

## Equity Market: Geopolitical Shock, Valuation Opportunity

The KSE-100 Index has experienced a sharp correction amid escalating geopolitical tensions between the U.S.–Israel alliance and Iran, with the conflict now entering its tenth day. Recent commentary from both sides suggests the situation may be approaching de-escalation. During this period, international oil markets have been highly volatile, with Brent and WTI crude briefly surging from around USD 70 to nearly USD 115 per barrel before easing back toward the USD 80 range. Pakistan remains structurally vulnerable to energy price shocks, importing roughly two-thirds of its fuel requirements. A prolonged Brent price environment over USD 90/bbl range materially alters Pakistan’s external and fiscal dynamics. Pakistan’s annual oil import bill typically ranges between USD 15–20 billion and **every increase of USD 10/bbl on a sustained basis, can add USD 1bn to Pakistan’s import bill**, placing pressure on the current account and broader macroeconomic stability in a low-reserve, high-debt environment. **For Pakistan, sustained higher oil prices likely have a threefold impact:** widening the current account deficit, increasing inflation, and pressuring reserves and PKR.

Brent Price Scenario	Estimated Macro Impact on Pakistan
USD 75 – 80	Manageable; moderate CAD widening, contained FX stress
USD 85 – 90	Noticeable CAD expansion, PKR pressure, inflation risks rise
USD 100+	Significant external strain; potential policy tightening and growth slowdown

Source (s): AAML Research

### Pakistan Better Positioned Than in Previous Oil Shocks

To put the current situation into perspective, we reviewed Pakistan’s macroeconomic indicators during previous periods when global oil prices surged above USD 100 per barrel. While concerns over rising oil prices are understandable given Pakistan’s status as a net energy importer, the data suggests that the recent market reaction appears disproportionate to the prevailing macroeconomic reality. **Compared with earlier episodes of oil price spikes, Pakistan today is entering this phase with relatively stronger external buffers, improving remittance inflows, moderating inflation, and a more stable macroeconomic outlook, suggesting the economy is better positioned to absorb short-term energy price volatility.**

Oil Above 100 USD/bbl		Russia / Ukraine War	Israel / Hamas War	Israel / Iran War
Indicators		FY22	FY24	FY26E
Oil Price - Brent	USD/bbl	65.2 - 127.9	73.2 - 96.6	58.9 - 119.5
Current Account	USD mn	-17,481	-2,072	-2,530
Trade Deficit	USD mn	39,050	22,177	32,760
Petroleum Imports	USD mn	18,743	15,162	12,638
Inflation	%	12.15	23.41	6.80
Interest Rate	%	9.7	21.8	10.5*
GDP	USD bn	376	372	421
Real GDP Growth	%	6.18	2.63	3.60
SBP Reserves	USD mn	9,814	9,390	16,300
Remittances	USD mn	31,279	30,251	41,762
PKR Parity	USD/PKR	204.85	278.34	279.40
Import Cover	months	1.39	1.76	2.57

