Pakistan Market: Fears Overblown; Upward Correction Warranted

Weekend Escalation: Military Actions & Conflict Dynamics

A joint US–Israel military operation struck targets inside Iran over the weekend, sharply escalating tensions in the Middle East and the Iranian state media confirmed that Iran's Supreme Leader, was also killed in the airstrikes over the weekend. In response, Iran launched retaliatory strikes, including missile and drone barrages targeting Israel and US allies in the Middle East. These reciprocal military actions mark one of the most violent direct confrontations between Iran and Israel (with US support) since broader regional tensions intensified following the 2025 conflict.

Impact on the Strait of Hormuz & Global Energy Flows

One of the most immediate strategic effects of the weekend conflict has been Iran's warning and de-facto closure of navigation through the Strait of Hormuz, the critical chokepoint through which about 20% of global oil supplies transit daily. A closure, even if temporary has potential to disrupt significant volumes of crude shipments, leading to supply shortages and logistical bottlenecks. Historical risk assessments have shown that if Hormuz were blocked, Brent oil prices could surge significantly to well above USD 110+ per barrel because there are very limited alternative routes for Gulf crude. In our view, this spike could be temporary, as on March 1, 2026, OPEC+ already announced a modest increase in oil production by 206,000 barrels per day (bpd) starting April 2026. This decision is intended to balance the market in response to rising geopolitical tensions in the Middle East, specifically US-Israeli strikes on Iran. In addition to this, a sustained long-term disruption in supply remains unlikely, and this we believe should keep the upside in oil prices in check, and prices should revert to below the USD 80/bbl mark, limiting the imminent risks on the upside.

External Account & Macro Stability Risks for Pakistan

Following the weekend's escalation, crude oil prices surged sharply, with Brent and WTI spiking by roughly 6-9% in Asian trading as markets priced in heightened supply risk. Arab light has moved up by 10-11% since Friday. As a net importer of crude oil and petroleum products, Pakistan is particularly vulnerable to sustained spikes in international oil prices. A prolonged Brent price environment in the USD 80-90/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 5/bbl on a sustained basis, can add USD 1bn to Pakistan's import bill. For Pakistan, sustained higher oil prices likely have a threefold impact: widening the current account deficit, increasing inflation, and pressuring reserves and PKR.

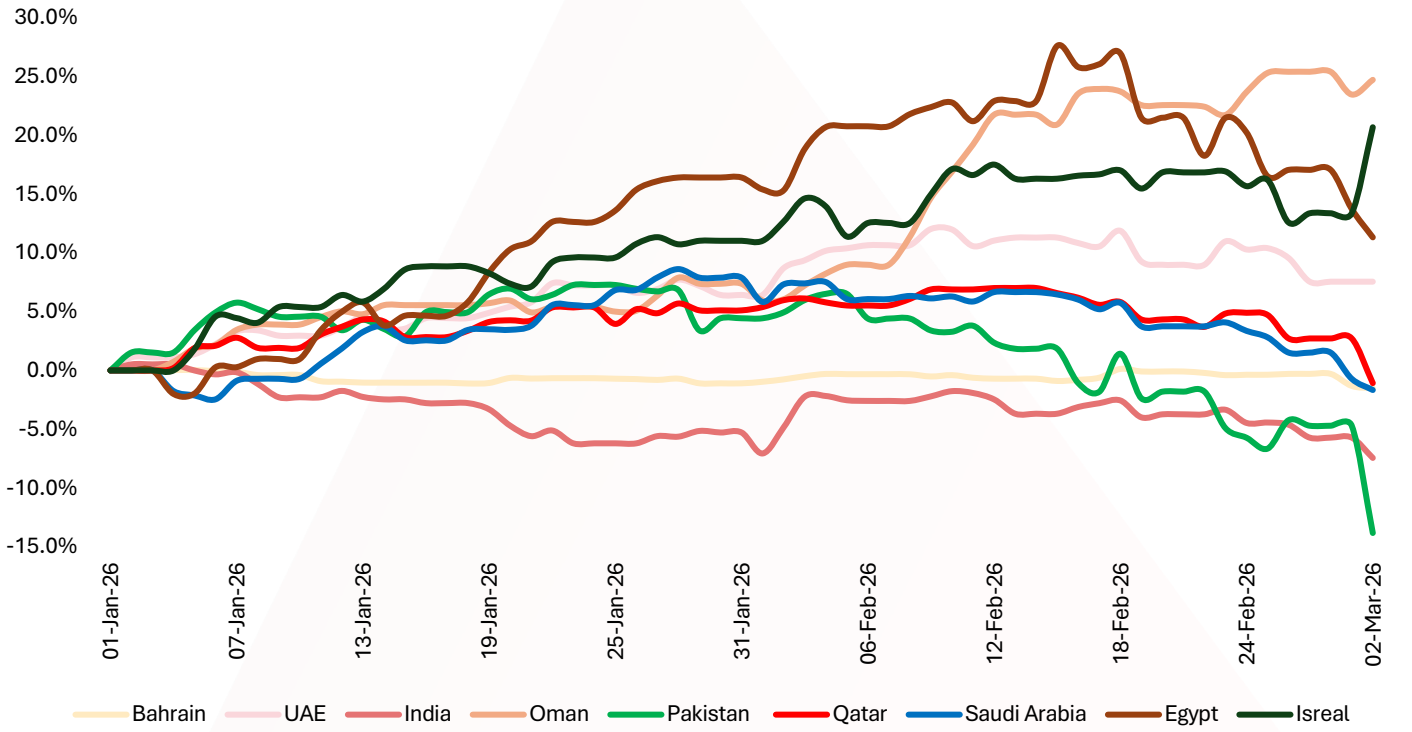
Brent Price Scenario	Estimated Macro Impact on Pakistan
USD 75 – 80	Manageable; moderate CAD widening, contained FX stress
USD 85 – 90	Noticeable CAD expansion, PKR pressure, inflation risks rise
USD 100+	Significant external strain; potential policy tightening and growth slowdown

Source (s): AAML Research

Accumulation Opportunity Amid Valuation Dislocation

We believe the PSX has overplayed the heightened geo-political and economic risks as the KSE-100 index has retracted by 19.7% to 151,973 following a historic high of 189,166. On Monday, 2nd March 2026, KSE100 depicted a single day decline of 9.6% compared to a decline of only 2% on average amongst regional peers, which clearly shows **sentiments are overplayed**. A sharp pullback of 3.39% was already seen in todays' session. 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**, valuations have compressed to a forward P/E multiple of 6.5x**, 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**. 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.

Regional Market Performance during the Conflict:



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 **Alfalah GHP Stock Fund**, **Alfalah GHP Alpha Fund**, and **Alfalah GHP Islamic Stock Fund**, each of which remains well positioned to generate alpha under the current market backdrop.

KSE-100 & Forward PE: