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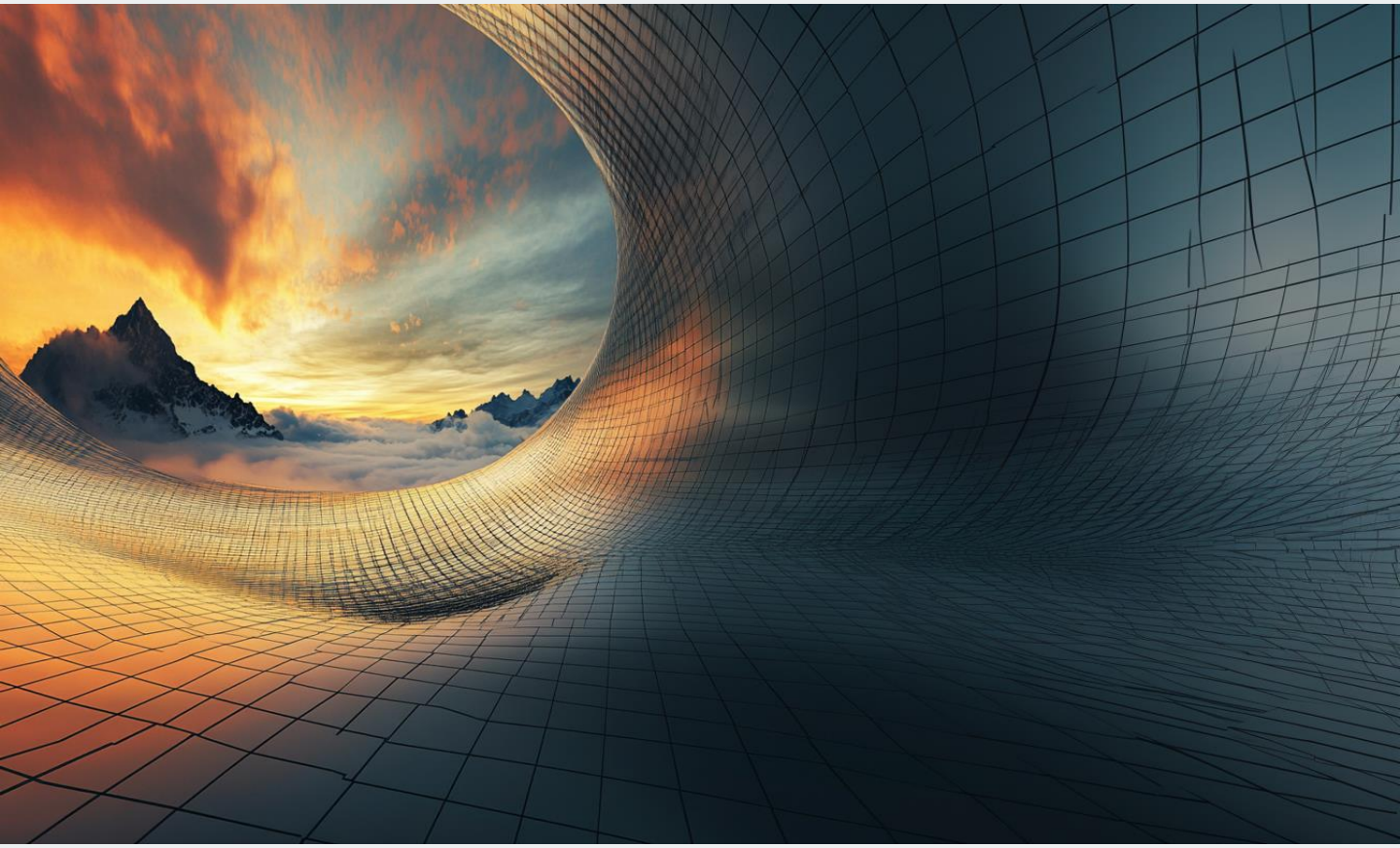
## INVESTMENT OUTLOOK 2025

# BEYOND SURVIVAL



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# Foreword

As we step into 2025, the Year of the Wood Snake in the Chinese zodiac symbolizes introspection, transformation, and strategy – qualities essential for navigating a world in flux. Just as the snake sheds its skin, this year calls for shedding constraints and embracing progress. For Pakistan, this serves as a fitting metaphor as we reflect on our resilience in restoring macroeconomic stability under immense pressure – a theme captured in our 2024 outlook, “Here, I Go Again.” Yet, the challenge remains: will 2025 break the cycle of economic stagnation? We anticipate a pivotal year ahead. Modest signs of recovery persist but sustained growth hinges on energy reforms, fiscal discipline, and export diversification. With a single-digit policy rate, a stable Rupee, and a KSE-100 target of 165,000, meaningful progress is within reach—provided we seize the moment.

Reflecting on our 2024 outlook, the past year reaffirmed the importance of clear direction, with political continuity as a foundation for stability. The need to mitigate uncertainty was evident, as navigating key challenges without a defined course would have been far more difficult. On the global front, the rising significance of vigilance against unforeseen disruptions underscored how transformative events continue shaping long-term market dynamics. Entering 2025, Pakistan’s most significant risk lies not in external shocks but in a derailment of its internal reform agenda. Addressing structural inefficiencies and unlocking opportunities in underutilized sectors, particularly agriculture and tech, is imperative. The absence of new market leaders on the PSX over the past decade highlights the urgency of fostering innovation and deepening capital markets.

If 2024 emphasized the necessity of reform, 2025 demands decisive action – not just at the macroeconomic level but in personal financial discipline. With inflation recently eroding purchasing power at an unprecedented pace, true wealth lies in compounding real returns. A well-balanced asset allocation remains key: we recommend 50% in equity funds for long-term growth, 20% in income funds as yields decline, 20% in high-dividend-yield stocks and REITs for stable income, and 10% in money market instruments for liquidity.

Best wishes, and we look forward to making your money work harder for you!

Syed Hussain Haider, CFA, CIPM
Chief Investment Officer

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# INSIGHTS VALIDATED

## Reflections on our 2024 Outlook

### Fixed-Income Market: The Reawakening of Duration

A significant downward shift in the yield curve emerged as a defining theme for the year, prompting a renewed focus on duration. Investors gravitated toward longer-term securities, adapting to evolving market conditions and policy shifts. Insights into implied forward rates and interest rate trajectories proved instrumental in navigating these changes, highlighting the strategic importance of positioning for a shifting rate environment.

