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Weekly Stock Market Commentary

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The outgoing week proved challenging for the equity market as the benchmark KSE-100 declined considerably by 1,692 points on a week on week basis. This translates into weekly decline of 3.7%, eroding the CYTD gains as the KSE-100 index is now down by 1.4% since the beginning of the year. The sell off in equities was broad based, as almost all the sectors closed in red, with heavy weight Banks, Cements, and Oil contributing most in the index decline. However, cyclicals were hit the most as Engineering, Cements and OMCs took a heavy beating.

The market remained under pressure right from the start of the week as the brewing crisis between Russia and Ukraine gripped not only the local equity market but also the global stock markets. As the world watched closely the deteriorating situation between the two countries, growing uneasiness amongst the investors was palpable. Initially Russia recognized two breakaway regions in eastern Ukraine, and later on mounted an assault by land, sea and air in the biggest attack on a European state since the second World War. The global equity markets did not remain insulated from the fallout and so were the commodity markets, especially oil. Since Russia is the world's second-largest natural gas exporter and third-largest producer of petroleum, the mounting tensions further propelled the crude oil prices which, for the first time since 2014 breached USD100/bbl before settling somewhat lower on hopes of some sort of talks between the two countries. Sentiments were soured further after current account deficit (CAD) numbers significantly overshot analysts' expectations and clocked in at USD 2.6 billion for Jan-22 (up by around USD 693 million on MoM basis), which was the highest ever number. It was despite significant improvement in the trade deficit for the month of January-22, during which the deficit declined to USD 3.4 billion, down from USD 4.8 bn in the previous month.

In terms of trading activity during the week, Companies emerged as the largest buyers in the market as they increased their position by USD 10 million. Alongside, Individuals & Banks/DFIs were also buyers, with net inflows amounting to USD 4 million each. On the other hand, Mutual Funds and Foreigners remained net sellers with outflows of around USD 15 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. Despite lackluster performance in the past few quarters, our conviction for the strong market performance going ahead is underpinned by robust corporate profitability of the listed space. The solid results along with healthy payouts in the ongoing result season is a testament of that, and we expect continuation of strong set of results going ahead, which should act a catalyst, in our opinion. Furthermore, the inclusion of Pakistan in MSCI FM indices will likely bring inflows of around USD 50 million, as per various estimates, which will provide much needed fresh 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 (CYTD net inflow of around USD 29 million), which is a good omen for the market. 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. 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 4.9x 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.