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The KSE-100 Index extended its downward trajectory during the week ended April 30, 2026, declining by 7,678 points (-4.5% WoW) as investor sentiment remained cautious amid evolving geopolitical tensions between the U.S. and Iran. The ongoing disruption in the Strait of Hormuz has increased risks to global energy supply chains, pushing international oil prices to elevated levels. The index has now corrected by around 10,945 points from its recent peak, unwinding gains that had been driven by expectations of a favorable outcome from Pakistan-facilitated negotiations. Elevated oil prices have also increased Pakistan's oil import bill, with weekly estimates rising from around USD 300 million to USD 800 million, thereby adding pressure on the country's external account. Selling during the week was broad-based, with declines observed across heavyweight sectors including Commercial Banks, Oil & Gas Exploration, Cement, and Fertilizers.

The Monetary Policy Committee of the State Bank of Pakistan (SBP) raised the policy rate by 100bps to 11.5%, marking the first increase in nearly three years. The decision reflects a measured response to evolving macroeconomic conditions, particularly rising inflation risks linked to higher global energy prices and external uncertainties. SBP highlighted that inflation may remain above the target range of 5%-7% in the near term, with risks tilted upward, while reiterating its commitment to maintaining positive real interest rates and a data-dependent policy stance. Growth expectations have moderated slightly, with GDP now expected to remain closer to the lower end of the previously projected range of around 3.75%.

On the external front, SBP remains committed to building foreign exchange reserves to around USD 18 billion by mid-2026. Of the total external debt obligations of USD 25.4 billion, the majority have already been repaid or rolled over, leaving USD 4.2 billion due in 4QFY26. Of this, USD 2.7 billion is expected to be rolled over, limiting net repayments to USD 1.5 billion. Encouragingly, SBP reserves increased by USD 730 million WoW to USD 15.8 billion. Looking ahead, anticipated board approvals under ongoing programs with the International Monetary Fund are expected to unlock inflows of around USD 1.2 billion in May 2026. Meanwhile, engagement with the IMF continues ahead of the FY27 budget, with a delegation expected in mid-May to finalize fiscal measures aligned with program targets. While reaffirming its commitment to fiscal discipline, the government is also seeking some flexibility to accommodate evolving global and regional dynamics.

Market Outlook: Near-term direction will remain linked to geopolitical developments—particularly the trajectory of U.S.–Iran tensions and developments around the Strait of Hormuz. While the situation remains fluid, there are expectations that diplomatic engagement will continue to play a constructive role. Pakistan's role as a mediator has been acknowledged, supporting its positioning in the region. Against this backdrop, Pakistan's macro framework under the IMF program remains supported by improving external buffers and continued policy discipline. Historically, periods of uncertainty have led to temporary market adjustments, with recovery following as conditions stabilize.

Market returns are expected to normalize within the 15%-20% range over the medium term, supported by easing risk premiums, macroeconomic stability, and policy continuity. The recent correction, alongside intermittent rebounds, suggests that market movements have been influenced more by changes in sentiment than by any material shift in underlying 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 short-term 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.