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Weekly Stock Market Commentary

March 11, 2022

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The outgoing week remained quite volatile for equity market, characterized by significant daily swings. Although we saw some recovery in the previous week, the market again lost momentum and on a week on week basis, the benchmark KSE-100 Index lost around 898 points, translating into a weekly decline of 2%. Almost all the major sectors took the brunt of the selling pressure and closed in red, with OMCs and Engineering sectors getting major battering during the week.

Bears tightened their grip on the market from the outset with the benchmark index plunging by 1,284 points (2.9% drop) on Monday, as relentless increase in crude oil and other commodity prices took the toll on the market. Crude oil (Brent) prices briefly touched USD 138 per barrel and likewise coal prices also soared to record level during the week, briefly trading around USD 450 per MT, as the world scrambled to arrange their alternative energy supplies amidst the ongoing war between Russia and Ukraine. Likewise, other commodities especially several metal groups, where Russia is a major exporter, saw their prices soaring to record levels. Prolonged increase in the commodity prices will lead to ballooning of import bill, putting pressure on the Balance of Payment and further stoking inflationary pressures. Other than the economic incertitude, the political temperature in the country is also running high in the past few weeks as dissident lawmakers of the ruling party appear to side with the opposition. The combined opposition on Tuesday finally submitted a notice of resolution of no-confidence against Prime Minister Imran Khan that has again casted clouds of uncertainty.

The Monetary Policy Committee (MPC) of the SBP also met during the week. MPC kept the Policy Rate unchanged at 9.75%. The committee expressed optimism on the recent cut in fuel and power prices announced as part of the government's relief package, which has temporarily altered the course of inflation. It also highlighted that the various demand moderating measures are also gaining traction. Likewise, the MPC also highlighted that notwithstanding the elevated inflation readings in the near term, the outlook appears benign for FY23 (CPI expected in the range of 5-7%). The committee also apprised on the external front that the trade deficit (as per PBS) has been on a consistent decline since November, and appeared comfortable on its funding going forward. On its future course, it highlighted that it was prepared to meet earlier than the next scheduled MPC meeting in late April, if necessary, to take any needed timely and calibrated action to safeguard external and price stability.

In terms of trading activity during the week, Companies and Other Organizations remained the largest buyers in the market as they increased their position by USD 5 million and USD 4 million, respectively. On the other hand, Mutual Funds and Foreigners remained the largest net sellers with outflows of around USD 7 million and USD 3 million, respectively.

On equity market outlook, though there are mounting risks to a) inflationary pressures stemming from unprecedented commodity prices and b) fiscal over-runs due to the recently announced relief package which puts the IMF program on risk, we believe that the current stock market valuations more than compensate for these risks. We are almost through the Dec-21 result season, where listed corporate space has posted record set of profitability, where cumulative profits are estimated to have grown in excess of 40% on a yearly basis. On the other hand, performance of stock market since the start of CY21 has remained lackluster, at best. As a result, the mostly looked at valuation metric, Price-to-Earnings Ratio (P/E) has come down to multi-year low of around 4.8 times. The last time market traded at this level was post GFC time in Jan-09. Therefore, 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.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 4.8x versus long term average of 8.4x. 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.