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Weekly Stock Market Commentary

June 24, 2022

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During the outgoing week, ending 24th June, the benchmark KSE-100 index declined sharply by 1,089 points, 2.6% on a week on week basis.

The market started off the week on a cautious note as the index corrected by around 0.9% on the opening day of the week. However, later on we saw sentiments turn positive as the Finance Minister announced that government is very close to clinching the IMF deal and was reported saying that it was merely a matter of couple of days. As expected, the stock market celebrated the news and the benchmark KSE-100 surged by around 2.1% during three subsequent days. Moreover, after considerable delay, the Chinese consortium of banks signed the RMB 15 billion (USD 2.3 billion) loan facility agreement, the inflows of which materialized soon after the close of the market on Friday. Crude oil prices, along with other major commodities like palm oil, copper etc. also retreated from their prevailing levels in international market, which also sparked optimism amongst investors that any softening in ongoing commodity super-cycle will bring some respite for the country. On Friday, however, the market came under severe selling pressure, as the PM and FM announced some more budgetary measures, before finalization of agreement with the IMF. The government raised the super tax (poverty alleviation tax) to 10% for several sectors. In the budget the government imposed the levy to the tune of 2%, which was later on enhanced to 4% and now the one-time incremental tax rate has been increased to 10%. The stock market at one point was down by around 5%, before recovering subsequently and closing at 3.9% down at day end, erasing all gains made erstwhile during the week.

In terms of trading activity during the week, Insurance & Foreigners were the largest sellers with net outflows of USD 8 million and USD 2 million, respectively. On the contrary, Individuals & Other Org. remained the largest buyers with net inflows of USD 7 million and USD 3 million respectively.

In terms of stock market outlook, the recent budgetary measure (10% one-off tax) and the economic measures (some of which have already been taken like fuel price rationalization and other measure which will be taken shortly like power and gas tariffs hike), will cloud and compress the near-term earnings profile of listed corporate sector. Furthermore, due to mounting inflationary pressures amidst steep devaluation seen in the last few months, demand and as well as margins of the corporates may also come under pressure. Having said this, we again re-iterate that current stock market valuations more than compensate for the risks highlighted. Any tangible improvement on economic front will trigger a strong relief rally. Likewise, the resumption of IMF program (with extension in duration and size) and further inflows from multilaterals will be looked favorably by the market. Softening of global commodity prices especially in crude oil, LNG and Palm oil, on the back of slow down in global economy, will ameliorate the country's troubles on the external front and improve market sentiment. Therefore, we continue to look favorably towards market, whereby we expect it to provide around 20-25% upside in FY23.

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 4.2 times (earnings yield of around 24%). 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.