

Asim Wahab Khan, CFA
Chief Investment Officer

During the outgoing week ending December 19th, the benchmark KSE-100 Index reached an all-time intraday peak of 172,675 points. However, profit-taking at elevated levels led to some consolidation, with the index closing the week at 171,404 points. Overall, the index added 1,540 points during the week, translating into a WoW return of 0.9%. Investor activity showed Individuals as net buyers, while foreign investors and Insurance companies turned net sellers. Sector-wise, Commercial Banks were the primary contributor to the market's advance.

On the macroeconomic front, the Monetary Policy Committee (MPC), in a surprise move, cut the policy rate by 50 basis points to 10.5% to support economic growth. The MPC noted that inflation may temporarily rise above its target range toward the end of FY26 due to low base effect, before easing back into the target range in FY27. Real GDP growth is now expected to lie in the upper half of the previously projected 3.25–4.25% range, while the State Bank of Pakistan (SBP) expects FX reserves to exceed its earlier target of USD 17.8 billion by June 2026. Recent data show SBP's FX reserves have risen to a 3.9 year high of USD 15.9 billion following inflows from the IMF.

On the external front, Pakistan recorded a current account surplus of USD 100 million in November 2025; however, the cumulative current account deficit for 5MFY26 widened to USD 812 million, compared to a surplus of USD 503 million during 5MFY25. Meanwhile, the Real Effective Exchange Rate (REER) increased to 104.8 in November 2025 from 103.9 in October 2025, signalling some pressure on external competitiveness if the trend persists. On the industrial side, Large-Scale Manufacturing (LSM) posted strong growth, rising 8.3% YoY and 3.7% MoM in October 2025, lifting cumulative LSM growth to 5.0% YoY during 4MFY26. Automobiles, Coke & Petroleum Products, and Wearing Apparel remained the key contributors to growth during the period.

On the fiscal front, development spending remained subdued during 5MFY26, with utilization at just 9.2% of the PKR.1 trillion annual allocation. The restrained pace of spending reflects fiscal consolidation efforts aimed at aligning with IMF requirements amid a widening revenue shortfall.

After a strong price performance in the KSE-100 Index during the July–September period of FY26, the market entered a consolidation phase over the following two months. However, over the past six weeks, the index has regained upward momentum, signalling the potential continuation of the ongoing rally. Overall, the equity market remains fundamentally well-positioned for further gains, supported by improving macroeconomic indicators and a stable policy environment. The outlook is further reinforced by continued macroeconomic stabilization under the IMF program, a manageable external account, and favourable global commodity dynamics amid a softer international growth backdrop. Additionally, the ongoing liquidity rotation from fixed income to equities, coupled with the government's sustained efforts to address circular debt, should provide incremental support to the market.

At current levels, the KSE-100 Index trades at a forward price-to-earnings multiple of 8.3x, leaving room for a valuation re-rating toward its 2006–2017 historical average of approximately 9x. While overall market returns are expected to normalize to the 15–20% range, equities continue to offer compelling risk-adjusted returns relative to fixed-income yields, which currently hover around 10%. For medium to long-term investors, maintaining or selectively increasing equity exposure remains prudent. NBP's equity funds, which have demonstrated long-term outperformance, offer an effective vehicle for capturing Pakistan's long-term growth potential. Continued structural reforms and steady macroeconomic improvement are expected to underpin a gradual and sustained re-rating of the equity market in the months ahead.