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During the outgoing holiday shortened week ending 12<sup>th</sup> Aug, stock market continued its ascent as KSE-100 index rose by around 761 points, translating into weekly gain of 1.8%. Index heavy weight Banking sector and Oil & Gas Exploration sectors were key driving force behind index increase. However, in terms of sectoral return, Power sector rose sharply by around 5%.

The stock market carried its positive momentum during the past week. Within a short span of 12 trading days, the market has bounced back sharply by around 3,000 points (up by 7.6%), from its recent low touched at end of July. The favorable news-flow surrounding the overall balance of payment situation, as depicted by sharp reduction in trade deficit that declined from around USD 5 billion in June-22 to USD 2.6 billion, raised hopes that CAD has finally been tamed. Furthermore, the visit of Army Chief to friendly countries is also being viewed in the same backdrop, that will not only strengthen the mutual ties but will also pave the way for inflows. As the fears on insolvency gradually fizzled out, its impact was also visible on the currency market as PKR continued to strengthen against the greenback. During the outgoing week (with only 3 working days), the PKR appreciated by around Rs. 8.55 against USD. It is also worthwhile to mention that from its bottom, the currency has gained ground by around Rs. 24.45 per USD (10.2%), from 28<sup>th</sup> July. The international bond yields also pointed to the improving sentiment, as the falling trend in YTM continued during the outgoing week as well. It also merits mentioning that YTM of the bond with nearest maturity, falling due in Dec-22, has come off by around 30%, from its recent bottom. Likewise, sharp drop in YTM has been seen across all maturities, reflecting increasing optimism that the country would honor its impending commitments. During the week, the country also received the long-awaited Letter of Intent (LoI) from the IMF, which would be sent back to the Fund's executive board with the request to revive the stalled program under the Extended Fund Facility (EFF). The IMF board is expected to meet on the 29<sup>th</sup> Aug, to consider the case for Pakistan.

In terms of trading activity during the week, Individuals were the largest buyers with net inflows to the tune of USD 5 million. On the contrary, Mutual Funds, and Banks/DFIs remained the largest sellers with net outflows of USD 3 million and USD 1 million, respectively.

Looking ahead, we are of the view that economic backdrop is set to improve going forward. Inflation is likely to remain elevated throughout the year with an accompanying tight monetary setting. Though it will moderate economic growth, it will be more sustainable and durable. The key challenge has been on the external front and with signing of IMF SLA and with global commodity super cycle waning gradually, we remain cautiously optimistic on the ability of the country to steer through the ongoing challenges. As has appeared in the news too, with IMF deal, flows from friendly countries will also follow through and the resumption of multi-lateral funding will also materialize that will help shore up FX reserves.

In terms of corporate earnings, we acknowledge that backdrop remains challenging due to recent budgetary measures (10% one-off tax) and the economic measures (utilities and fuel price rationalization). Furthermore, due to mounting inflationary pressures amidst steep devaluation seen in the last few months, demand and as well as margins of cyclical corporates may also come under pressure. However, for other sectors that remain insulated from demand pressures, and are beneficiary of PKR devaluation and Interest rate upcycle like Oil & Gas, Power Generation, Fertilizers, Technology, and Commercial Banks, we expect robust earnings growth going ahead, offsetting the decline in cyclical sector profitability. Therefore, we expect that overall corporate profitability would continue to grow, albeit at a modest pace. The recent corporate result announcements also strengthen this view, where companies have posted record pre-tax earnings. We again re-iterate that current stock market valuations more than compensate for the risks highlighted and any tangible improvement on economic front will trigger a strong relief rally.

Looking at the fundamentals, where Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4.5 times (earnings yield of around 22%). There is a strong investment case for equities. Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.