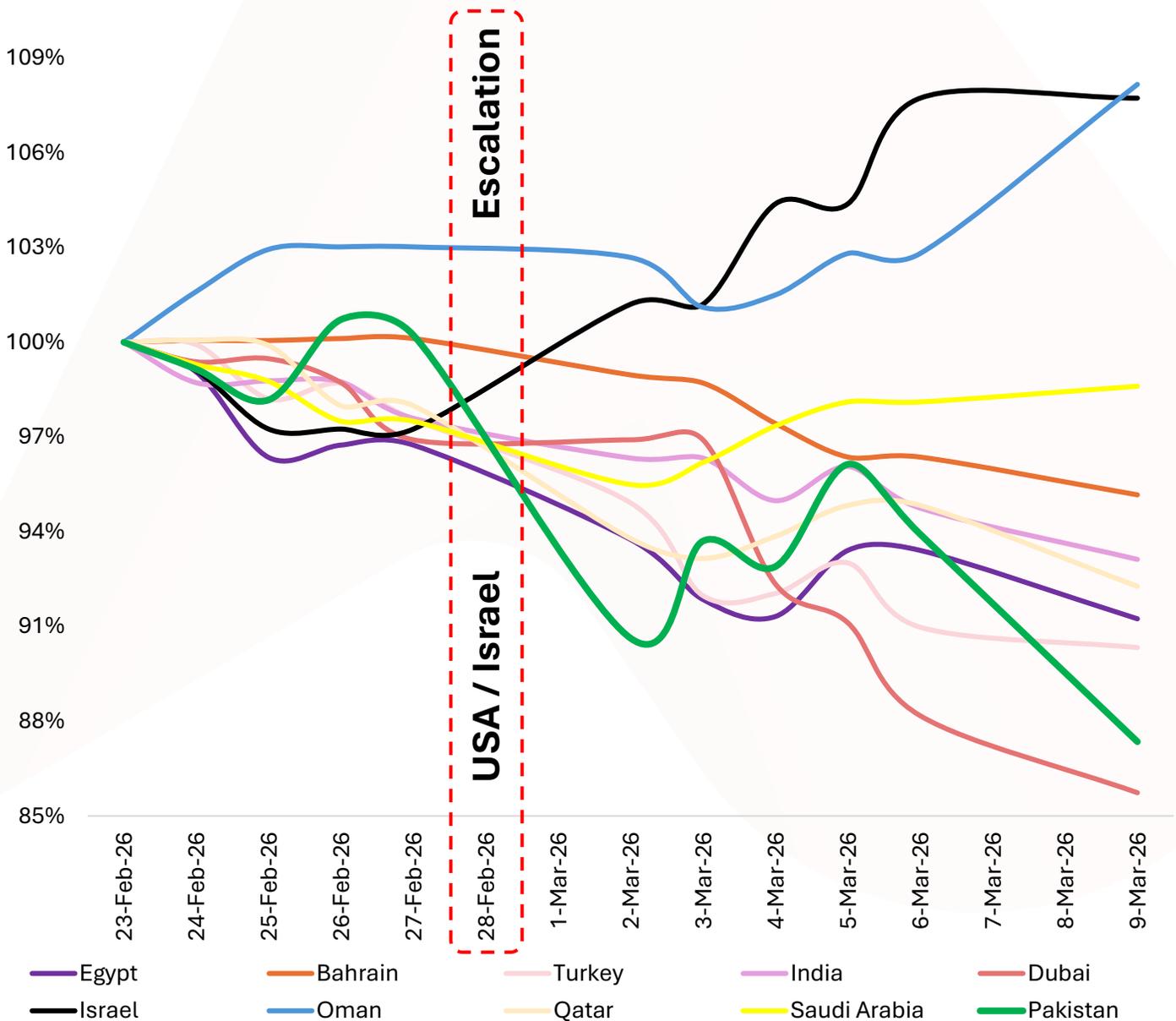
Source (s): SBP, MOF, PBS, AAML Research, \*current

Unlike previous global shocks such as the Russia–Ukraine War and the Israel–Hamas War, Pakistan enters this episode from a significantly stronger macroeconomic footing, supported by improved foreign exchange reserves, a narrower current account deficit, moderating inflation, and stronger remittance inflows. These factors provide a much stronger buffer against temporary commodity price volatility. **In our view, the recent correction reflects sentiment-driven selling rather than a deterioration in fundamentals.** As geopolitical tensions stabilize and oil markets normalize, we expect market sentiment to recover. The ongoing pullback **therefore presents an attractive opportunity for investors to accumulate fundamentally strong Pakistan equities at compelling valuations, positioning portfolios for the next leg of the market cycle.**

### Market Reaction Appears Excessive

Another factor reinforcing our view that the market reaction has been excessive is a comparison with regional equity performance. **Relative to its peers, Pakistan has been disproportionately impacted**, with the decline in the KSE-100 Index materially exceeding that of most regional markets. This divergence suggests the recent sell-off has been largely sentiment-driven rather than fundamentals-led, further supporting our view that the correction has created an attractive opportunity to selectively build positions in Pakistan equities.