### Equity Market: A Rare Chapter of Opportunity

Even after the KSE-100 surpassed its all-time high in 2023, the equity market's remarkable ascent underscored an exceptional growth phase, as we had claimed that stock prices had yet to reflect that performance. The mention of the 120K level stood out as a rare and remarkably close alignment with the extraordinary upside potential realized in 2024 – a magnitude of opportunity seldom witnessed in years.

### Real Estate: Bridging Gaps and Building Access

Key policy adjustments aligned with our highlighted gaps as the Capital Development Authority revised bylaws, raising the Floor Area Ratio and extending payment timelines for commercial properties. Similarly, our recommendation on financing accessibility gained traction, as reflected in the Prime Minister’s Taskforce for Housing framework, driving increased market participation.

### Global Markets: The Interplay of Economics and Politics

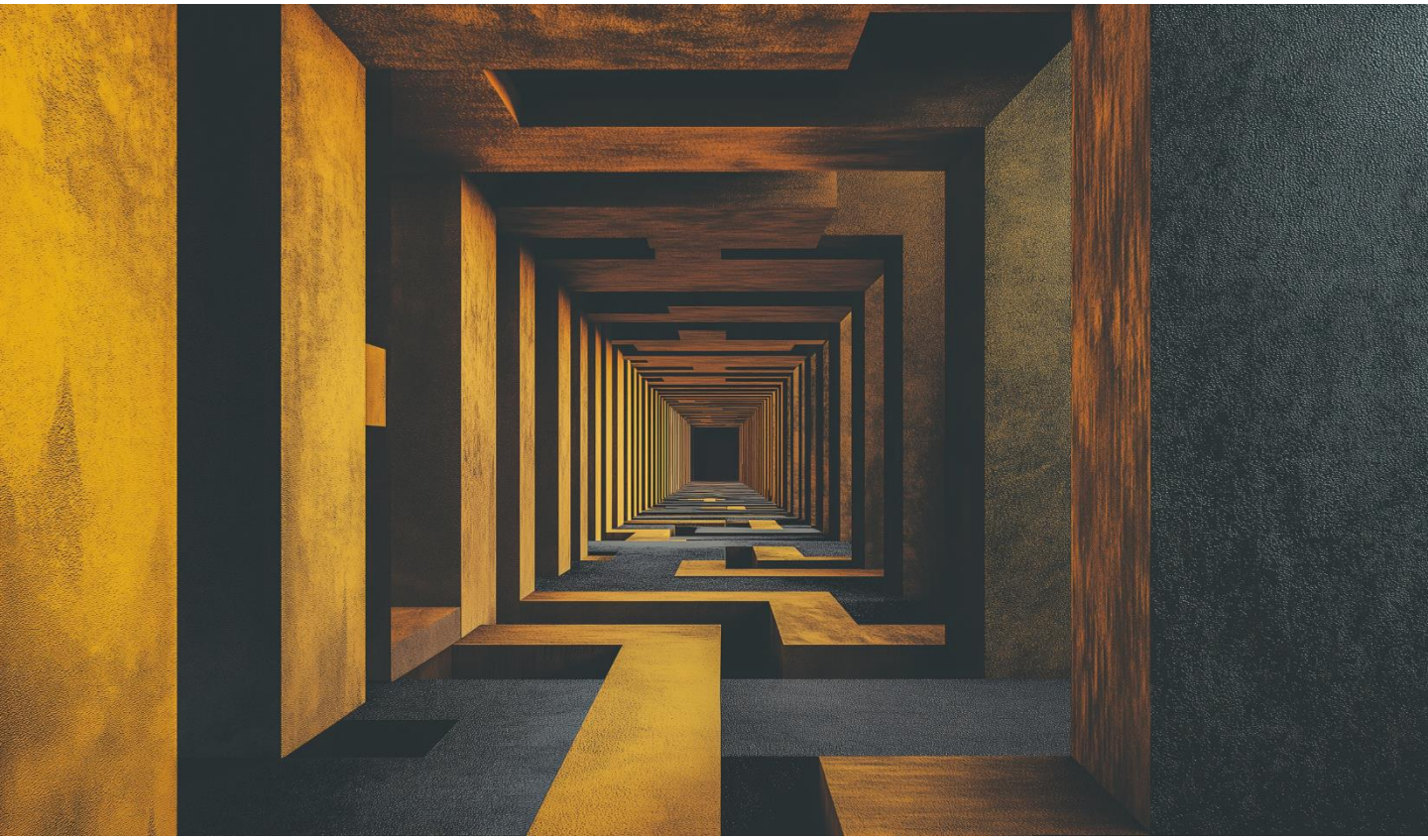
A complex global economic landscape unfolded, with monetary easing emerging as a critical tool against recessionary pressures – validating our expectations of a policy shift. Our emphasis on polarized U.S. elections and geopolitical uncertainties proved prescient, influencing market dynamics and risk assessments. However, our baseline outlook remained stable, proving accurate as Middle East tensions stayed short of full-blown war.

# OUT OF THE MAZE

## Will 2025 finally break the cycle?

### Key Points

- The past two years shifted from uncertainty to direction-setting. Staying the course is key, with encouraging signs of continuity ahead.
- Growth will likely fall short of official targets, but that's necessary. As Pakistan lays the groundwork for its long-term sustainable path, it is prudent to prioritize stability over short-term acceleration.
- While economic indicators hint at gains in 2025, it is needless to say that long-term success rests on delivering a sustained, comprehensive reform agenda.



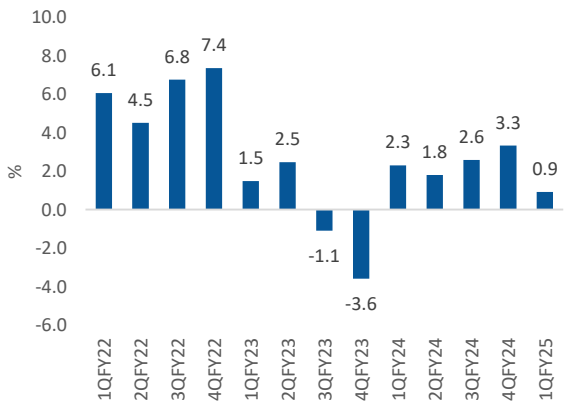
The past year underscored the critical importance of direction-setting, where the continuity of political transition served as a cornerstone of stability. Addressing political uncertainty proved essential; without it, achieving key objectives would have been highly challenging. Within this framework, the Special Investment Facilitation Council (SIFC) played a pivotal role in establishing a clear narrative that positions investment promotion as a vital element of economic management. Additionally, the smooth progression from the IMF's Stand-By Arrangement (SBA) to the more comprehensive Extended Fund Facility (EFF) bolstered domestic market confidence, reflecting improved alignment with macroeconomic stability objectives.

