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Weekly Stock Market Commentary

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During the outgoing week ending 6th October, the benchmark KSE-100 Index rebounded by a around 1,261 points, translating into a healthy weekly gain of 2.7%.

Following a rather uneventful week in the stock market, the outgoing week witnessed a resurgence in market activity. The week commenced with a significant 400-point surge, driven by investor optimism stemming from a notable decrease in petrol & diesel prices over the weekend which saw a reduction of PKR 8 & PKR 11, respectively. Additionally, there were developments regarding a potential increase in gas tariffs that added to the positive sentiment. This rally continued throughout the remainder of the week, resulting in the index surpassing the 47,000-point threshold for the first time in five weeks on Wednesday. Another contributing factor to this positive atmosphere was the consistent appreciation of the rupee against the US dollar. At the end of the week, the rupee had recorded its 22nd consecutive gain, settling at PKR 282.69 against the USD in the interbank market. Furthermore, international oil prices also played a role in bolstering investor enthusiasm, as both Brent Crude and WTI experienced significant weekly decline, largely due to rising US bond yields and faltering demand. Other noteworthy developments during the week included the release of the monthly inflation data for September 2023, revealing that CPI had reached a four-month high of 31.4%. This marked a notable increase from the August figure of 27.4%, primarily attributed to a lower base in September 2022. Moreover, Pakistan's trade deficit showed a substantial improvement, narrowing down by 42.3% during 1QFY24, as it stood at USD 5.3 billion, compared to USD 9.2 billion during the same period in the previous fiscal year. Lastly FX reserves for the week clocked-in at USD 7.6 bn, down by USD 21 mn during the week.

Looking ahead, investors will be keenly following developments on the economic, political, and geopolitical front. The interim government has initiated some steps that have started to yield desired results. However, more meaningful reforms are still needed which will unlock both economic and stock market potential. Although the government has expressed the intention to privatize SOEs like PIA and PSM and improve the governance in the energy sector, especially the Discos to bring efficiencies in their operations, any tangible development on this front will be eyed favourably by the market. The government announced on Tuesday a 10% processing fee on items imported under the Afghan transit trade agreement, which is another noteworthy step. The gas sector, which in recent years has emerged as another source of circular debt, is reportedly under scrutiny and a plan is being chalked out to raise tariffs to make this sector sustainable. The external account requires keen attention because as per reports, the Ministry of Finance has worked out conservative estimates of the external financing gap and estimated that even if all external inflows materialized within the stipulated timeframe there would still be a gap of USD 2.4 bn. The investors will also be keenly following developments on the IMF front, since the government is set to begin talks with IMF on quarterly review in October. This review will be based on the September-end data that will help Pakistan unlock USD 710 mn loan tranche from the lender and will also in-still confidence in the market that Pakistan is not deviating from the track. The most important event shaping the direction of the market in coming week will be the recent escalation in geopolitical risks as situation in the middle east has again flared up with Israeli and Palestinian (Hamas) forces locked in intense battle. Oil prices along with shipping rates will jump, whereas heightened volatility is expected in global equity and currency markets.

Despite challenges on the economic front, the corporate listed space has shown resilience in terms of operations & profitability over the recent past. During FY21 & FY22, the cumulative profitability has almost doubled and in the outgoing year of FY23, it has further surged by an impressive 17.4%, despite imposition of higher super tax. Price-to-Earnings Ratio (P/E) of market is at multi-year low of around 3.9x (earnings yield of around 25.6% as against 10- yr PIB yield of 16.1. In the same manner, the dividend yield of the market is also around 9-10%. Therefore, we advise investors with medium to long-term investment horizon to build position in stock market through our NBP stock funds, which have the history of providing superior returns to investors.