Weekly Stock Market Commentary

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During the outgoing week, the stock market declined by 1.6% on a week on week basis. Except for the last trading session on Friday, the market closed on a negative note on the each of the other trading sessions. Most of the sectors, except for Oil and Gas closed in negative territory during the week. In terms of index contribution, Technology sector and Banking sector weighed heavily on the index decline during the week.

The lackluster performance during the week can be attributed to rising commodity prices, especially crude oil prices. Since the start of this calendar year, the oil prices (Arab Light) have already rallied by around 10% and are at highest level since 2014, due to robust demand amidst tight supplies. Investors are also worried about global political tensions involving major producers such as the United Arab Emirates and Russia that could further exacerbate the already tight supply outlook. At the same time, producers within the Organization of the Petroleum Exporting Countries are struggling to pump at their allowed capacities under the OPEC+ agreement. Provided crude oil prices stay at these elevated levels, it will add further challenges to the country's balance of payment position, which is already quite vulnerable. As the government is already collecting development levy and sales tax at reduced rates, it will be forced to pass on the impact of rising oil prices which will further stoke inflationary pressures. The Omicron led 5th Covid-19 wave in the country is also on an uptrend, that added anxiety amongst participants. In fact, surpassing the previous number of daily cases, the new cases on Friday were around 7.7k. Though on the positive side, the fatality rate remains low that has allowed the fluid functioning of the economy. The sentiments turned positive on Friday as National Account Committee reviewed the change in base of National Accounts from 2005-06 to 2015-16, and approved revision in FY21 GDP growth rate from 3.9% to 5.6%, based on strong Industrial activity witnessed in last quarter of FY21.

In terms of activity of the market participants, Individuals and Banks/DFIs remained the main buyers in the equities as they increased their positions by USD 12 million, and USD 6 million, respectively. On the other hand, main sellers in the market were Companies and Mutual Funds, with net selling amounting to around USD 10 million and USD 8 million, respectively.

In terms of equity market outlook, we continue to look favorably towards the market in terms of return, in which we expect market to provide around 15-20% return in CY22. In the short term, the market will look closely to the upcoming MPC meeting, scheduled to be held on 24th January, where we expect the central bank to maintain the Policy Rate, despite rising vulnerabilities on the external front. The market will look carefully at the tone and will read through the lines of the Monetary Policy Statement, where the MPC has iterated previously that the rates are closer to the desired level. Another key event is the upcoming meeting of IMF executive board on the 28th January, to consider the case of Pakistan. Revision in GDP improves key ratios such as Debt-to-GDP and fiscal deficit-to-GDP, and since Pakistan has met key prior conditions, IMF is expected to approve the revival of the EFF and approve the loan tranche of USD 1 billion. This will also pave the way for other multilateral flows which will shore up the reserves and lend stability to PKR, which has also been a cause of concern for the market. The result season is also around the corner, where we expect continuation of robust corporate profitability along-with healthy dividend payouts, which will likely catalyze the market.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 5.3x versus 10-year average of 8.1x. The market also offers healthy dividend yield in excess of 6%. As we see it, the recent sell-off has sent the market valuations to levels witnessed only during crisis eras. Therefore, given a strong investment case for equities, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.