While the recent challenges may seem unprecedented, Pakistan has faced similar trials before, equipping us with the resilience to navigate turbulent times. This confidence inspired the title of our 2024 investment outlook, "Here, I Go Again.". Time and again, we have revived economic resilience under immense pressure. Still, the enduring challenge lies in sustaining what scarcely needs reiteration - the critical reforms in energy, fiscal discipline, export-led growth, and social development.

On this front, the IMF enhances understanding through its well-articulated staff-level reports, offering valuable insights for those seeking clarity on Pakistan's reform agenda. And, as widely acknowledged by economic experts and the government, these are not essentially prescribed solutions per se but rather the very measures that we must implement on our own. Therefore, the most pressing question for 2025 is whether this time will be any different. Will we finally break free from the recurring cycles of economic stagnation?

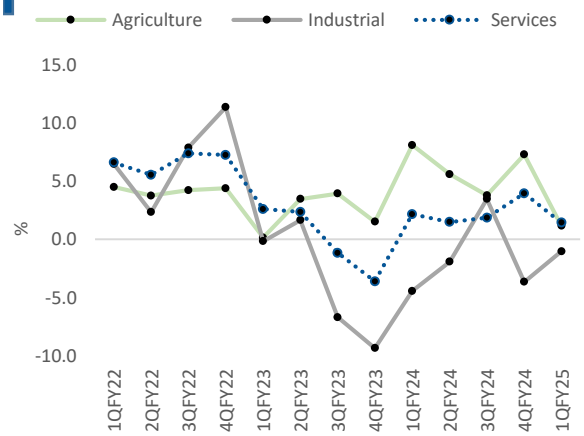
We anticipate 2025 to be a pivotal year in achieving this objective. The Finance Minister, who seemed to have consistently sought to align all political stakeholders, has categorically emphasized his commitment to sustainable growth over succumbing to pressures for growth acceleration. The official growth forecast stands at 3.6%, while the State Bank projects a range of 2.5% to 3.5%, a notably broad margin. In our assessment, the growth rate is expected to trend below this range, likely settling around 2.0% to 2.5%.

**Quarterly GDP Growth**




Source: Pakistan Bureau of statistics (PBS)

**Quarterly Growth (by sector)**




Source: PBS

Economic growth faces persistent challenges despite modest signs of recovery. Industrial activity shows limited improvement after consecutive years of contraction, while agricultural output struggles due to unfavorable base effects, weaker cotton production, and declining farm economics. Investment levels remain far below global norms, compounded by fiscal constraints as debt servicing continues to dominate federal revenues. Recent reductions in interest rates, stabilization of prices, and steadying of the currency offer some optimism, with gradual improvements linked to structural reforms. However, growth remains constrained by reduced purchasing power and a gradually recovering external account, suggesting a path toward slow but sustainable progress.

# Key Macroeconomic Indicators

| Key Indicators | | FY21A | FY22A | FY23A | FY24P | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Nominal GDP | USD bn | 348 | 375 | 337 | 375 | 400 | 422 |
| Real GDP Growth | % | 5.8% | 6.2% | -0.2% | 2.0% | 2.2% | 3.7% |
| Headline Inflation (Avg.) | % | 8.9% | 12.1% | 29.0% | 23.9% | 5.9% | 7.1% |
| Current Account Balance | USD bn | -2.8 | -17.5 | -3.3 | -3.0 | -3.6 | -3.8 |
| Current Account Balance | % of GDP | -0.8% | -4.7% | -1.0% | -0.8% | -0.9% | -0.9% |
| SBP FX Reserves | USD bn | 17.3 | 9.8 | 4.5 | 9.0 | 12.8 | 15.5 |
| Fiscal Balance | % of GDP | -5.5% | -7.1% | -7.5% | -7.5% | -7.1% | -4.7% |
| Primary Balance | % of GDP | -0.5% | -2.3% | -0.7% | 0.4% | 1.0% | 1.7% |
| Total Debt | % of GDP | 73.5% | 76.2% | 77.3% | 72.1% | 71.4% | 69.8% |
| Domestic | % of GDP | 47.0% | 46.6% | 46.3% | 43.3% | 45.0% | 44.5% |
| External | % of GDP | 26.5% | 29.5% | 31.0% | 28.8% | 26.4% | 25.3% |

Source: IMF, JSIL

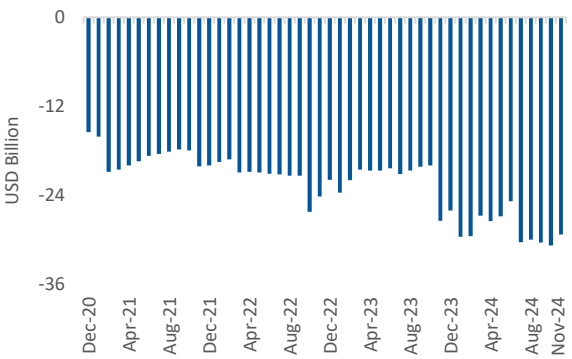
We reserve the topic of 'growth acceleration' for 2026 and beyond. A 2019 Asian Development Bank paper* highlights Pakistan's growth challenges due to balance-of-payment constraints. The authors highlight that without achieving export growth, Pakistan is likely to remain confined to lower levels of economic growth, as attempts to accelerate growth often lead to mounting external account pressures.

The current account for FY25 is expected to remain balanced, supported by recovering remittances. Still, pressures may resurface in 2026 as imports strengthen amid easing controls and lower interest rates, while export growth stays subdued due to global macroeconomic headwinds.

external payment obligations. Consistent with our 2024 outlook, we maintain our expectation of the Rupee remaining stable around its current levels.

