9.75%. The committee highlighted that the various demand moderating measures taken by both fiscal and monetary authorities were gaining traction, as evidenced by moderating LSM growth. Likewise, the MPC also highlighted that notwithstanding the elevated inflation readings in the near term, the outlook had also improved for FY23 (CPI expected to fall in the range of 5-7%). The committee also apprised on the external front that the CAD had stopped growing since November, and appeared comfortable on its funding. In view of this, MPC pointed out that current real interest rates on a forward-looking basis were appropriate. On its future course, it highlighted that any fine-tuning of monetary policy settings would be relatively modest. The fixed income yields also responded to the decision and forward guidance, and as a result, declined by 15, 68 and 57 basis points to stand at 10.30%, 10.69% and 10.93%, for 3-month, 6-month and 12-month tenure, compared to the previous cut-off. Another key development during the week was the return of Pakistan in the international debt market, whereby the country raised USD 1 billion, in 7-year Islamic Ijara Sukuk at a yield of 7.95%. Crude oil prices continued their upward march, as prices breached USD 90 per barrel level, which added to the uneasiness of the investors. Since the start of this calendar year, the oil prices (Arab Light) have already rallied by around 15%, due to robust demand amidst tight supplies.

In terms of activity of the market participants, Companies and Mutual Funds remained the main buyers in the equities as they increased their positions by USD 19 million, and USD 5 million, respectively. On the other hand, main sellers in the market were Other Organizations and Individuals, with net sales amounting to around USD 15 million and USD 4 million, respectively.

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 commodities, especially crude oil prices. Another key event is the upcoming meeting of IMF executive board on 2nd February to consider the case of Pakistan. Having met key prior conditions (the SBP autonomy law was approved by the Senate on Friday), IMF is expected to revive the EFF and approve the loan tranche of USD 1 billion. It will also pave the way for other multilateral flows which will shore up the reserves and lend stability to PKR, which has also been a cause of concern for the market. The result season has also begun, where we expect continuation of robust corporate profitability along-with healthy dividend payouts, which will likely catalyze the market.

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%. The continuous sell-off has brought the market near valuations witnessed only during 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.