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Weekly Stock Market Commentary

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After 4 consecutive weeks of solid return by equities, where investors reaped average weekly gain of 3.7%, the stock market remained range-bound during the week ending 25th July. The benchmark KSE-100 rose by 610 points, translating into a modest weekly return of 0.4%. It bears mentioning that since the beginning of FY26, KSE-100 Index is up by 10.8% after a phenomenal return of 89% and 60% during FY24 and FY25, respectively.

After an impressive start of FY26, the equities ran out of steam during the past week, however, the broader sentiment remained positive. Key highlight of the week was the ratings upgrade by the international credit rating agency, S&P Global, that elevated Pakistan's long-term sovereign credit rating to 'B-' from 'CCC+', assigning a 'stable' outlook. This marks a return to the 'B-' rating for the first time since Jul-22, while it also restored 'stable' outlook last seen in Feb-19. The rating agency said that stable outlook reflected expectations that external support from multilateral & bilateral partners along with fiscal improvement would continue over the next 12 months to meet Pakistan's substantial debt obligations.

On the circular debt front, a task force has now been assigned the responsibility to tackle gas circular debt, which is nearing PKR 3 trillion. To develop an initial strategy, KPMG has been hired to formulate a roadmap. The firm has suggested few recommendations; i) taking loan from commercial bank and service it by imposing a special levy of PKR 3-10/litre on petroleum products, ii) further increase in gas prices, and iii) elimination of existing cross-subsidy of PKR 160 bn. It carries significant potential for Oil & Gas sector stocks which stand to benefit from the implementation of any of these measures. Through successive hikes in gas price and fixed charges, the flow of gas circular debt has already been addressed, the execution of any of these strategies will clear the stock of gas circular debt, paving way for potentially higher payouts.

The Asian Development Bank (ADB) released its revised economic forecasts for Asia, whereby it maintained Pakistan's GDP growth rate at 3.0% for FY26 – well below the government's target of 4.2%. In a recent auction, T-bill yields fell significantly across all the tenors before the monetary policy committee meeting scheduled on 30th July. Cut-off yield for 1M declined by 39 bps to 10.85%, 3M yields were down by 29 bps to 10.71%, 6M yields dropped by 19 bps to 10.70%, and 12M yields fell by 10 bps to 10.7%.

Following record-breaking equity returns over the past two years, the stock market appears well-positioned to deliver healthy gains in the coming year as well. While a near-term slowdown in corporate earnings is expected — primarily due to declining crude oil prices and a sharp reduction in the policy rate, which may weigh on the profitability of heavyweight sectors like Banking and Oil & Gas — we believe the broader market uptrend is likely to persist, supported by

- Steady improvement in economic conditions under the ongoing IMF program, including tamed inflation and a stronger external account position,
- Softening global commodity prices over global growth concerns, and
- potential reallocation of liquidity from fixed income to equities.

Therefore, despite soft earnings outlook in FY26, the multiple re-rating of the market will drive performance going ahead. We find it noteworthy to mention that despite sharp surge in the KSE-100 Index, the valuations of companies are still attractive, as the Price-to-Earnings multiple of the market is 7.2 times, significantly below the long-term average of 7.9x. Furthermore, the market offers an attractive dividend yield of 6–7%. For investors with a medium to long-term horizon, we recommend building exposure to the stock market through our NBP stock funds, that have outperformed the benchmark returns.