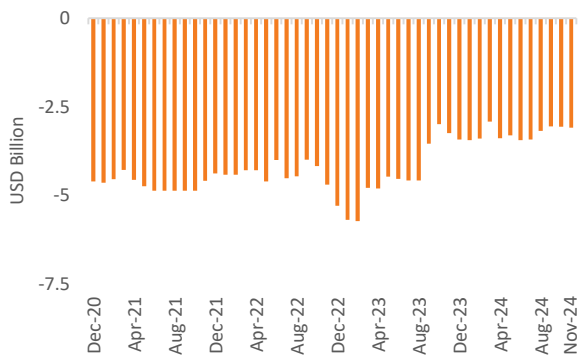
Although the fiscal deficit is expected to improve marginally compared to last year, meeting the primary deficit target of 2.0% remains a formidable challenge, likely necessitating further reductions in development spending. The ambitious tax revenue target set by the FBR appears increasingly difficult to achieve amidst softer inflation, a declining import bill, and subdued economic growth, underscoring the need for careful deliberations with the IMF. While debt servicing costs and overall debt levels are anticipated to stay elevated, the combination of lower interest rates, a concerted focus on revenue

**Net FX Drains (due within 12 months)**



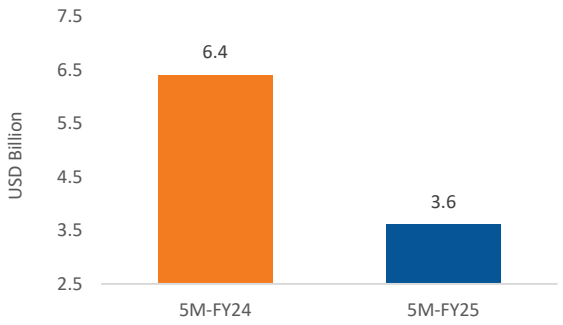

Source: State Bank of Pakistan (SBP)

**Net FX Long/ (Short) Fwd. Positions**




Source: SBP

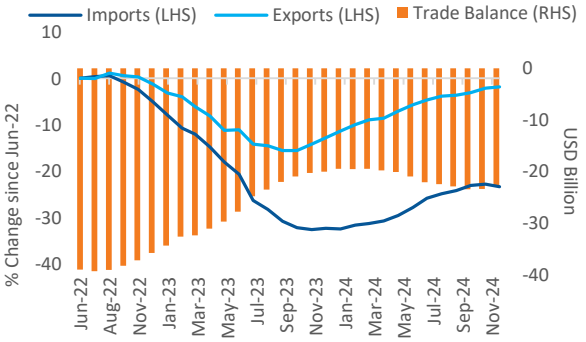
**External Debt Inflows**




Source: Express Tribune

**Imports cut by a quarter**

*Figures on a 12M rolling basis*



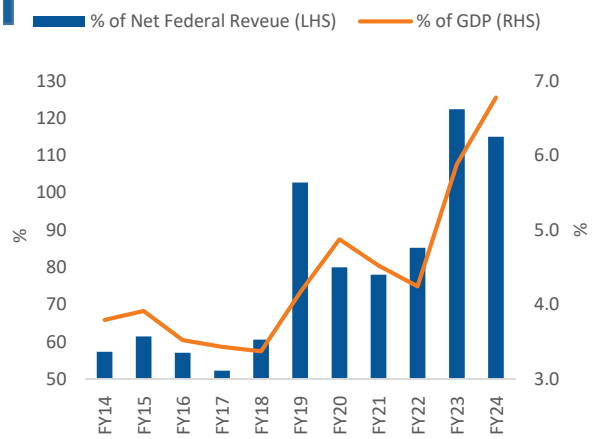

Source: SBP

According to IMF projections, net international reserves – the difference between usable gross FX reserve assets and reserve-related liabilities – are estimated at a deficit exceeding USD 9 billion for 2025. However, reliance on multilateral funding and improved macroeconomic indicators under the IMF program are expected to bolster confidence in external account sustainability despite significant

enhancement, and disciplined government spending under the IMF program should support efforts to ensure debt sustainability.

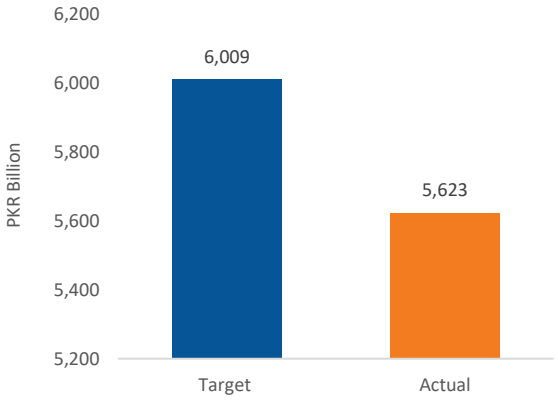
*ADB Central & West Asia Working Paper: Why Pakistan's Economic Growth Continues to Be Balance-of-Payments Constrained - December 2019 (Rosbach, Kristian & Aleksanyan, Lilia)

### Debt Servicing Expense




Source: Ministry of Finance (MoF)

