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Weekly Stock Market Commentary

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During the holiday shortened outgoing week, the stock market remained sideways. The benchmark KSE-100 Index shed 172 points (declining marginally by 0.5%) on a weekly basis. During the entire week, the market was seen trading in a narrow range. A we see it, investors exercised caution and resorted to profit taking ahead of the long Eid holidays. The market depicted lacklustre performance despite a 100 basis points cut in the Policy Rate.

In terms of participant-wise activity during the week, Foreign Investors remained sellers in the market, offloading their positions worth USD 9 million. Amongst the local participants, Individual investors remained the largest buyers in the market with net inflows amounting to USD 11 million, followed by Insurance Companies that added stakes to the tune of USD 5 million. Companies and Mutual Funds remained net sellers with outflows worth USD 5 million each.

The ongoing health crisis has somewhat undermined the hard-earned macro-economic stability. The country would face economic contraction for the first time in decades during FY2020 and the outlook for the next year will also depend on how quickly the economy activity returns to normalcy. With 2 weeks into the gradual re-opening of businesses across the country, the new infection cases are still on the rise, which casts doubt on the sustainability and magnitude of the recovery. However, we remain upbeat on the disease front as various vaccines are in the pipeline. Most recently, the potential vaccine by the Oxford, Astrazeneca has gained global coverage as the company begins advanced trials of the vaccine. Likewise, many others are on different stages of development, so it will not be long before the world finds a durable cure of this disease. Thus, we reckon that disruption due to the ongoing pandemic is not likely to last long.

From the valuation perspective, the market is trading at an undemanding forward Price-to-Earnings (P/E) multiple of 7x against the 10-year average of 8x. The market also offers a healthy dividend yield of 6%. Due to constrained economic activity during the 2-month shutdown, the near-term corporate earnings are expected to remain under pressure. However, we expect a steady growth in corporate earnings over the next 2-3 years. A large 4%-5% decline in returns on alternative fixed income avenues such as bank deposits, NSS, money market & fixed income mutual funds have made a strong case for flow of abundant local liquidity towards equities. Historical analysis shows that during the period of declining inflation & interest rates and manageable Current Account Deficit (CAD), the stock market has generally delivered strong returns. Taken it altogether, we advise investors to build position in the market through our NBP Stock Fund / NBP Islamic Stock Fund, keeping their long-term investment objectives in mind.