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During the outgoing week, the stock market displayed mild recovery. Although volumes remained dull and market traded in a narrow range this week as well, some respite in the index was seen, as the benchmark KSE-100 index rose by 521 points on a week- on-week basis, translating into a weekly gain of 1.2%. In terms of index contribution, Fertilizers, Cements, Power and Banking sector propelled the index, while in terms of sectoral return, Engineering and Cements fared better.

The political uncertainty, unfortunately, is far from over & threat of political turmoil is still looming as the opposition looks to oust PM Imran Khan in the impending vote of no-confidence. However, what comforted the market was current account deficit (CAD) number for the month of February, which massively undershot the previous run rate and expectations of the market participants. For the month of Feb 2022, CAD clocked in at USD 545 million, down from USD 2,531 million, just a month ago. For reference, the run rate of CAD in July-Jan period has also been around USD 1,650 million per month. Though remittances did not grow on a month on month basis, the steep decline in goods deficit, which contracted by around USD 1.5 billion, amid USD 1.1 billion drop in imports remained the main reason behind improved numbers which lifted sentiments of investors. In another major development, Tethyan Copper Company, comprising of Barrick Gold of Canada and Antofagasta of Chile, has ended a long-running dispute with the country and Barrick will now start to develop one of the world's biggest gold & copper mining projects. Under the out-of-court deal, USD 6 billion penalty slapped against Pakistan by a World Bank arbitration court will be waived and Barrick and its local partners will now be responsible for project development. Industrial activity numbers were also reported by PBS during the week, which showed that the overall output of Large-Scale Manufacturing Industries (LSMI) increased by 7.6% during July-January 2021-22 on YoY basis. During the T-Bill auction held in the outgoing week, there was further uptick in the cut-off yield of various tenors, in the range of 40 to 55 basis points, as bets are that the Central Bank will eventually adjust its monetary policy stance to ground realities. Foreign exchange reserves of the country continued to remain on a declining trend due to elevated external debt and other payments, as the liquid reserves held by the central bank fell by another 5.5% on a weekly basis to stand at USD 14.96 billion. We are also seeing its impact on the currency market, as PKR continued to lose ground against USD, which also unnerved investors.

In terms of trading activity during the week, Mutual Funds and Individuals emerged the largest buyers as they increased their equity holdings by USD 5 million & USD 3 million. On the other hand, Banks/DFIs & Foreigners remained the largest sellers with outflows of USD 5 million and USD 4 million, respectively.

On equity market outlook, we acknowledge the mounting risks to inflationary pressures stemming from unprecedented commodity prices, some fiscal over-runs due to the recently announced relief measures by the Prime Minister in the form of fuel & power subsidies, that have also put IMF program on risk. The recent political ruffle has added another dimension of uncertainty for investors who will be looking closely to all of these developments. Though the market will take cue from these in the short term, however, for the long term, we continue to re-iterate that the current stock market valuations more than compensate for the risks highlighted. Our conviction on the stock market is underpinned by record set of profitability reported by the listed corporate space. With the conclusion of CY21 result season, cumulative profits are estimated to have grown by around 45% on a yearly basis. On the other hand, performance of stock market since the start of CY21 has remained muted, at best. As a result, the mostly looked-at valuation metric, Price-to-Earnings Ratio (P/E) has come down to multi-year low of around 4.7 times. The last time market traded at this level was post GFC time in Jan-09. Therefore, we continue to look favorably towards the market in terms of return, whereby we expect the market to provide around 15-20% upside in CY22.

From the fundamental perspective, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 4.7x versus historical average of 8.4x. The market also offers healthy dividend yield in excess of 6%. As we see it, the recent market valuations are equivalent of the 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.