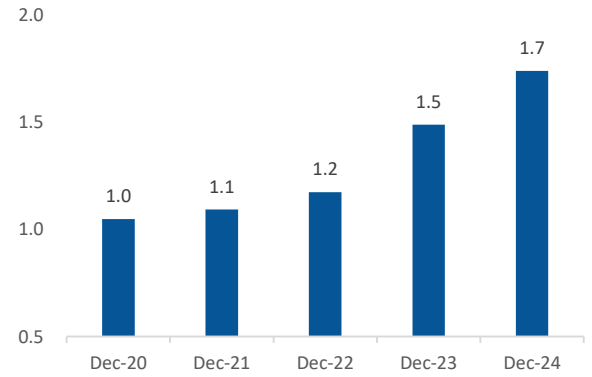
### Tax Collection - 1H FY25




Source: The News

### Govt. Borrowings-to-Private Credit Ratio

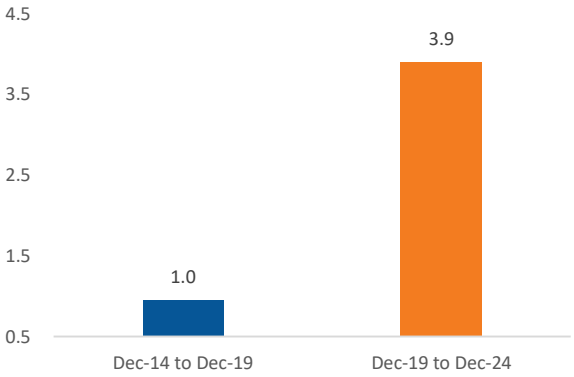
*Based on 5-Yr Rolling Average (Stock)*




Source: SBP

### Govt. Borrowings-to-Private Credit Ratio

*Based on 5-Yr Change (Flow)*




Source: SBP

We believe Pakistan faces far greater risk from the derailment of its internal reform process than from any external shock. Even if global conditions become exceptionally challenging, such as through a trade war or sustained USD strength, we view these as transient issues from Pakistan's standpoint. Moreover, not only is such a situation likely to be self-correcting, but it could also open up new avenues for alternative trade channels and routes in the global market. Therefore, the priority for 2025 remains firmly centered on advancing the in-house reform agenda – an approach that has similarly served as a cornerstone for Emerging Market economies in recent years.

We are also optimistic that global inflation will not resurface as a significant concern in 2025, though this remains subject to evolving circumstances.

More than the Russia-Ukraine situation, we are more apprehensive about the Middle East continuing to be a focal point of geopolitical tension. Nevertheless, we remain hopeful that the situation in the region stays under control.

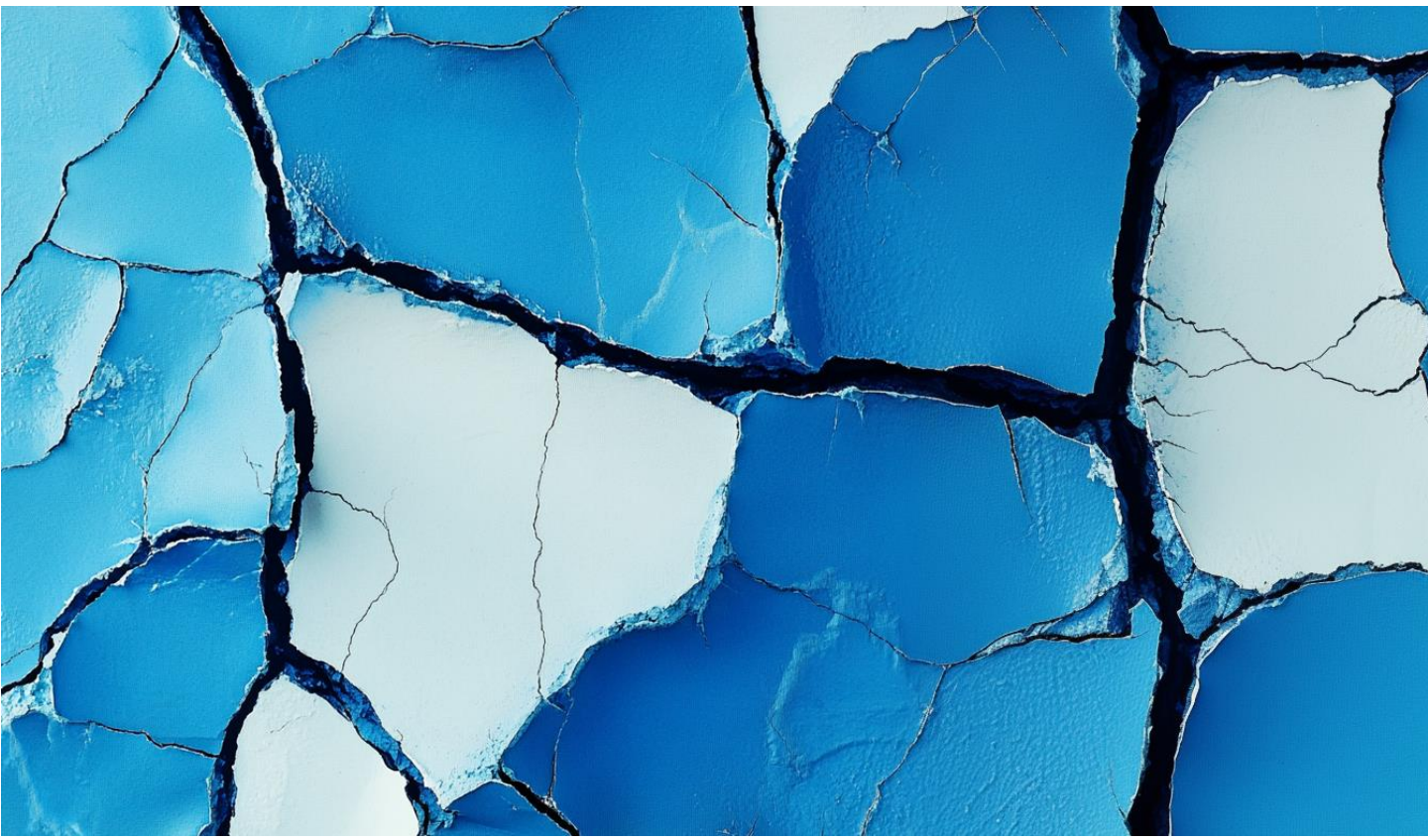
Exploring opportunities in 2025 demands a holistic and diagnostic view of our challenges. Notably, not a single company that came up for listing on the PSX in the past ten years has made it to the top ten by market capitalization – a stark reminder of the untapped potential. This underscores the urgent need for innovation in the information technology (IT) sector alongside optimizing sectors like agriculture. For instance, the significant gap between the weight of IT in the MSCI EM index and its far smaller representation in the FM index illustrates the substantial ground we have to cover.

# FAULT LINES SHIFTING

## Global Perspective: A world in recalibration

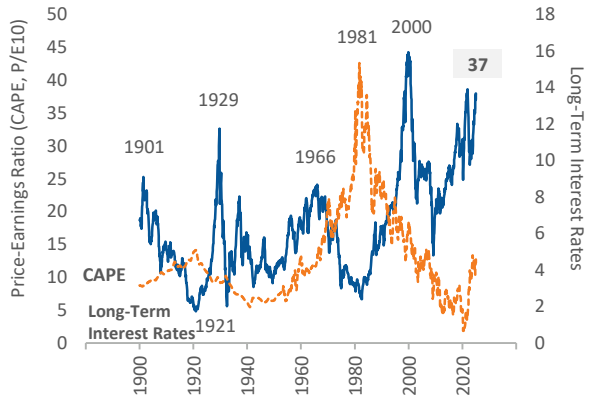
### Key Points

- It’s a tale of two markets – stocks defy, and bonds hesitate. Equities price in optimism, while bonds flash caution.
- Global growth looks fragile – U.S. growth leans on fiscal support, while China and Europe struggle with structural drags and stagnation.
- Political and macro shifts reshape risks – 2024’s electoral upsets and rising tail risks demand selectivity. 2025 will be a test for global leadership while gold’s safe-haven appeal endures.



