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Weekly Stock Market Commentary

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During the outgoing week ending 9th December, the stock market performance remained subdued as the benchmark KSE-100 Index fell by around 452 points, translating into a weekly decline of 1.1%.

Maintaining the trend of the previous week, the stock market continued its sapless performance in the recently concluded week. The market started off the week on a faltering note as the Index fell by around 1.3% on Monday. During the remaining days, it remained directionless with lackluster trading activity, reflecting lack of investors' interest. The gradual erosion in foreign exchange reserves, which have now fallen to around USD 6.7 billion, as at the end of last week (2nd Dec 2022), due to external debt repayments, is perturbing the market participants. Although the central bank governor has highlighted in his special podcast that reserves are set to improve during the 2HFY23, it is not comforting the market in the absence of any clear roadmap and path. Over the weekend, the nonchalant statement of the FM that he was not concerned about IMF program also unnerved the investors as it further casted doubts over the continuity of the Fund's program which is paramount to avoid any unpropitious circumstances. The FM, during the week, met several high-profile dignitaries of US, UK and China and other countries to use their sway, but it remains to be seen how conciliatory the IMF is, since it has so far not extended any concessions to the country for the 9th review. Reportedly, there was news that Pakistan is seeking USD 4.2 billion from KSA in order to shore up reserves, but so far, the Kingdom appears inclined towards investments in the country. Given how they have placed further deposits in Egypt and Turkey, Pakistan may also be able to attract further USD deposits.

In terms of trading activity, Foreigner & Mutual Funds were the largest sellers with net outflows of USD 6 million & USD 4 million, respectively. On the contrary, Individuals remained the largest buyers with net inflows of USD 9 million each.

As expected, political noise has subsided considerably. The state of macro-economic affairs has taken the center stage & will shape market outlook going forward. The crumbling foreign exchange reserves and the impending loan payments remain major wall of worry for investors and authorities should provide further clarity and a probable roadmap as to how the brewing crisis will be averted. The recent surprise 100 basis points hike in Policy Rate has also dampened sentiments, however, we believe it is a right step which will anchor inflationary expectations and restore confidence in policy actions. It may also be a pre-condition to secure the next tranche of IMF loan. We may also see further policy actions on the economic front, which have so far faced delays, as the country has to move ahead swiftly to secure the next IMF loan tranche. Only the positive nod of the IMF will pave way for bilateral and multi-lateral inflows that are imperative to bolster dwindling FX reserves and support investors' confidence. Lastly, the commodity prices continue to moderate. The Bloomberg Commodity Index has further fallen in the outgoing week, to levels last seen at the start of the year, and down by around 18% from its peak. Crude oil prices (Arab Light) are at their lowest level during the year. We expect further moderation in prices, which will not only ameliorate the external woes to some extent, but will also help dilute the inflationary pressures.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.0 times (earnings yield of around 25% as against 10yr PIB yield of 13.5%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.