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Continuing the positive trend of the previous week, the stock market bounced back sharply in the outgoing week, ending 1<sup>st</sup> April. Investor activity also remained healthy, as value traded and volumes traded also showed marked improvement compared to the participation seen of-late. During the week, the benchmark KSE-100 index rose by 1,601 points on a week-on-week basis, translating into a healthy weekly gain of 3.7%. In terms of index contribution, Fertilizers, Cements, Banks and Fertilizer sectors propelled the index, while in terms of sectoral return, Engineering and Cements fared better.

Notwithstanding the elevated political noise, where CM Punjab has relinquished the post and opposition looks confident to oust PM Imran Khan in the impending vote of no-confidence, the stock market took a breather during the week. Sparked by the trough valuations, and material softening in the international commodity prices, especially crude oil, we saw improvement in the sentiment of the participants. As we had been highlighting in our earlier notes, the present valuations are equivalent to crisis era levels, last seen some 13 years ago at the start of CY09, which in our opinion reflected unjustified pessimism. The steep decline in crude oil prices, as oil futures suffered biggest weekly decline since Covid pandemic lifted the spirits of the investors. Inflation reading for March-22 also came in during the week, which showed the price levels increased by around 12.7% on a YoY basis, taking average CPI during 9MFY22 at 10.8%. PKR continued its downward trend as Rupee further weakened to 184.09, down from 181.78 from a week ago. Cumulatively, PKR has lost its value by around 17% from 157.5 at 30<sup>th</sup> June-21. It has been a result of dwindling FX reserves, which have declined steadily from the recent peak of around USD 20 billion, in Aug-21 to around USD 12 billion as of 25<sup>th</sup> March. However, the roll-over of safe deposits of around USD 2 billion will slightly shore up the reserves in coming days. Despite massive tax relief, revenue collection continues to remain robust, as recently released data by FBR shows that during 9MFY22, the tax authority has collected net revenues of around PKR 4.4 billion, exceeding the target by PKR 247 billion, with YoY growth during 9M of around 29%.

In terms of trading activity during the week, Banks/DFIs and Individuals emerged the largest buyers as they increased their equity holdings by USD 16 million & USD 7 million. On the other hand, Foreigners & Mutual Funds remained the largest sellers with outflows of USD 16 million and USD 5 million respectively.

Looking ahead, we believe that market will take cue from the ongoing political developments in the short term. After that we expect renewed focus on the economy which is facing several challenges, mainly on the external front. For the long term, we continue to re-iterate that the current stock market valuations more than compensate for the risks/challenges facing the economy. Our conviction on the stock market is underpinned by record set of profitability reported by the listed corporate space. With the conclusion of CY21 result season, cumulative profits are estimated to have grown by around 48% on a yearly basis. On the other hand, performance of stock market since the start of CY21 has remained muted, at best. As a result, the mostly looked-at valuation metric, Price-to-Earnings Ratio (P/E) is presently at multi-year low of around 4.7 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 20% upside in CY22.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 4.7x versus historical average of 8.4x. The market also offers healthy dividend yield of around 7%. 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.