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During the week ending August 6th 2021, some positivity returned to the stock market as the benchmark KSE 100 Index added 435 points (an increase of 0.9%) on a week-on-week basis. The market started off the week on a positive note as the Index rose by 398 points on Monday, 2nd August. However, the market lost momentum and shed a cumulative 300 points during the last two trading days of the week. In our view, this lackluster market performance during the last few weeks is attributable to security situation in Afghanistan, rising Covid-19 cases in the country, and high Current Account Deficit (CAD) in June 2021. The hasty and unceremonious exit of the US forces from Afghanistan stirred uncertainty amongst investors in terms of security situation in the neighbouring country and its spill-over effect on Pakistan. Investors were also unnerved by a large USD 1.6 billion CAD in June-21, the highest monthly deficit since Dec-18. Rising Covid-19 cases in the country & associated lockdowns also unsettled the market participants. However, given attractive market valuations and promising corporate earnings prospects, we see these market levels as an attractive entry point for investors with medium to long-term investment horizon.

On participant-wise activity during the month, Individual Investors emerged as the largest buyers in the market, accumulating fresh position to the tune of USD 8 million. Alongside, Companies and Foreign Investors were other main buyers as each added equities to the tune of USD 3 million. On the other hand, Mutual Funds and Insurance Companies stood as main sellers, trimming their equity holdings by USD 11 million and USD 6 million, respectively.

Looking ahead, we reiterate our positive view on the market based on attractive market fundamentals; improving economic indicators; easier financial conditions; and robust corporate profitability. Though investors' concerns on rising CAD and Covid-19 cases are not unwarranted, we believe that the country is better positioned this time to steer through it. The central bank this time around is not fixated with maintaining a fixed exchange rate and as we have seen in the past 10-12 weeks, the currency has depreciated by around 6-7% against the USD. Furthermore, any rise in imports due to plant and machinery will either augment export base of the country or offer some import substitution. On Covid-19 front, the vaccination drive has picked pace in recent days and we expect vaccination of major eligible population in a few weeks, which would allow the economy to continue to operate uninterrupted.

From the fundamental perspective, the market is valued at an attractive forward Price-to-Earnings (P/E) multiple of 6.4x, versus 10-year average of 8.4x. In addition to this, the stock market also offers a healthy dividend yield of 5.3%. We expect corporate earnings to grow at double-digit rate over the next two to three years. Furthermore, the central bank in the monetary policy review few days back, not only maintained the Policy Rate at 7%, but has again reiterated continuation of accommodative monetary policy regime with a gradual and measured hike in the Policy Rate, going forward, which also bodes well for the equity market.

Taken together, in our view, the market holds potential to deliver strong performance in FY22. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds