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During the outgoing week ending 4th November, stock market staged decent recovery as the benchmark KSE-100 index rose by 716 points on a week on week basis, translating into a weekly gain of 1.7%.

The equities started off the week on a strong footing as the benchmark KSE-100 closed each of the first 4 days on a positive note, surging by around 2.3%. As the concerns on possible deterioration in political landscape diminished, the sentiment improved. On Monday, the Prime Minister announced Kissan Package to ameliorate the challenges faced by agri economy in the aftermath of devastating floods. The package envisages higher amount of loans stipulated for agri sector, continuation of subsidized gas for urea, reduction in DAP prices, permission for import of low cost used tractors, and reduction in electricity tariff to fix rate of PKR 13/kwh for tube wells. During the week, Pakistan and the World Bank signed USD 500 million loan agreements for various projects. President Xi Jinping, in a meeting with Prime Minister Shehbaz Sharif, on his maiden visit to China, assured China's continued support for Pakistan's sustainable economic and strategic projects including the Main Line-1 (ML-1) rail track and announced an additional assistance package of RMB 500 million for flood relief efforts. Inflation data set was also released during the week, which overshoot market estimates & clocked in at 26.6%, due to whopping increase in perishable food prices (mainly onion & tomatoes) and reversal of decline of fuel price adjustment in the prior month. The trade numbers released for October, during the week, also painted a favorable picture as merchandise trade deficit contracted by around USD 636 million on a monthly basis to clock in at USD 2.27 billion. US FED and UK BoE increased the Policy Rate by 75 basis points each in a bid to rein in the rising inflation. The sentiments turned sour on Friday, after a failed assassination attempt on PTI chairman on Thursday.

In terms of trading activity, Individuals emerged as major buyers with net inflows amounting to USD 5 million. Alongside, Companies & Banks/DFIS each added USD 1 million. On the contrary, Insurance & Mutual Funds remained the largest sellers with net outflows of USD 3 million & USD 2 million, respectively.

In the near term, market may take cue from the fluid ongoing political events. The situation remains very volatile as anger within PTI and its supporters on the assassination attempt on Imran Khan may turn into a flashpoint, if caution and restraint is not exercised. However, the deferment of the long march by PTI leadership till recovery of Imran Khan, coupled with positive news flow from China and Saudia Arabia on account of loan rollovers and additional financing facilities, is expected to keep market relatively strong during the coming week and rest of the month, especially if the transition of Army Chief is smoothly executed.

Investors will look closely at balance of trade numbers & FX reserves which have fallen to precarious levels, barely enough to meet import of 7 weeks. The floods have further compounded the challenge for government in terms of deterioration in inflation expectations & fiscal deficit. That said, we expect healthy inflows from WB, IDB, AIIB which coupled with IMF loan tranche will bolster dwindling FX reserves and support investors' confidence. Secondly, any further progress on FDI announcement during the ongoing foreign excursions of PM to China & Saudi Arabia will also be look at favorably by investors. Thirdly, we have begun to see activity in stock buy-backs in the local bourse, which would only gather steam going forward, given compelling valuations, which will provide much-needed liquidity. Fourthly, the FM has also stated that the country is seeking rescheduling of its external loans with its bilateral lenders. Though these parlays will be long drawn and it is no permanent fix, it will ease off massive contractual outflows in the short term. Finally, as global central banks step up their efforts to tame inflationary pressure by aggressive monetary tightening, it will likely stifle global economy. Thus, international commodity prices, that have materially come off from peak, will continue to trend lower, which presents an upside case for local equities.

Looking at the fundamentals, Price-to-Earnings Ratio (P/E) of the market is at multi-year low of around 4 times (earnings yield of around 25%). Therefore, we advise investors with medium to long-term investment horizon to build position in the stock market through our NBP stock funds.