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Pakistan equities remained negative during the outgoing week ended 20th June, as the benchmark KSE-100 index lost 2,120 points, translating into a WoW decline of 1.7%. The majority of the index losses were contributed by the Power, Cement, and Investment Banks/Cos. sectors.

The market remained lackluster throughout the week, primarily due to escalating tensions in the Middle East between Iran and Israel. Continued cross-border hostilities and aggressive rhetoric from both sides sparked fears of a wider regional conflict, unsettling investors globally. Oil prices also remained volatile as concerns over potential supply disruptions grew, impacting risk appetite across global equity markets, including Pakistan. In a separate key development, Pakistan's Army Chief undertook an official visit to the United States, engaging with senior officials to discuss defense cooperation and regional stability.

On the economic front, Pakistan posted a Current Account Deficit of USD 103 million in May 2025. On a cumulative basis, the 11MFY25 Current Account Surplus stood at USD 1,812 million compared to a deficit of USD 1,572 million during the same period last year. In a positive development, Pakistan signed an ADB-backed financing agreement worth USD 1 billion with a consortium of Middle Eastern banks. In its latest Monetary Policy Committee meeting, the State Bank of Pakistan (SBP) opted to maintain the policy rate at 11%. The decision reflected a balance between supporting economic recovery and guarding against potential inflationary pressures, especially under a volatile geopolitical environment. The central bank emphasized that while the disinflationary trend and improving current account position provided comfort, the economic environment warranted a cautious approach until a more definitive revival in domestic demand takes hold.

The money market witnessed notable activity, as the government raised PKR 915 billion in an unscheduled 22 days T-Bill auction held during the week. The State Bank reported that bids for the short-term T-bills for 22 days totaled PKR 1,900 billion, while the government raised Rs915.6bn. Govt has also conducted fixed bond PIB auction wherein the government raised Rs557bn at face value (Competitive & Non-Competitive) against target of PKR 300bn. As a result of this auction, cut-off yields on 2-, 3-, 5-, & 10-year bonds have seen a decline in the range of 29-55bps. The GoP also introduced a landmark 15-year Zero Coupon Bond where PKR 47bn were raised (PKR 288bn face value), aimed at attracting long-term investment and extending the debt maturity profile. This move reflects a strategic shift towards ensuring greater fiscal sustainability and reducing rollover risks in public debt management.

Meanwhile, Punjab unveiled an infrastructure-driven budget of PKR 5.33 trillion for FY26, focused on development projects to stimulate economic activity in the province. Additionally, the federal cabinet has approved PKR 1.275 trillion loan deal with commercial banks to settle power sector circular debt. Under the said deal, PKR 683 billion in debt held by the Power Holding Company will be refinanced, while overdue payments to independent power producers (IPPs) will be cleared. This is a big positive for the energy chain as the resolution of Gas Circular debt (GCD) will be the next focus for the GoP.

Looking ahead, the stock market will take its cue from the intensifying geopolitical flashpoint—first Israel's aggression against Iran, then the U.S. deployment of B-2 bombers to attack key nuclear sites at Fordow, Natanz and Isfahan—and the looming risk that Iran may close the Strait of Hormuz in retaliation. This move will lead to sharp surge in international crude prices and may bring market under pressure in the short-term. 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,
- 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.