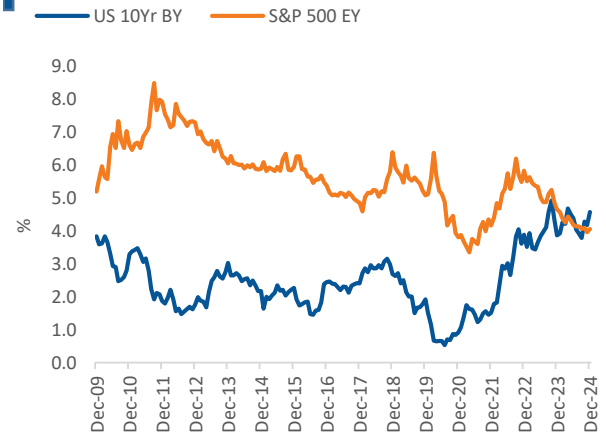
As highlighted in our 2024 outlook, vigilance against "Black Swans" proved increasingly vital during a transformative year that shaped market dynamics and laid the groundwork for long-term shifts this decade. Diverging economic and geopolitical forces widened the spectrum of policy outcomes, amplifying macroeconomic uncertainty.

## Stretched US Equity Valuations



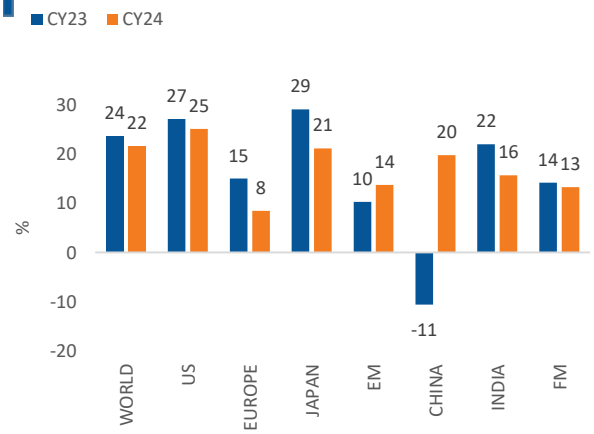

Source: shillerdata.com

## US Equity Risk Premium vanished



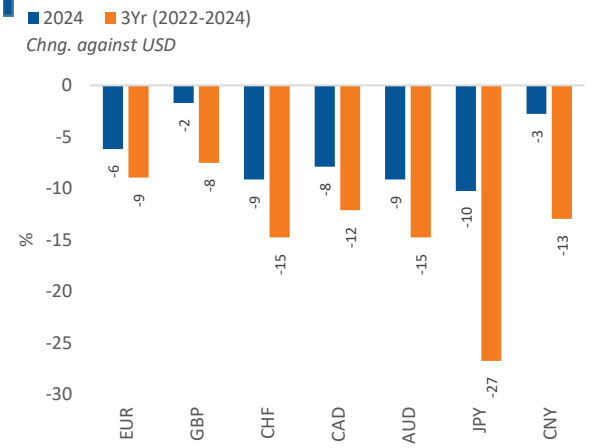

Source: Bloomberg

## Global Equity Markets Performance




Source: MSCI

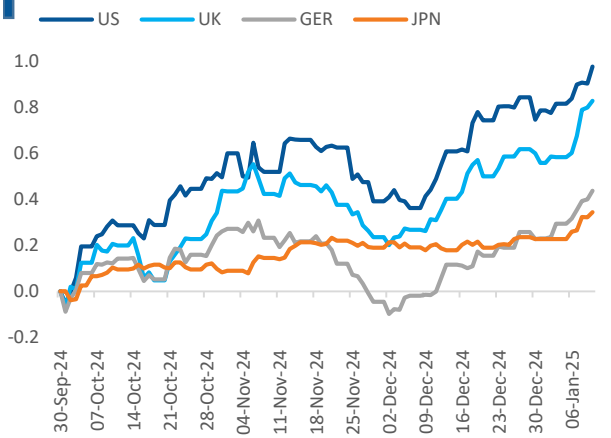
## Global Currencies: US$ held firm




Source: Bloomberg

The U.S. equity market enters 2025 grappling with stretched valuations, as the S&P 500's Cyclically adjusted Price-to-earnings (CAPE) ratio stands historically elevated, signaling pronounced risks. A psychological shift driven by AI's transformative potential is extending investor horizons and reshaping valuation frameworks. However, optimism around a secular productivity boom and higher corporate profitability embeds risks if expectations around AI-driven growth prove excessive. Navigating this landscape will require adaptability, awareness of historical lessons, and readiness for potential corrections should the technology super-cycle lose momentum.

