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Weekly Stock Market Commentary

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The stock market performance remained muted during the outgoing week ending 15th October. The market traded within a very narrow range of around 250 points during the week, and at close, the benchmark KSE-100 index fell slightly by 137 points on a weekly basis, translating into 0.3% decline.

Due to lack of any major triggers and positive news-flow, the stock market remained directionless during the outgoing week. Since the market sentiment remains fragile due to the concerns on the macro-economic numbers, the impressive result reason for the outgoing year which just concluded also failed to excite market participants. Investors have been very selective and their interest has been in scrips and sectors where there is some story unfolding like dividend play, acquisition or buyback themes. During the week, the key event was the monetary policy committee (MPC) meeting on Monday, whereby the MPC decided to keep the Policy Rate unchanged at 15%, in line with the industry expectations. The MPC was of the view that the existing monetary policy stance strikes an appropriate balance between managing inflation and maintaining growth in the wake of the floods, that have altered the macroeconomic outlook. MPC highlighted that moderation in economic activity has become more visible and entrenched. It trimmed its GDP growth expectations to 2%, from earlier estimation of 3-4%. SBP pointed out that though inflation reading has come down from peak, it will likely remain elevated and linger long due to the floods and may average somewhat above the pre-flood projection of 18-20%. On external front, it expected the impact to be benign due to moderating demand offsetting higher import requirements and some export slowdown. Post SBP decision, the PIB yields in the auction also fell in the range of 8-30 basis points across various tenures. Foreign exchange reserves continue to deplete and during the week ending 7th Oct, it further fell by USD 303 million to stand at USD 7.6 billion, lowest level since July-19. Overseas remittances also dropped during Sept-22 by around USD 343 million (12% decline YoY) and clocked in at USD 2.4 billion. The cumulative 1QFY23 remittances also fell by USD 514 million (6% contraction YoY).

In terms of trading activity during the week, Individuals and Foreigners emerged as large buyers with net inflows amounting to USD 12 million & USD 3 million, respectively. On the contrary, Broker Prop & Companies remained the largest sellers with net outflows of USD 5 million and USD 4 million, respectively.

Looking ahead, we acknowledge burgeoning challenges facing the economy, further aggravated by floods. However, looking beyond the economic loss and deterioration in inflation expectations and fiscal deficit, there are a few positives on the horizon that will shape the capital market outlook going forward. Firstly, we expect healthy inflows from WB, ADB, IDB, AIIB which coupled with IMF loan tranche that will bolster the dwindling fx reserves and support investors' confidence. As seen in the past, there has been positive correlation between reserves and market performance. Secondly, FATF meeting is scheduled to begin next week and Pakistan is expected to be removed from the 'grey list' which should also strengthen the market sentiment. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given such compelling valuations, that would provide the much-needed liquidity to the market. Fourthly, the FM has also stated that the country is looking to seek rescheduling of its external loans with its bilateral lenders, barring commercial lending and Eurobond creditors. Though these parlays will be long drawn and it is no permanent fix, but at least it will ease off massive contractual outflows in the short term. Lastly, as global central banks step up their efforts to tame inflationary pressure by aggressive monetary tightening, it will likely stifle global economy. Thus, international commodity prices, that have materially come off from peak, will continue to trend lower, which presents an upside case for local equities.

Looking at the fundamentals, the Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.2 times (earnings yield of around 24%). June-22 PBT/PAT of listed corporate space has shown remarkable resilience and shown broad-based double-digit growth despite imposition of 10% super tax. Although the recent floods will impede near terms earnings of few cyclical sectors, looking beyond, we believe that the demand should recover and hence we continue to see healthy growth double digit growth in listed corporate space for FY23, which should support the market. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.