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Weekly Stock Market Commentary

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During the outgoing week ending 28th October, the stock market fell sharply by 2.5% on a weekly basis, as the benchmark KSE-100 index slumped by 1,073 points. In terms of index decline, Cement sector, Tech sector and Oil & Gas exploration contributed the most, while in terms of sectoral return, Engineering, Power and Autos took a major hit during the week under review.

Notwithstanding the positive news surrounding the decision of FATF to remove Pakistan from its list of countries under "increased monitoring" after four years last Friday, there was hardly any excitement over it during the week. The market almost remained flat on the opening day while in the subsequent days, the rising political noise amidst announcement of long march by ex-PM, Imran Khan, sapped the investors' confidence. The surprising public appearance of DG ISI along with DG ISPR further amplified political uncertainty. Asian Development Bank (ADB) released USD 1.5 billion during the week, which will reflect in central bank reserves next week, due to lag in data reporting. As per SBP, the FX reserves fell by another USD 157 million to stand at USD 7.44 billion as of Friday, last week. Following the depleting FX reserves, PKR continued to weaken gradually during the week, losing its value by around 1% on a week-on-week basis.

In terms of trading activity during the week, Other Organizations and Companies emerged as major buyers with net inflows amounting to USD 2 million & USD 1 million, respectively. On the contrary, Mutual Funds & Individuals remained the largest sellers with net outflows of USD 3 million & USD 2 million, respectively.

In the near term, the market may take cue from the ongoing political circumstances where PTI seeks to awe and stamp down its opponents with display of its public support and force for an early election. In case the political uncertainty does not subside in coming days, the market may see some further correction. However, looking beyond, we believe that the state of macro-economy, will shape the market outlook. The recent floods have compounded the challenge for the government in terms of deterioration in inflation expectations and fiscal deficit. That said, we reckon that 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 as well as support the decrepit investors' confidence. As seen in the past, there has been positive correlation between reserves and market performance. Secondly, any FDI announcement during the ongoing foreign excursions of PM to China and Saudi Arabia will also be look favorably by the investors. 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 they 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, are expected to continue to trend lower, which presents an upside case for local equities.

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%) (Bloomberg P/E 3.6 times). Thus, we believe 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.