

Asim Wahab Khan, CFA
Chief Investment Officer

The equity market remained highly volatile during the week ended 6 March, with the benchmark KSE-100 Index declining by 10,566 points (-6.3% WoW) to close at 157,496. The sharp correction followed the joint US–Israel strike on Iran and Tehran’s subsequent retaliation, which unsettled global financial markets and triggered a temporary trading halt on the local bourse during the first trading session. The escalation in hostilities also pushed Brent crude prices sharply higher to around USD 93/bbl from nearly USD 72/bbl within a week (an increase of roughly 28%), amid concerns over potential supply disruptions through the Strait of Hormuz, a critical global energy chokepoint that carries nearly 20% of global oil shipments. With the latest decline, the KSE-100 Index has now corrected by approximately 31,670 points, or nearly 17%, from its January peak. The drawdown reflects a combination of geopolitical escalation, local security concerns, foreign selling pressure, the transition to T+1 settlement, and relatively subdued corporate earnings.

Market performance remained extremely volatile throughout the week. The index opened with a sharp sell-off, registering one of the largest single-day declines in its history (9.6%) during the first trading session following the geopolitical escalation. Partial rebound was witnessed in the subsequent sessions as bargain hunting emerged; however, gains proved short-lived as persistent geopolitical uncertainty and surge in global oil prices continued to weigh on investor sentiment.

On the policy front, the FM stated that the IMF delegation, which cut short its visit to Islamabad citing security concerns, is currently in Istanbul, with discussions continuing remotely. According to the minister, the FBR briefed the IMF at a technical level, indicating expected revenue collection of around PKR 13.5 trillion for FY26 compared with the revised target of PKR 14 trillion. From a macroeconomic perspective, the Governor SBP reiterated confidence in the country’s economic outlook despite regional tensions and global uncertainty. GDP growth is expected to remain in the range of 3.75%–4.75% in FY26, while inflation is projected to stay within the 5%–7% band. Foreign exchange reserves, currently at USD 16.2 bn, are expected to rise to USD 18 bn by June and further to USD 20 bn by December 2026. The Governor also maintained that the current account deficit will likely remain contained within 1% of GDP, even if oil prices remain elevated, supported by robust workers’ remittances projected to reach USD 42 bn during FY26.

On the inflation front, CPI stood at 7.0% YoY in Feb-26, driven by a 0.3% MoM increase, taking average inflation for 8MFY26 to 5.5% compared to 5.9% in the same period last year. On the external front, the trade deficit widened to USD 3.0 billion in Feb-26 compared to USD 2.8 billion in the same month last year. On a cumulative basis, the 8MFY26 trade deficit expanded to USD 25.0 billion from USD 20.0 billion last year, reflecting higher imports & relatively modest export growth.

Market Outlook: Near-term market performance is likely to remain sensitive to geopolitical developments, particularly in light of recent US–Iran tensions. While intermittent volatility cannot be ruled out, macroeconomic fundamentals remain broadly manageable. Historical precedent suggests that markets tend to recover once geopolitical uncertainty stabilizes. During the India–Pakistan episode in May 2025, the KSE-100 corrected by around 13% from its peak but subsequently rallied nearly 62%, highlighting the opportunity cost of attempting to time volatility-driven drawdowns.

Geopolitical corrections have typically proven temporary, while earnings cycles and liquidity conditions ultimately drive medium-term performance. Market returns are expected to normalize within the 15%–20% range, supported by improving macro stability and policy continuity. The current correction appears largely driven by an expansion in geopolitical risk premium rather than any structural deterioration in earnings fundamentals. For medium- to long-term investors, maintaining core exposure and selectively adding on weakness remains a prudent strategy. Historically, disciplined allocation has consistently outperformed attempts to tactically time episodic volatility. NBP Funds’ equity strategies remain well positioned to capture Pakistan’s structural recovery and the market’s gradual re-rating potential over the medium term.