

Asim Wahab Khan, CFA
Chief Investment Officer

The equity market posted a modest gain during the week ending 13th June, as the benchmark KSE-100 index rose by 503 points, translating into a WoW increase of 0.4%. The performance was primarily driven by the Cements, Power Generation & Distribution and Commercial Banks.

The week started on a strong note, with the market gaining 2.2% in the first two sessions, reaching an all-time high of 124,353 points. This rally followed the announcement of the FY25–26 budget, which was largely viewed as positive for the equity market. However, these gains were partially reversed on the final trading day of the week due to escalating geopolitical tensions between Israel and Iran, which led to a spike in global oil prices. On June 10, Finance Minister Muhammad Aurangzeb presented the FY25–26 budget to the Parliament. The key summary of the budget is outlined below:

Macroeconomic Indicators	Popular Budget Measures
Total outlay: PKR 17.6 trillion (+2% YoY)	Marginal relief for salaried individuals
FBR target: PKR 14.1 trillion (vs PKR 11.9tr FY25 rev.)	0.5% cut in super tax for income slabs of PKR 200–500 million
GDP growth: 4.2% (vs 2.7% current year)	18% uniform sales tax on small vehicles (up from 12.5%)
Inflation target: 7.5%	Carbon levy of PKR 2.5/litre; large hike in PDL on Furnace Oil
CAD: USD 2.1 billion (~0.5% of GDP)	Removal of sales tax exemption for FATA/PATA
Fiscal deficit: 3.9% of GDP (vs 5.6% FY25 revised)	Withdrawal of FED on property transfers
Primary surplus: 2.4% (vs 2.2% FY25 revised)	Removal of sales tax exemption on solar panel imports
	Tax on interest income raised to 20% (from 15%)

For the equity market, the capital gains and dividend taxes remain unchanged at 15%, contrary to expectations of a tax hike — a positive for investor sentiment. The government also announced a broad tariff rationalization initiative, including:

- Introduction of new custom duty slabs,
- Reduction in additional customs duties on the import of 7,523 items,
- Cut in regulatory duty on the import of 1,149 items,
- The maximum regulatory duty lowered to 50%, down from 90%.

On the economic front, remittances surged to USD 3.7 billion in May 2025, marking a 13.7% YoY increase. Cumulative inflows for 11MFY25 reached USD 34.9 billion, up 28.8% YoY. Looking ahead, the stock market will focus on the final shape of federal and provincial budgets and take cue from the evolving geopolitical landscape in light of Israeli aggression against Iran. Beyond the near-term volatility, we maintain a positive medium-to-long-term outlook on equities, supported by:

- Continued economic stabilization under the IMF program, including declining inflation and an improved external position,
- Easing global commodity prices amid weaker global growth, and
- Potential shift of liquidity from fixed income to equities. Despite the recent rally, market valuations remain attractive with a P/E ratio of 6.3x—well below the historical average of 7.8x—and a healthy dividend yield of 7–8%. For investors with a medium to long-term view, we recommend building exposure to equities through our NBP stock funds.