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Weekly Stock Market Commentary

September 09, 2022

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During the outgoing week ending 9th September, amidst thin trading volumes the stock market retreated slightly with benchmark KSE-100 index declining by around 361 points (0.9%), on a week on week basis. All major sectors, closed in red with power sector significantly underperforming the benchmark, while in terms of index points, Fertilizer and Banking sectors led the index decline.

The investor participation remained lackluster as reflected by dismal volumes during the week. As the country grapples the loss inflicted by massive floods, the assessment of the damage was further revised up, which perturbed the investors and Its impact on the economic growth as well as implication for inflation also worried the participants. Thus the market started off the week on a frail note and declined by 1.1% on Monday. During the subsequent days, the market remained directionless. Foreign exchange reserves as of 2nd September surged by around USD 1.1 billion, reflecting the tranche release from the IMF. Numbers related to Roshan Digital Account (RDA) were also reported during the week. Although RDA flow in the recent couple of months has moderated, the country has managed to amass gross RDA inflow of around USD 5 billion, since the start of the initiative 2 years back. Despite resumption of IMF program and materialization of the tranche, PKR remained volatile during the week. It lost its value by around PKR 9 against USD (approx. 4%) during the week, which also dampened investors' sentiment.

In terms of trading activity during the week, Companies & Banks/DFIs were the largest buyers with net inflows to the tune of USD 3 million each. On the contrary, Mutual Funds remained the largest sellers with net outflows of USD 6 million. Alongside, Foreigners also sold stocks worth USD 3 million.

Going forward, we acknowledge the economic challenges facing the economy, further aggravated by the recent floods. Large swathes of farmland have been inundated, crops have been washed away, infrastructure has been damaged and areas have been cut off. Not only it will moderate the already feeble economic growth, it will also result in acute supply disruption in the short term resulting in spiraling prices of food items. As a consequence, inflation is likely to increase further and remain elevated throughout the year. Moreover, it might have implications on the trade balance as well, depending upon the magnitude of crop damage and extent of economic slowdown. Some industries, that have good share of demand emanating from agri economy, have already started to see their sales slowing and have also begun to observe non-production days. Having said this, we reckon that it will be a short-term phenomenon and after some weeks, as the rehabilitation begins, we will begin to see demand recover. So, near terms earnings of few sectors such as textile & cyclicals may come under pressure. For certain other sectors, it may also provide an impetus to demand, such as construction sector. However, looking beyond, we believe that the demand should recover and hence we continue to see growth in listed corporate space. International commodity prices continue to trend lower, especially crude oil prices. As recession pressures further take hold, we expect more moderation in commodity prices, which presents an upside case for local equities, since amelioration in the external position of the country will trigger strong investor interest. Furthermore, fundamentals of the market (Price-to Earnings ratio and Price-to-Book ratio) are such that any recovery in demand and improvement in CAD & reserves would strongly reflect in price performance.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.4 times (earnings yield of around 23%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.