

PSX FY27

Can Pakistan's Bull Market Enter a Fourth Year?



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Markets Perspective

FY26 will likely be remembered as a defining year for Pakistan's equity market. Despite navigating geopolitical tensions, elevated oil-price volatility, and intermittent risk-off sentiment, the **KSE-100 Index advanced ~44%** to a record close of 180,302 points, **marking its third consecutive year of gains.**

More importantly, the year reinforced a broader structural narrative: Pakistan's equity market is increasingly being driven by improving macroeconomic fundamentals rather than purely cyclical momentum.

The result is remarkable. **Over the last three fiscal years, the KSE-100 has generated a cumulative return exceeding 335% in PKR terms,** placing it among the strongest-performing equity markets globally during this period.

A Market Tested by Crisis

While FY26 ultimately delivered record returns, the journey was far from linear.

The sharp escalation in Middle East tensions during February and March triggered the largest period of market stress seen since the current recovery cycle began. Rising oil prices reignited concerns over Pakistan's external account, inflation trajectory, and energy import costs, pushing the market into one of its deepest quarterly drawdowns on record.

Yet the subsequent recovery was equally instructive.

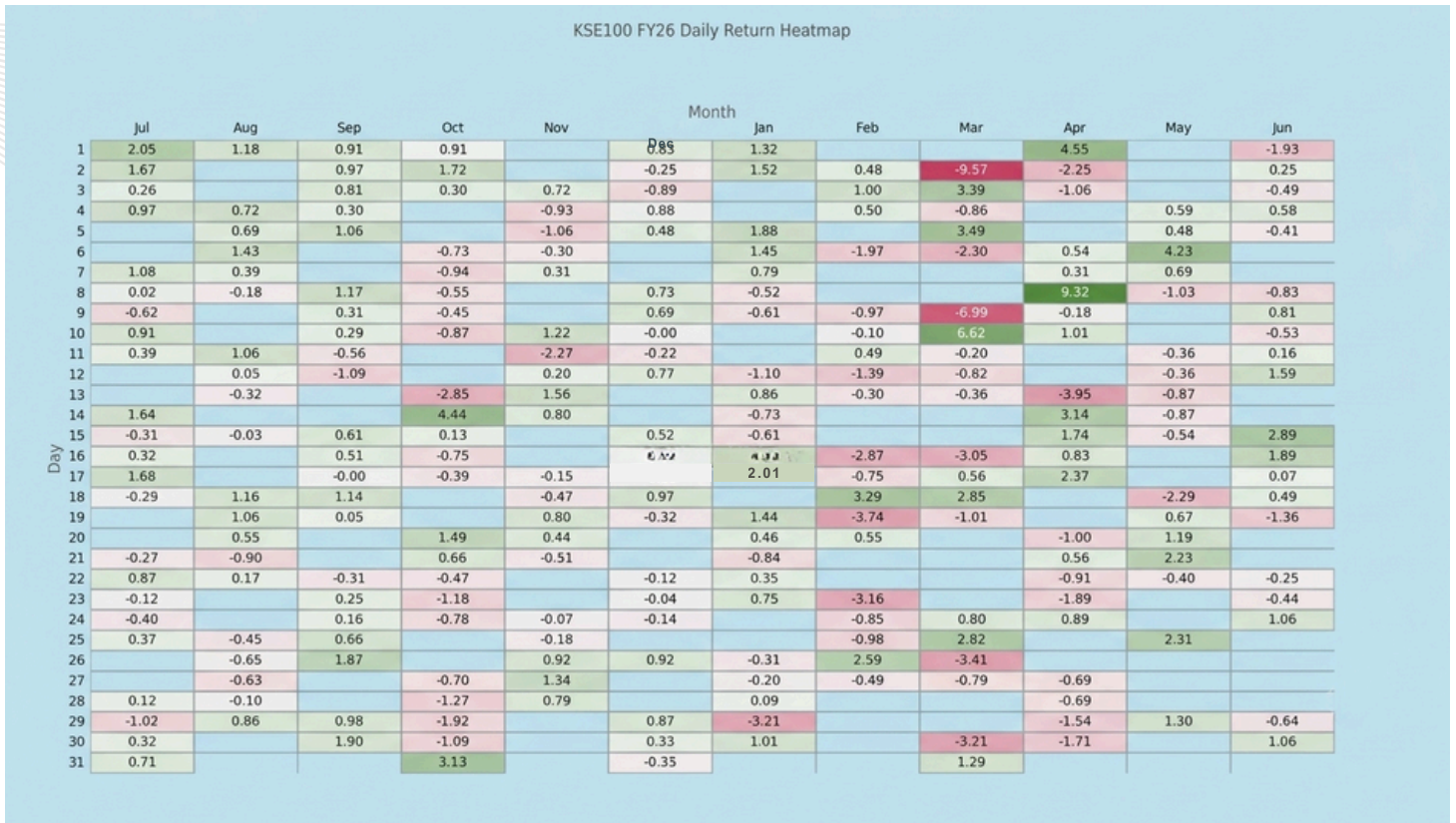
As geopolitical risks moderated, external financing concerns eased, and policymakers secured additional financial support, investor confidence returned swiftly. The market's rebound highlighted a key shift in sentiment: investors increasingly viewed macroeconomic shocks as temporary disruptions rather than threats to the broader recovery story.

