Subpar Sept’20 ends 1QFY21 with a thud

- KSE-100/All index slipped 1.3%/0.5%MoM despite continued spike in trading activity (avg. monthly volumes +21.2%/+15.0%MoM to 354.7/748.3mn) pushed higher by earnings release, heightened trading activity from policy actions in the pipeline (power tariff, energy policy), improved macro reads (CA surplus sustaining), and a subdued COVID-19 backdrop urging resumption to normalized commercial activity.

- Cumulative CYTD KSE-100 index return now stands flat (-0.4%), where 1QFY21 returns (+17.9%QoQ) continued the upswings post March’20 dip (recovered 49% from 25th March low), where a comparison of KSE-100 vs. KSE-ALL index returns show that side stocks in the mid and small cap space drove the bulk of returns.

- Amongst local investors, individual participation continued with net buying of US$31.9mn (US$181.5mn CYTD), followed by Insurance of US$23.3mn, whereas Banks (US$11.6mn net sell) and Brokers (US$10.0mn) extended outflows, while cumulative FPI for the month reverted back to net outflows (US$33.3mn) after a month of small inflows taking CYTD outflows to US$387.6mn.

- We remain upbeat over recent structural moves to augment market liquidity (NSS Curbs, ETFs) which we believe will dovetail with substantial macro reforms and upcoming report cards from international bodies (FATF plenary and (virtual) working group meetings on 21-23rd Oct’20), for driving any sustainable bull run.

Activity spikes while investors seek triggers: KSE-100/All index slipped 1.3%/0.5%MoM despite continued spike in trading activity (avg. monthly volumes +21.2%/+15.0%MoM) pushed higher by earnings release, heightened trading activity from policy actions in the pipeline (power tariff, energy policy), improved macro reads (CA surplus sustaining), and a subdued COVID-19 backdrop urging resumption to normalized commercial activity. Over the month average ready market value traded was relatively flat after posting strong uptick in August, as blue-chip KSE-100 stocks constituted 59.4% of KSE-100 market values, a level close to the FYTD average (60.5%) but below levels seen during 1QCY20 (74.4%). Upward momentum in volumes is evident from following trailing twelve month KSE-100 volumes, which hit 48.05bn shares, matching levels last seen during the 2008-09 rally. Cumulative CYTD KSE-100 index return now stands flat (-0.4%), where 1QFY21 returns (+17.9%QoQ) continued the upswings post March’20 dip (recovered 49% from 25th March low), where a comparison of KSE-100 vs. KSE-ALL index returns show that side stocks in the mid and small cap space drove the bulk of returns.

KSE-100 performance continues with foreign outflows largely ignored as traded value spiked

Individuals continued the charge: Amongst local investors, individual participation continued with net buying of US$31.9mn (US$181.5mn CYTD) followed by Insurance of US$23.3mn, whereas Banks (US$11.6mn net sell) and Brokers (US$9.9mn) extended outflows, while cumulative FPI for the month reverting back to net outflows (US$33.3mn) after a month of small inflows taking CYTD outflows to US$387.6mn. The same was mimicked in sectoral performance where side...
boards led the returns for the month with, Vanaspati and Allied Industries gaining 73.4%MoM, Sugar sector +14.7%MoM and Food stocks returning 12.1%MoM. Primary sectors, barring E&Ps (down 7.9%MoM) and Auto Assemblers (down 7.4%MoM), remained flat during the month.

**Outlook and Investment perspective:** We remain upbeat over recent structural moves to augment market liquidity (NSS Curbs, ETFs) which we believe will dovetail with substantial macro reforms and upcoming report cards from international bodies (IMF 2nd review of EFF pending, FATF plenary and (virtual) working group meetings on 21-23rd Oct’20), for driving sustainable bull run. However, downside risks to market performance is presented by, i) fomenting political space negatively impacting market sentiments, and ii) resurfacing of COVID-19 cases leading to micro/partial lockdowns causing uncertainty amongst market participants. In this backdrop, we advice building positions in leveraged, infrastructure related stocks (Cements, Steel, Tiles) that are expected to post phenomenal Sep’20 Qtr. Long term positions is advised in select Banks (HBL, UBL, MCB, BAFL) and E&Ps being cheap on valuations.
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