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Weekly Stock Market Commentary

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After lackluster stock market performance in the previous week, the stock market displayed some recovery during the outgoing week ending 1st July. The benchmark KSE-100 index increased by 579 points, on a week on week basis, translating into a modest increase of around 1.4%.

After sharp slump in the index during the preceding day (Friday of last week), as a knee-jerk reaction to the imposition of 10% super tax across several sectors, the stock market started off the week on a positive note. The sharp correction in the index prompted value buying from investors and sentiment turned positive on the news that the country has received USD 2.3 billion from China, which were long pending. Moreover, the country further made progress towards clinching the IMF nod for program resumption, as it received Memorandum of Economic and Financial Policies (MEFP) from the monetary authority. During the week, the government also sailed through the budget approval process from the National Assembly. External account numbers were also released during the week, as per which the current account deficit for May-22 stood at USD 1.4 billion, taking 11MFY22 CAD to USD 15.2 billion. Though CAD increased significantly on a MoM basis, the number were in line with the expectations, as remittances witnessed seasonal drop. During the week, the government further raised the retail fuel prices in the range of PKR13-15 per liter, and with that partially restored some levy on the fuels. CPI inflation reading also came in during the week, which overshot street consensus and stood at a whopping 21.3% for the month of June-22, taking FY22 average inflation to 12.1%.

In terms of trading activity during the week, Insurance & Mutual Funds were the largest sellers with net outflows to the tune of USD 12 million and USD 3 million, respectively. On the contrary, Banks/DFIS & Individuals remained the largest buyers with net inflows of USD 7 million and USD 4 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 likely squeeze 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 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 amid rising possibility of recession, especially in crude oil, LNG and Palm oil prices 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 the 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 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 4.4 times (earnings yield of around 23%, even after adjusting for super tax). 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, while risk averse investors can benefit from high interest rate environment via our money market and savings funds.

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