The Foundation Behind the Rally

Unlike previous market rallies that were often liquidity-driven, FY26's advance was supported by tangible improvements across several economic indicators:

- ◆ Economic growth returned to a more sustainable trajectory.
 - ◆ The current account improved significantly, supported by record remittance inflows.
 - ◆ Foreign exchange reserves strengthened despite external debt repayments.
 - ◆ Fiscal consolidation remained broadly aligned with IMF commitments.
 - ◆ The Pakistani Rupee remained comparatively stable, supporting both local and USD-based investor returns.
- Collectively, these developments strengthened confidence that Pakistan has moved beyond the acute stabilization phase and is gradually transitioning toward economic normalization.

KSE 100 FY26 Daily Return Heatmap



Source: PSX

Leadership Matters: Where Performance Came From

The rally was notably concentrated in sectors most leveraged to macroeconomic stability.

- ◆ **Commercial Banks**

Banks emerged as the dominant driver of index performance, benefiting from strong profitability, robust balance sheets, and sustained investor demand for dividend-paying companies.

- ◆ **Fertilizers**

Fertilizer companies continued to attract capital through resilient earnings and attractive shareholder payouts.

- ◆ **Energy Exploration**

Exploration and production companies benefited from favorable energy dynamics and strong cash-flow generation.

- ◆ **Cement & Infrastructure**

Improving economic activity and expectations of higher development spending supported investor interest in cyclical sectors.

The common thread across these outperformers was clear: investors rewarded companies with strong cash generation, pricing power, and visibility of earnings.

One of FY26's Most Important Signals

Perhaps the most underappreciated development of the year was the behavior of capital flows.

Foreign investors remained significant net sellers throughout FY26. Under normal circumstances, such outflows would have created substantial downward pressure on valuations.

Instead, domestic institutions, mutual funds, corporates, and retail investors absorbed virtually all of the selling pressure.

This suggests growing confidence among local investors in Pakistan's economic outlook and highlights the increasing importance of domestic liquidity as a driver of market performance.

For long-term market sustainability, this may prove more significant than the headline index gain itself.

What Could Drive FY27?

Looking ahead, FY27 appears likely to be shaped by a combination of macroeconomic execution and structural reform.

Key catalysts include:

- ✓ **IMF programme continuity and policy discipline**
- ✓ **Progress on major privatisation initiatives**
- ✓ **Expansion of foreign exchange reserves**
- ✓ **Further access to international capital markets**
- ✓ **Stability in global energy prices**
- ✓ **Continued growth in remittances and domestic economic activity**

At the same time, investors will closely monitor inflation trends, interest-rate policy, and geopolitical developments across the Middle East, all of which remain important variables for risk sentiment.

Investment Takeaway

The central investment case for Pakistan has evolved.

Three years ago, investors were focused primarily on stabilization risk. Today, the discussion is increasingly shifting toward growth, reforms, and earnings expansion.

If policymakers maintain fiscal discipline, continue executing IMF-backed reforms, and advance key privatization initiatives, Pakistan's equity market could remain supported by a combination of earnings growth, improving investor confidence, and expanding valuation multiples.

FY26 showed that market gains are increasingly being driven by strong fundamentals rather than short-term speculation. While volatility may persist, FY27 could be less about whether the market rises and more about which sectors are best positioned to benefit from Pakistan's economic recovery.

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