

## Weekly Stock Market Commentary

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**Sajjad Anwar, CFA**  
Chief Investment Officer

During the week ending April 17th, amid heightened volatility, the benchmark KSE 100 Index managed to increase by 799 points (2.5%). The market opened the week on a faltering note as the extension of lockdown for two weeks increased anxiety amongst the market participants with a 1,000 points (3.1%) decline in the Index on Monday, 13th April. However, the approval of USD 1.4 billion financing facility from the IMF, and a surprise 200 bps cut in the Policy Rate by the SBP rejuvenated investors' mood and the market closed the week with a hefty 1,502 points (4.8%) increase in the Index on Friday, 17th, April.

At the request of Pakistan government, the Executive Board of the International Monetary Fund (IMF) approved USD 1.386 billion under Rapid Financing Instrument (RFI) to meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic. Meanwhile, the G20 countries have announced a major debt relief for low income nations until the end of the year as part of a plan to tackle the health and economic crises triggered by the coronavirus pandemic and prevent an emerging markets' debt crunch. Pakistan would also get postponing of debt payment, as per the sources. Earlier, the international financial institutions including the IMF and ADB also announced extension in the loan repayment.

In another notable development for the market during the week, the SBP slashed the Policy Rate by 2% to 9%, acknowledging exceptionally high uncertainty about the severity and duration of the Coronavirus shock, and anticipating a further downward revision in the outlook for growth and inflation. This unprecedented monetary easing bodes well for the economy and the stock market as it would provide fiscal space to the government for priority spending and reduce cost of capital for the businesses and households.

What lies ahead for the market? The impact of Covid-19 on the economy is severe, but the sell-off of the equities has also priced in a high degree of economic damage that will eventually pass. We believe that, despite the elevated uncertainties, foundation of an eventual economic recovery is very much in place. We hold positive view on the market for CY2020, and beyond. From the fundamental standpoint, after a still 24% down from its recent peak hit in January 2020, the stock market is trading at forward Price-to-Earnings (P/E) multiple of 6.3x against the 10-year average of 8x. In addition to an extremely attractive 15.9% Earnings Yield, the market is offering a healthy 7% dividend yield that is at par with 7.6% yield on a 10-year PIB. Barring short-term blip, we expect profitability of the corporate listed sector to remain resilient over the next 2-3 years. The steep decline in the Policy Rate bodes well for the market as the historical analysis shows that the stock market performs well in a declining inflation and interest rate environment. The sharp decline in the global oil prices and major debt relief offered by the multilateral agencies have mitigated risks to the Balance of Payment (BoP) position.

While we may come across negative headlines in the coming weeks related to Coronavirus, the market dynamics suggest that a lot of bad on the economic front is reflected in the market valuations. Therefore, we advise investors to look beyond the short-term market turmoil, and build positions in the market via our NBP Stock Fund / NBP Islamic Stock Fund, while keeping their long-term investment objectives in mind.