

The Physics of Stock Market Rallies

Sajid Amit

Associate Professor;

Director, Center for Enterprise and Society (CES), ULAB

Overview: With post-election stability, easing monetary conditions, and surging remittances, Bangladesh's stock market may be entering a physics-defying rebound where compressed valuations collide with strengthening fundamentals.

As the trading floor of the Dhaka Stock Exchange prepares to resume activity on Sunday, February 15, the prevailing atmosphere appears to be positive. The week leading up to the recent elections already provided a precursor, with the benchmark DSEX index surging by 1.7% in a single final session to settle at 5,400 points.

One does not require a crystal ball to understand this trajectory because the current landscape is governed by a form of physics where depressed valuations inevitably meet rising fundamental strength.

The number one ingredient here is that the political landscape has achieved a degree of post-election stability that the markets traditionally reward, as parties appear to have aligned on the results and avoided the significant unrest that often paralyzes commercial activity.

The banking sector may also benefit from a recent reduction in the Standing Deposit Facility (SDF) rate, which was recently lowered to 7.5% by the central bank to discourage commercial banks from parking excess funds and instead nudge them toward lending.

Another critical catalyst for this renewed confidence is the recent surge in remittance inflows, which reached a staggering \$2.1 billion in January 2026, marking a significant increase that often precedes periods of heightened domestic investment.

This influx of foreign currency provides the necessary liquidity to stabilize the exchange rate and bolsters the broader monetary environment. Also, given how long the market has been in the doldrums, it would not be too audacious to predict a rally, even if short-lived, although I tend to foresee better times ahead for the market, 2026 and beyond.

In terms of where to invest, several high-performing banks are preparing to announce earnings in February and March that are expected to be robust despite the broader challenges within the financial industry. These institutions are currently trading at remarkably low price-to-earnings (PE) ratios, creating a value proposition that institutional investors find increasingly difficult to ignore as they seek to rebalance their portfolios for the new quarter. But remember to look for banks with strong balance sheets and earnings forecast and not speculate!

Beyond value in select banks, a variety of blue-chip stocks across the pharmaceutical, consumer goods, and infrastructure sectors are displaying historically low PE ratios that stand in stark contrast to their strong earnings potential.

For instance, the pharmaceutical sector continues to show resilience with average earnings growth projected at 12-15% for the upcoming year, yet many of these market hegemony remain undervalued due to temporary liquidity constraints.

However, the sustenance of this rally will require navigating several seasonal and global headwinds that could impede progress as we move toward March.

The "Ramadan effect" often introduces a specific ebb and flow to trading volumes, as shorter office hours and shifts in consumer spending can lead to a temporary deceleration or shifts in market activity.

On the international stage, U.S. monetary policy adjustments remain a concern, as any hawkish signals from the Federal Reserve could dissuade global investors from maintaining positions in emerging markets.

Domestically, the stubborn persistence of inflation may entice risk-averse individuals to shift their capital toward fixed deposits or government treasuries.

The geopolitical climate adds another layer of complexity to the forecast, as the threat of escalating tensions in the Middle East could trigger a flight to quality, driving investors toward treasuries and away from equity markets towards gold and select commodities. Given these risks, a disciplined investment strategy must prioritize banks with strong governance and historically low Non-Performing Loan (NPL) ratios, which currently average around 10.1% across the industry but remain significantly lower among top-tier private commercial banks.

Investors should also remain vigilant for price-sensitive information, such as sponsor directors buying back shares, which serves as a powerful internal signal of a company's long-term health and management's confidence in future performance.

Success in this environment demands a sophisticated integration of macro-level awareness, fundamental and technical analysis. For those who utilize technical analysis, focus should be placed on momentum indicators and moving averages to identify entry points that align with the broader recovery trend. Moving average windows will range from 13 days to 21 days to 50 days or longer depending on the stock in question. It is good to understand basic candle patterns if one is so inclined.

The upcoming national budget will undoubtedly introduce new sector-specific incentives that could further alter the investment landscape, making it essential to maintain a diversified approach that favors companies whose products, whether they be daily FMCG essentials or life-saving medicines.

Ultimately, while the data points toward a period of renewed growth, the prudent investor will remember that market success is always a delicate mixture of rigorous analysis and a small measure of luck.

There is no crystal ball: Only leading indicators.

References

1. Bangladesh Bank. (2026). *Monthly remittance inflow statistics, January 2026*. Bangladesh Bank. <https://www.bb.org.bd>
2. Bangladesh Bank. (2026). *Monetary policy announcement: Standing Deposit Facility (SDF) rate adjustment*. Bangladesh Bank. <https://www.bb.org.bd>
3. Bangladesh Bank. (2026). *Banking sector performance review: Non-performing loan ratios*. Bangladesh Bank. <https://www.bb.org.bd>
4. Bangladesh Bureau of Statistics. (2026). *Consumer Price Index and national inflation data*. Ministry of Planning, Government of Bangladesh. <https://www.bbs.gov.bd>
5. Bangladesh Securities and Exchange Commission. (2026). *Sponsor-director share transaction disclosure records*. BSEC. <https://www.sec.gov.bd>
6. Dhaka Stock Exchange. (2026). *DSEX index daily trading data and historical records*. DSE. <https://www.dsebd.org>
7. Dhaka Stock Exchange. (2026). *Sector-wise price-to-earnings ratio data: Banking, pharmaceutical, consumer goods, and infrastructure*. DSE. <https://www.dsebd.org>
8. Federal Reserve Board. (2025–2026). *Federal Open Market Committee statements and monetary policy forward guidance*. Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov>
9. Industry analyst consensus estimates. (2026). *Pharmaceutical sector earnings growth projections for Bangladesh-listed firms (12–15% annual estimate)*.
10. Murphy, J. J. (1999). *Technical analysis of the financial markets: A comprehensive guide to trading methods and applications*. New York Institute of Finance.