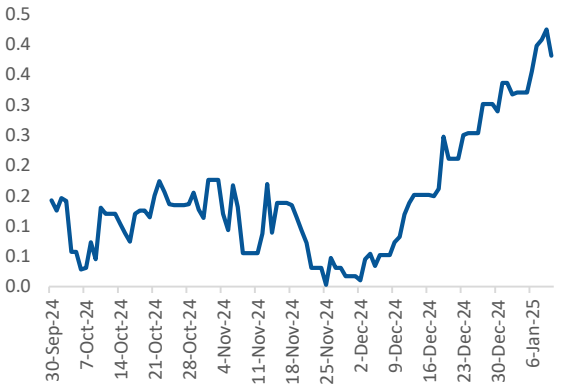
## 10-Yr Govt. Bond Yields




Source: Bloomberg

## US Govt. Bond Yield Spread

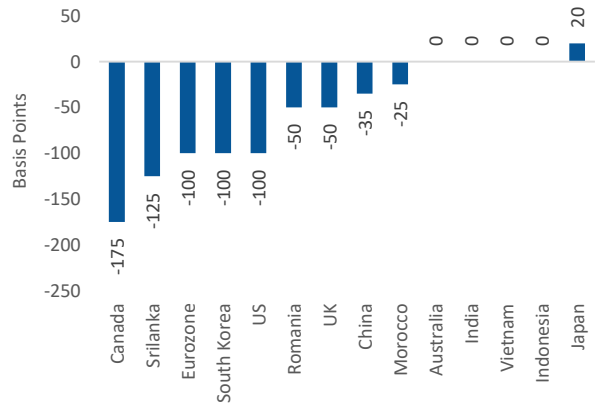
*10-Yr minus 2-Yr*




Source: Bloomberg

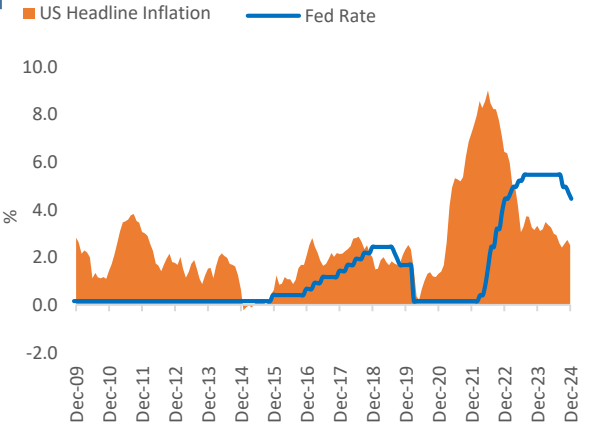
## Global Monetary Policy

*Chng. in Policy rate - 2024*




Source: Bloomberg

## A Cautious Fed

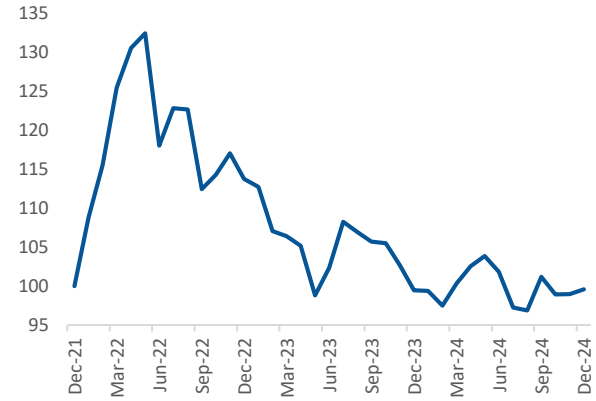



Source: Bloomberg

In contrast, global bond markets have begun 2025 with a surge in yields, reflecting heightened uncertainty in investor expectations. A sharp rise in the "term premium" highlights concerns over unpredictable policy outcomes, including potential U.S. deportation measures or tariffs, which could disrupt labor markets and drive inflation. Conversely, Chinese countermeasures like a yuan devaluation could trigger a deflationary shock, underscoring the volatile outlook.

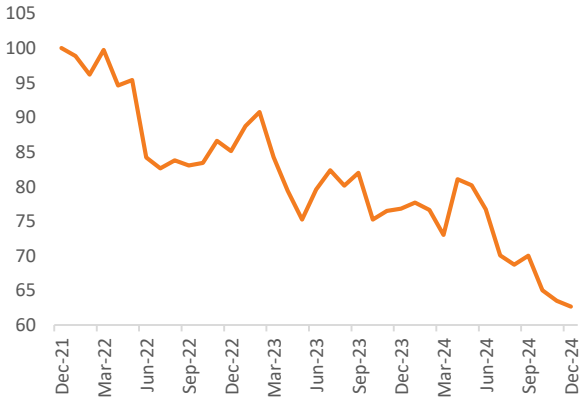
Hence, the two primary macroeconomic headwinds are the potential escalation of trade wars and the Fed's cautious rate-cut approach. While a potential inflation scare looms in the coming months, broader inflation concerns seem overstated and are likely to fade as we progress through 2025, in our view. As reflected by commodity market signals, we expect deflationary risks to be more prominent. Markets also underappreciate an impending risk of fiscal contraction stemming from a potential decline in aggregate demand.

**Bloomberg Commodity Index**
*Scaled to 100*




Source: Bloomberg

**Copper-to-Gold Ratio**
*Scaled to 100*




Source: Bloomberg

The U.S. economy remains heavily dependent on robust government spending to sustain current GDP growth. Without this, momentum would likely weaken. Adding to the challenge is the disconnect already set in place between monetary policy and borrowing costs. Despite the Fed's 100bps rate cuts in 2024, general borrowing costs have risen by 70bps, limiting the intended relief. Moreover, additional fiscal stimulus could exacerbate bond market pressures, potentially curtailing spending and dampening economic growth and corporate profits in the near term.

Core Europe faces significant challenges, with France in crisis and Germany likely slipping into recession. In Asia, the Bank of Japan cautiously navigates rising inflation and economic growth, wary of market disruptions similar to last summer's "carry trade" unwinding. China's struggles persist as policy measures fail to revive an economy weighed down by a property market collapse and a balance sheet recession, drawing parallels to Japan's long economic stagnation. With regard to Emerging Market economies, while they have demonstrated resilience in recent times despite China's lackluster performance, the two risks mentioned above also pose significant headwinds to their growth prospects.

It may be wise to take a cue from Warren Buffett and Jerome Powell by adopting a cautious approach in the face of resurfacing tail risks and elevated uncertainty. This environment calls for reduced risk tolerance – paring back equity exposure or becoming highly selective and positioning slightly above-neutral duration as some clarity emerges. While the U.S. dollar's current strength, bolstered by tariffs and China's economic struggles, pressures commodities, its longer-term outlook faces challenges from rising debt levels and a shifting global monetary landscape. Meanwhile, gold's 2025 prospects remain bright, with macroeconomic and geopolitical uncertainties likely fueling its ascent as the current consolidation phase concludes.

On top of everything discussed, the 2024 elections worldwide, arguably a Black Swan, marked rare and widespread defeats of incumbents. This reflects significant political disruption, challenging the status quo in ways unseen in recent years. South Korea's president faced impeachment after parliament rebuffed his martial law. France saw its first no-confidence vote in over 60 years, while Germany's coalition collapsed, triggering elections. In Japan, the ruling party lost its majority, sparking instability, and more recently, Canada's Trudeau resigned amid party conflicts and waning support. Indeed, mainstream political faces have struggled in polls amid rapid economic, technological, and cultural shifts as old patterns give way to change.

