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Weekly Stock Market Commentary

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The holiday shortened outgoing week ending 8th July remained dull for the stock market. Amid lackluster trading activity, as reflected by thin volumes, the stock market eased off by around 285 points, translating into a slight contraction of 0.7% on a week on week basis.

Ahead of the Eid holidays, the investors preferred to remained on the sidelines and the participation remained muted. After record high monthly CPI inflation reported on previous Friday, there was uneasiness in the market surrounding the scheduled meeting of monetary policy committee, which raised the Policy Rate by a further 125 basis points, taking the benchmark rate to 15%, which is the highest in 2 decades. Along-with that the central bank also raised the rates of LTFF and EFS. The MPC made note of several important developments. On inflation outlook and its path, the central bank expects it to remain elevated throughout the rest of the fiscal year and expects it to average around 18-20% before declining sharply to 5-7% range by end of FY24. On economic growth, it highlighted that though the current GDP growth remains robust, owing to contractionary fiscal and monetary policies, growth will likely moderate to around 3-4%, which is more sustainable. On the external side, it projects current account deficit to narrow down to around 3% of GDP. External trade numbers were also reported during the week, and June-22 trade deficit clocked in at USD 4.85 billion, taking FY22 trade deficit to unprecedented USD 48.35 billion. The Petroleum Division has also reportedly proposed hike in gas price in range of 40-80% for various consumers, though official notification from OGRA is still awaited.

In terms of trading activity during the week, Mutual Funds & Banks were the largest sellers with net outflows to the tune of USD 3 million and USD 2 million, respectively. On the contrary, Individuals & Companies remained the largest buyers with net inflows of USD 3 million and USD 2 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 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 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. The ongoing commodity super cycle has also started to ease with many commodities considerably down from their recent peaks. Energy commodities, which constitute a major chunk in our import bill, have also started to reflect the growing fears of global recession, as crude oil prices also fell sharply during the outgoing week, by around 8-10%. We expect further moderation in commodity prices eventually, which will bring much needed respite on the external front.

Looking at the fundamentals, the valuations of stock market remain inexpensive. Corporate profitability is expected to grow by around 15% in FY22, despite imposition of 10% super tax. For FY23, we expect the growth to moderate to 9.1%. Due to lackluster market performance, Price-to-Earnings Ratio (P/E) has come down to a multi-year low of around 4.4 times (earnings yield of around 23%). The Market-Cap to GDP ratio, has also touched historic low levels, suggesting very small proportion of national disposable income is being channeled towards equity investments. 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.