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Weekly Stock Market Commentary

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During the outgoing week ending 20th May, the stock market performance remained lackluster, as the benchmark KSE-100 index fell by 386 points, translating into a weekly drop of 0.9%. Compared to the previous week, the activity also remained muted in terms of volumes and value traded.

Again, the stock market started off the week on a frail note, as the benchmark KSE-100 index fell sharply by 1.9% on Monday. The decision to maintain the retail fuel prices on a fortnight basis on Sunday did not sit well with market participants, as it was construed as further continuation of inaction by the incumbent government. Since it remains one of the key pre-conditions of the resumption of the IMF program, it also casted doubt on its continuity, ahead of the discussions with the monetary fund that commenced this week. Thus, the market reacted negatively on the opening day of the week. However, later during the week, we saw some recovery as bottom fishing partially reversed the previous losses. There were few positive developments during the week as well. The National Accounts Committee (NAC) provisional GDP growth rate for the year 2021-22 which has been estimated at 5.97%. Broad based growth was witnessed across all sectors. The growth of agricultural, industrial and services sectors is projected at 4.40%, 7.19% and 6.19% respectively. These numbers considerably exceed expectations of various local and international institutions like SBP, World Bank, ADB, IMF, and other functionaries. Current account deficit (CAD) was another number that brought some relief for investors, as the number fell sharply for the month of April-22 at USD 623 million, significantly below the last 10-month run-rate of around USD 1.4 billion. Helped by around USD 250 million MoM decline in imports and record high remittances of around USD 3.1 billion (up by around USD 300 million MoM), material improvement in CAD was witnessed. In a bid to further relieve pressure on the external account, the government has recently banned import of non-essential luxury items, which will help to some extent in the short term.

In terms of trading activity during the week, Bank/DFIs & Individuals emerged the largest buyers as they increased their equity holdings by USD 12 million & USD 4 million. On the contrary, Mutual Funds & Foreigners remained the largest sellers with outflows of USD 7 million and USD 6 million respectively.

In terms of stock market outlook, we acknowledge the heightened economic risks due to the deterioration on the external front in the wake of elevated CAD driven by record high commodity prices, and its impact on the local prices leading to heightened inflation. In response, incessant PKR devaluation and mounting interest rates are other set of challenges for the economy. The new government has also fallen short of high expectations as they have remained disinclined to eliminate the subsidies on retail fuels and electricity, which are further burdening the economy. The inaction has also brought forth political uncertainty as decisive economic policies remain need of the hour to avoid any solvency issues. So, the possibility of dissolution of current government is again gaining traction. The IMF talks are currently underway and it remains to be seen how accommodative is IMF in continuation of the program without first meeting the pre-conditions. Having said this, we also reckon that current stock market valuations more than compensate for the risks highlighted. Therefore, we continue to look favorably towards market in terms of return, whereby we expect the market to provide around 20% upside in CY22.

Looking at the fundamentals, the valuations of stock market remain inexpensive. Corporate profitability remained sublime in CY21, as cumulative profits are estimated to have risen in excess of 48% on a yearly basis. The companies continue to post robust profitability during the 1QCY22 results, surpassing the previous level of profitability, surging further by around 33% on a yearly basis. On the other hand, performance of stock market has remained lackluster since start of CY22. As a result, the mostly looked at valuation metric, Price-to-Earnings Ratio (P/E) has come down to multi-year low of around 4.3 times (earnings yield of around 23%). The last time market traded at this level was post GFC time in Jan-09. The market also offers healthy dividend yield of around 7-8%.

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.