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Weekly Stock Market Commentary

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During the outgoing week ending 30th September, the stock market reversed the recent declining trend and inched up marginally as the benchmark KSE-100 index rose by a modest 508 points (1.3%), on a weekly basis.

The equity market started off the week on a strong note as the investors' sentiments turned positive. From the recent peak hit in late August, the market fell by a sizeable 6.3% in the next few weeks, which opened up valuation gap, that prompted some value buying. Investors also drew some confidence from material drop in Sensitive Price Index (SPI) at end of last week, which offered some hope that that CPI has nearly peaked out. Furthermore, the news surrounding the governments' efforts for debt forbearance and potential inflows for flood relief from multilaterals reinvigorated the market sentiment. As per the news-flow, The World Bank (WB) is envisaging financing of about USD 2 billion to prepare emergency operations to quickly start the reconstruction and rehabilitation to rebuild or repair infrastructure, housing and restore livelihoods. Further to this, the ADB President has also assured that USD 1.5 billion countercyclical loan for Pakistan is under process and would be approved shortly. In another important development, it was learnt that the country has been able to persuade & secure few important relaxations in the wake of the havoc caused by floods. As per media reports, these relaxations include: frontloading remaining loan tranches by increasing the upcoming USD 1.1 billion tranche due within a few weeks, three-month freeze on existing taxation on petroleum products & fuel cost adjustments in electricity tariff; and relaxation in current account & fiscal deficit targets to create room for crop imports. During the week, Ishaq Dar replaced Dr Miftah as the new Finance Minister of the country who vowed to bring down inflation, interest rates and arrest slide in PKR against USD. Coincidently, the Rupee also stabilized during the period under review and reversed its course, appreciating by around PKR 11.2 per USD in the last 5 working days. This was despite continued fall in the FX reserves, which fell by another USD 341 million, during the week ended 23rd September.

In terms of trading activity during the week, Individuals emerged as the largest buyers with net inflows to the tune of USD 5 million. Alongside, Other Organizations & Brokers Prop. Trading added equity positions worth USD 3 million each. On the contrary, Mutual Funds & Insurance remained the largest sellers with net inflows of USD 8 million and USD 4 million, respectively.

Looking ahead, we remain cognizant of burgeoning challenges facing the economy, further aggravated by the recent floods. 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. Consequently, inflation is likely to remain elevated throughout the year. In terms of its impact on external account, though the damage to the crops will adversely impact the trade balance, we expect some healthy inflows in the form of aid and concessional financing/funding from international donor agencies, like ADB, AIIB and WB etc. IMF appears to have loosened its conditions in the wake of the unprecedented floods in the country. The debt suspension initiative with the multilateral and bilateral creditors, barring the commercial lending and Eurobond creditors, will also provide massive relief to the country, at least in the short term. Moreover, as the global central banks especially US FED wage war on the inflationary pressure, it will stifle the global economy. Thus, international commodity prices, that have materially come off from the peak, will 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 4.1 times (earnings yield of around 24%). There is a strong investment case for equities. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.