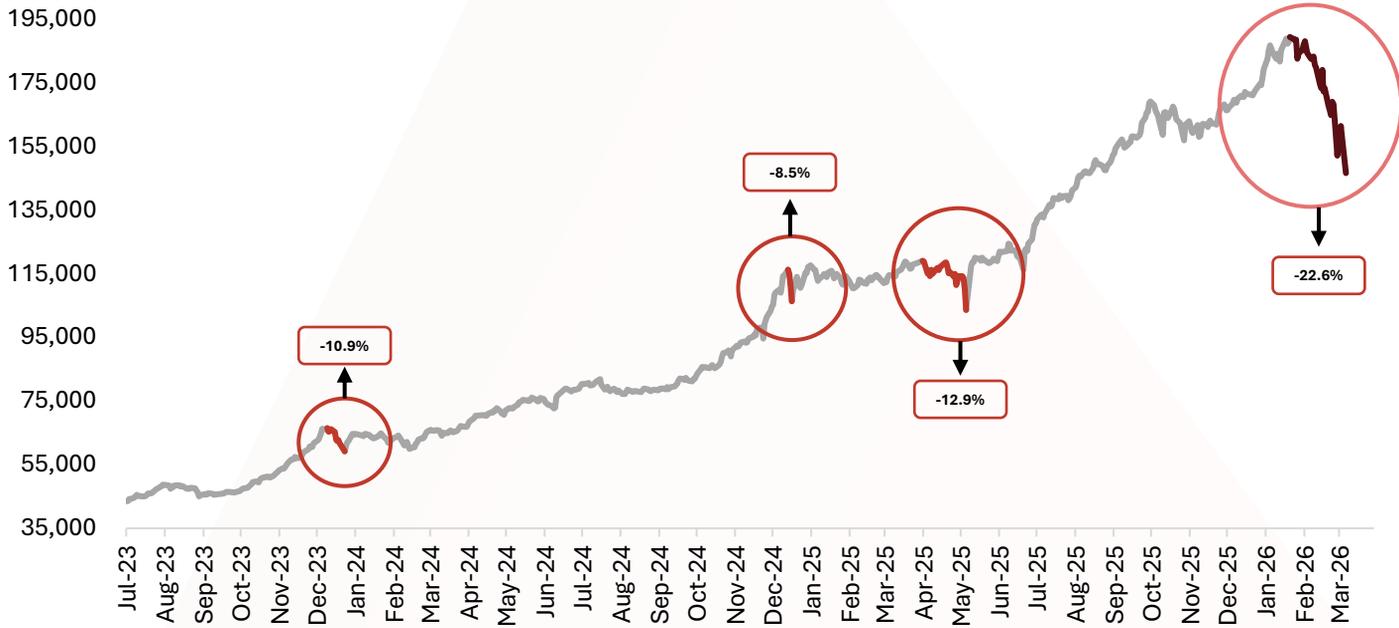
### Regional Markets after USA/Israel Escalation:



### Accumulation Opportunity Amid Valuation Dislocation

A review of historical trends in the KSE-100 Index suggests that while drawdowns of 10% or more can be abrupt and sentiment-driven, the market has frequently demonstrated a pronounced “V-shaped” recovery trajectory, with a substantial portion of losses often recouped within a relatively short timeframe once valuation comfort restores investor confidence and triggers renewed value-based buying.

#### KSE-100 Historic Corrections:



Although short-term volatility may continue until there is clearer visibility on these evolving factors, we view the current phase of consolidation as an opportunity for disciplined investors to selectively accumulate fundamentally strong names within the PSX. Following the recent, pullback of 22.6% since the start of February 2026, valuations have compressed to a forward P/E multiple of 6.1x, positioning the market at a steep discount to regional indices. At these levels, we see a strong case for multiple expansion, translating into an estimated upside potential of over ~30% in equities, compared to 9-10% yields on fixed income.

We advise investors to capitalize on the prevailing valuation dislocation and invest in equities through professionally managed equity strategies offered by Alfalah Asset Management Limited, notably the **Alfalsh GHP Stock Fund**, **Alfalsh GHP Alpha Fund**, and **Alfalsh GHP Islamic Stock Fund**, each of which remains well positioned to generate alpha under the current market backdrop.

#### KSE-100 & Forward PE:

