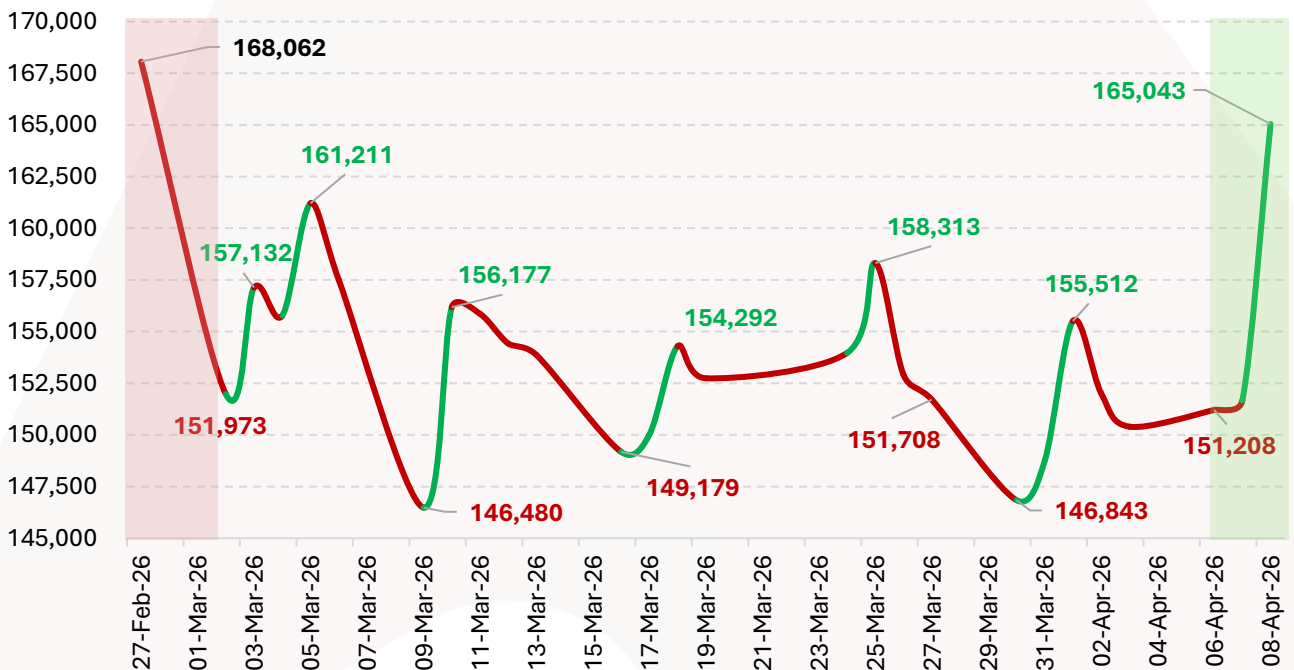


Peace Premium: Pakistan Equities at an Inflection Point

Following a prolonged conflict, a temporary ceasefire has been reached through sustained diplomatic efforts led by Pakistan. The month-long conflict has now entered a mutually agreed two-week cooling-off period, to be followed by formal diplomatic talks scheduled in Islamabad later this week. This breakthrough represents a rare and consequential geopolitical configuration, simultaneously strengthening Pakistan's standing with the US, Gulf states (Saudi Arabia, UAE), China, and Iran. The Strait of Hormuz, through which Pakistan sources the majority of its hydrocarbon imports, is now set to reopen, a direct fiscal tailwind for a country whose energy import bill has historically been a structural drag on its current account. Notably, earlier escalatory rhetoric from Donald Trump, which had included calls for aggressive military action, had meaningfully heightened geopolitical uncertainty. The ceasefire, reportedly facilitated at the request of Pakistan's Prime Minister, signals a decisive shift toward de-escalation and dialogue, and reinforces Pakistan's credentials as a credible diplomatic intermediary, one that may emerge from this episode with considerably enhanced geopolitical standing.

KSE-100 Trend Throughout the Conflict:



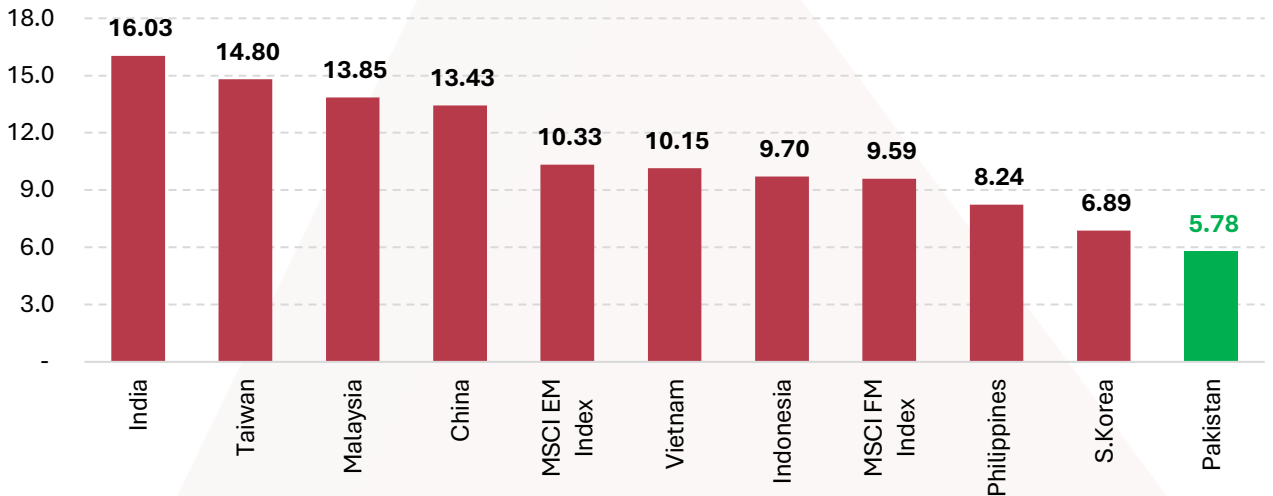
Markets reacted swiftly and forcefully to this development. The KSE-100 Index hit the upper circuit shortly after the open, surging 13,370 points (+8.81%), reflecting a sharp and broad-based reversal in investor sentiment. Prior to this, the geopolitical uncertainty, which had driven oil prices meaningfully higher from an average of USD 70/bbl, had weighed heavily on Pakistani equities, with the KSE-100 shedding 19.8% from its January 2026 peak of 189,166. Against this backdrop, Pakistan's equity market has emerged as one of the most attractively valued major markets in the EM/FM universe. The KSE-100 currently trades at a forward P/E of 5.7x on 12-month forward earnings, well below its historical bull-run average of 10.4x, at an approximately 40% discount to regional peers, while offering a dividend yield of 8.5% and projected earnings growth of 14% per annum.





As highlighted in our prior notes, the ceasefire serves as an important near-term stabilizing factor for regional risk sentiment. The reduction in immediate conflict risk has already begun to ease pressure on regional equities, currencies, and commodity flows, with early evidence of this shift visible across markets, regional equities have rebounded sharply and commodity prices have begun to soften.

Regional Markets Forward PE Multiples:



The day after tomorrow: Pakistan’s strategic Dividend

The day after tomorrow, Pakistan does not merely return to its pre-conflict baseline. It steps forward as a country whose strategic weight, diplomatic credibility, and investment case have been fundamentally and perhaps irreversibly re-rated. Looking ahead, the significance of this moment lies less in the ceasefire itself and more in what it enables. If sustained, this shift in geopolitical positioning could mark the beginning of a structural re-rating for Pakistan, anchored in lower risk premia, improved external stability, and stronger investor confidence. The opportunity now is for Pakistan to translate this window into durable economic and institutional progress, which, if realized, would underpin a more sustained and fundamentally driven equity market upside over the medium to long term.

The ceasefire is a moment. What follows it could be a decade. Pakistan’s emergence as the indispensable mediator, in the most consequential regional conflict since the 1970s energy crisis marks a structural shift in its geopolitical identity, one with profound and lasting economic implications. For the first time in years, Pakistan sits simultaneously in the good graces of US, Saudi Arabia, China, and Iran, a diplomatic pentagram that no other nation in the region can credibly claim. This translates directly into tangible economic dividends: preferential bilateral trade terms, accelerated FDI flows, enhanced access to multilateral financing, and reduced sovereign risk premia as global investors reprice Pakistan’s geopolitical stability. The formal hosting of US-Iran negotiations in Islamabad cements the country’s role as a neutral convening power. Pakistan’s mediation success also strengthens the institutional credibility of its civilian-military leadership at precisely the moment the IMF programme demands political continuity. On the energy front, the Strait of Hormuz reopening materially reduces hydrocarbon import costs, easing the structural current account pressure that has been a perennial ceiling on growth. Pakistan, long viewed by global allocators as a high-risk frontier market, may be on the cusp of a reclassification — not just in MSCI index terms, but in the deeper cartography of sovereign risk.





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