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Weekly Stock Market Commentary

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During the outgoing week ending 10th February, the stock market rose sharply as the benchmark KSE-100 Index increased by 1,252 points, translating into a weekly gain of around 3.1%. In terms of Index movement, Oil & Gas sector contributed around one-third of change, while Technology and Banking also contributed considerably to Index surge. In terms of sectoral return Oil & Gas, Technology, Pharma and Engineering outperformed the market during the period under review.

Continuing the positive recent trend, the stock market started off the week on a strong footing, as the index rebounded by 720 points on Monday. The positive momentum continued throughout the week, and the market climbed approximately 2,000 points cumulatively in four consecutive trading sessions, reaching a level of 42,467 points, highest since September'22, before settling lower on the last trading session of the week. The market rally remained broad-based, with all the sectors witnessing investor interest. The sentiments remained upbeat due to growing optimism of investors in anticipation of approval for the release of 9th tranche of the IMF's Extended Fund Facility during the ongoing negotiations. As per media reports, during the ongoing rigorous talks between the authorities and IMF, a lot of gaps were overcome and much needed headway was made. However, on Thursday night, the staff-level talks ended without the two sides signing the Staff Level Agreement (SLA). Followed by the end of in-person technical and policy level talks, the IMF issued an official press release, highlighting that "considerable progress was made during the mission on policy measures to address domestic and external imbalances" and that the virtual talks will continue to take place. Moreover, Finance Minister Ishaq Dar held a press conference soon after, confirming the receipt of the Memorandum of Economic and Financial Policies (MEFP) and reassuring the audience that the program is on track. After a steep decline in the value of rupee last week, it managed to recover and gain stability as exporters sold USD, which sent a positive signal to the market. Meanwhile, foreign exchange reserves continued on their downward trajectory, declining by around USD 200 mn to settle at USD 2.9 bn, providing an import cover of just 2-3 weeks.

In terms of trading activity, Individual were the largest net buyers in the market with inflows of USD 6 million. Alongside, Companies & Foreigners increased their net holdings to the tune of USD 4 million and USD 3 million, respectively. On the contrary, Insurance and Mutual Funds sold stocks worth USD 7 million and USD 5 million, respectively.

Looking ahead, we believe that successful completion of the ongoing 9th review is paramount to the macro-economic stability and to remain solvent given precarious level of foreign exchange reserves. The resumption of the IMF program will not only unlock USD 1.1 billon tranche, but will also help crystalize inflows from other IFIs (such as World Back, Asian Development Bank, Asian Infrastructure Investment Bank, Islamic Development Bank) and also from the friendly countries, the support of which remain crucial to build external reserves. Any unnecessary delay in it or other impediments won't bode well for both the economy and the equity markets. Hence, the clarity on IMF flows is imperative, given the dangerously low levels of reserves. The pre-conditions set out by the IMF regarding increase in gas prices, additional taxation measures to the tune of PKR 170 bn (revised down from PKR 200-300 bn previously) and increase in power tariffs remain under discussions and are expected to materialize soon. The political agitation also remains a concern for investor sentiments and any improvement in the same would likely provide stability to the market, in our view.

Looking at fundamentals, Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 4.0 times (earnings yield of around 25% as against 10-yr PIB yield of 14.54%). Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds.