

## PAKISTAN STRATEGY

# MARKET VISTA

REP-019

## Market Outlook: Cometh the Vaccine!

- Global markets gave a big hurrah over news of Pfizer Inc's experimental COVID19 drug being more than 90% effective on initial trial results. Of the major markets, the DJIA closed up 2.95%; FTSE100 up 4.67% and the DAX up 4.94%.
- That said, markets pared intraday gains where DJIA's closing at 29,158 points was down 540 points from its intraday high, while futures at the time of writing this report are down another 193 points.
- Not surprisingly, while global markets soared, the tech heavy NASDAQ remained under pressure, closing -ve1.5% amid a perception of successful vaccine bringing normalcy and hence, brick and mortar model back in play.
- At home, taking cue from global markets, we believe the KSE-100 is likely to give a knee jerk positive rebound where commodity play should be the theme. In the immediate term, index heavy Oil & Gas sector should provide momentum with Brent at USD41.7 and WTI at USD39.4. With coal up 2.6%, Cements may potentially witness some pressure, however, is likely to be mitigated by impressive volumetric outlook. In line with global performance, Tech sector may witness some pressure while improved export outlook courtesy vaccine availability early on in the US and Europe may keep Textiles buoyant.
- That said, on the external front, we remain cautious on the math unraveling (~5% rise in core import/oil commodity prices would expand CAD by ~USD1.0/0.35bn)
- Over the medium term, market outlook may remain patchy as COVID19 continues to make headlines. Though market is unlikely to replicate performance of Feb'20-Mar'20 (index reached 27,229 points with P/E falling to 5.2x), COVID positivity ratio reaching 5.1% as per NCOC highlights the gravity of the situation, the ramifications of which cannot be ignored.

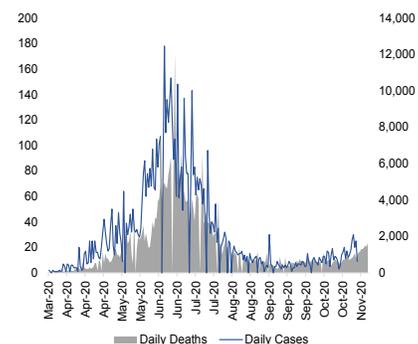
**COVID19 – Cometh the vaccine!** In a major development, Pfizer Inc announced yesterday that its vaccine, co-developed with German partner BioNtech SE, had achieved greater than 90% efficacy in preventing COVID19 infections based upon an interim efficacy analysis of 94 confirmed cases. This marks the first successful result from a large scale clinical trial. The companies (Pfizer/BioNtech) have already signed contracts to supply hundreds of millions of doses to the US and Europe. Pfizer has said it will submit the vaccine to the U.S. Food and Drug Administration for emergency clearance once it gets an average of two months of follow-up data on safety, which will most likely happen next week. The European Medicines Agency already began a rolling review of the experimental vaccine last month.

**Play the commodities!** With market likely to give a knee jerk positive rebound, investors should look to play the commodity theme. With markets pricing in a potential post COVID world entailing opening up economies, commodities rebounded spectacularly while safe havens such as gold tanked. The strong rebound in crude with Brent at USD41.7 and WTI at USD39.4 should finally lead to some price discovery in the E&P sector while a 2.6% upwards movement in coal, while negative for Cements, is likely to be absorbed given strong volumetric outlook. Companies with oil derivative costs and inability to pass on may witness some pressure while given price taker nature of Chemical sector, the impact is likely to remain neutral. With normalcy and hence, traditional brick and mortar model back in play, Tech sector witnessed pressure globally yesterday, with a likely trickle down impact on the local space. Improved export outlook courtesy vaccine availability early on in the US and Europe (as alluded to above) is likely to keep Textiles buoyant.

**Market Outlook – Hazy at best!** Beyond the initial market reaction, outlook is likely to remain hazy where till the advent of a vaccine (CanSino vaccine trail underway in Pakistan), increased positivity rate and albeit lagged, death rate may keep a cap on index performance. Though market is unlikely to replicate performance of Feb'20-Mar'20 (index reached 27,229 points with P/E falling to 5.2x), COVID positivity ratio reaching 5.1% as per NCOC highlights the gravity of the situation, the ramifications of which cannot be ignored.

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COVID19 daily trajectory in Pakistan



Source: Johns Hopkins Coronavirus Resource Center



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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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