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Weekly Stock Market Commentary

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The outgoing week ending 25th November, remained lackluster for the stock market. The benchmark KSE-100 Index traded within a narrow range and rose by a modest 206 points on a weekly basis, translating into a return of 0.5%. In terms of Index points, Technology and Fertilizer sectors contributed positively to the index.

Bucking the trend of the previous week, the stock market started off the week on a positive note and remained in green territory throughout the week, barring slight dip seen on Wednesday. The index movement remained range bound during the week as political uncertainty ahead of a key appointment in the military weighed on the stock market performance. However, after the appointment of the top military brass, we saw some pressure easing on the political front. Furthermore, the market looked nervously to the conclusion of the scheduled long march/sit in on 26th November in Rawalpindi. The snag in resumption of IMF program also capped any index gains during the week. Country's foreign exchange reserves, reported during the week, depicted further decline of USD 134 million for the week ended 18th November. On the positive side, the current account deficit (CAD) reported for the month of October remained on the lower side, as CAD stood at USD 567 million. Though the number increased slightly by around USD 204 million on a monthly basis, it is significantly below the last 12 months average run rate of around USD 1.35 billion. For July-Oct 2022 period, the cumulative CAD has fallen to around USD 2.8 billion, down from USD 5.3 billion, reflecting decline of around 47% on a YoY basis. On Friday, the central bank held its Monetary Policy Committee meeting, whereby the committee, contrary to the expectation of the majority of market participants, decided to raise the Policy Rate by 100 basis points.

In terms of trading activity, Individuals emerged as largest buyers with net inflows of USD 5 million. Alongside, foreigners added equity positions worth USD 1 million. On the contrary, Mutual Funds remained the largest sellers with net outflows of USD 3 million.

In the near term, the political noise is expected to subside somewhat in the coming days as change in the top military brass has taken place without any altercations and contentions. The state of macro-economic affairs will again take the center stage and will shape market outlook. Though the surprise 100 basis points hike in Policy Rate will slightly dampen the sentiments in the near term, it should anchor the inflationary expectations and restore confidence in policy actions. It may also be a pre-condition to secure the next tranche of IMF loans. We may also see further policy actions on the economic front, as focus of the government again shifts again on economy as the country has to move ahead swiftly to secure the next IMF loan tranche. With the positive nod of the IMF, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. The central bank governor in its post MPC meeting iterated that the country remains committed to meeting its external debt obligations and has retired around USD 1.8 billion so far in November and will further retire the upcoming USD 1.1 billion Sukuk in the next week, funding of which has also been arranged. It should also give some confidence to the market. Lastly, the ongoing softness in the international commodity market, especially, the crude oil prices also portends well for the country. Arab Light price saw their lowest level of USD 82 per barrel since January during the outgoing week, which will offer respite to the country on the external front.

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% as against 10yr PIB yield of 12.9%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.