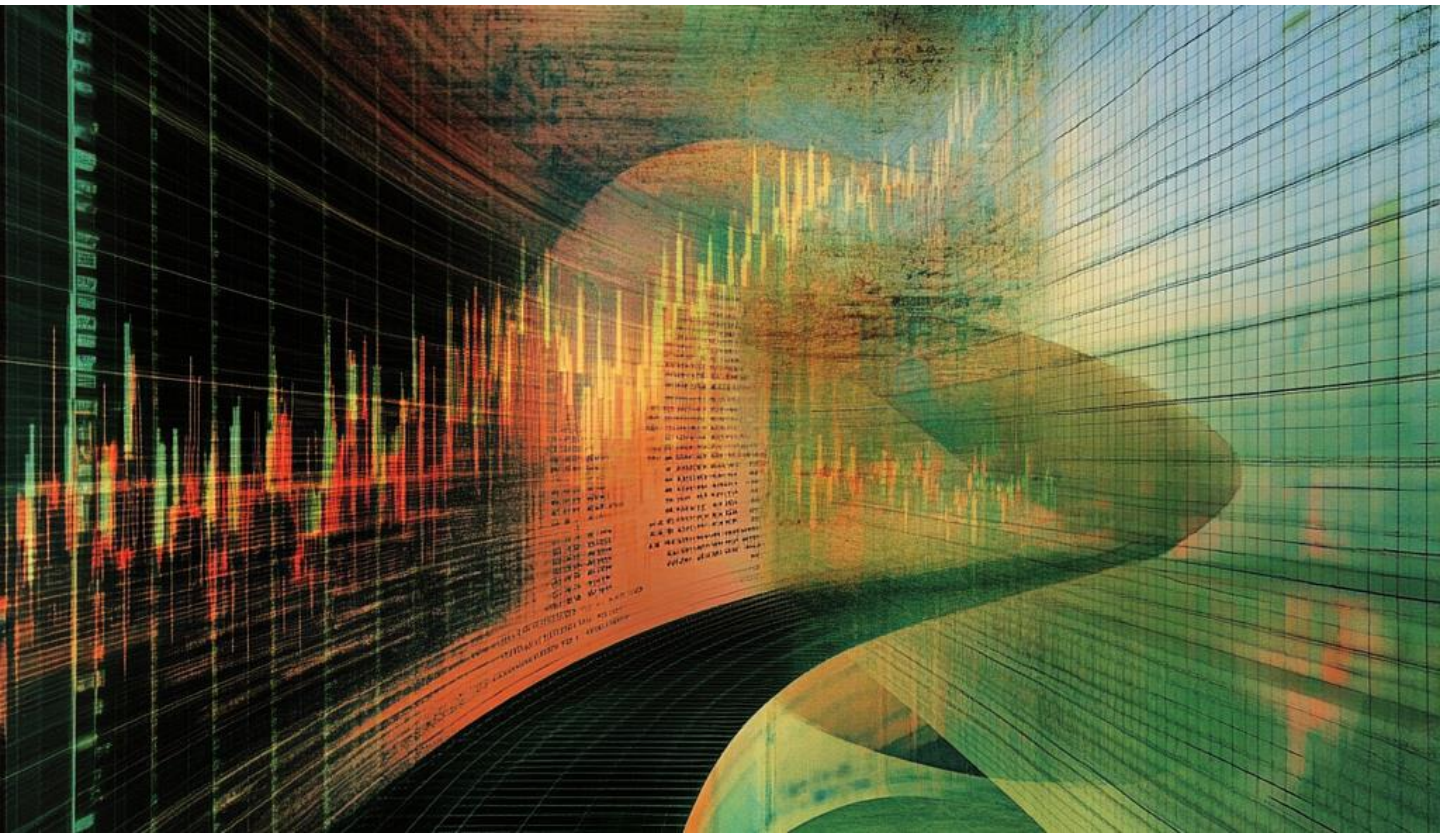
While much focus remains on the US President-elect, the global economy is influenced by broader and more complex dynamics. Expectations of continued U.S. market leadership and technology-driven growth may face challenges as the sustainability of these trends comes into question. As we move further into 2025, the possibility of major shifts and a rebalancing in global markets looms large.

# FROM INVERSION TO CONVERGENCE

## Fixed Income: The yield curve finds its footing

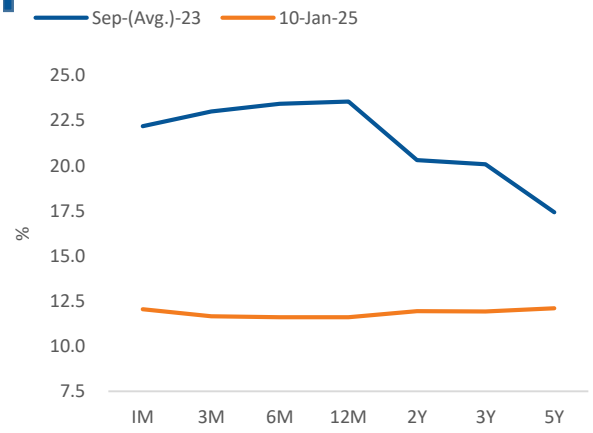
### Key Points

- Rate cuts have exceeded expectations, yet skepticism lingers on a single-digit policy rate. The market stays in a ‘seeing is believing’ mode while we remain optimistic.
- Inflation could deliver another positive surprise, while MDR reforms for conventional banks pave the way for greater deposit competition.
- ‘Crowding-out’ is a deep-rooted challenge. It must also be acknowledged that without external stability, the bond market can’t hold its ground.



With a reduction of 900 basis points already in place, anticipation of further policy rate cuts remains as we move into 2025. This narrative has gained significant traction, with even the Prime Minister openly advocating for it alongside the Finance Minister. We project a return to a single-digit policy rate, which presents a compelling case for alleviating pressure on the fiscal account. Over the past two years, debt servicing costs have surpassed net federal revenues, underscoring the critical need for fiscal space. Additionally, lower interest rates are essential to mitigate the crowding-out effect, particularly at this stage of the economic cycle, where limited room exists for any uptick in development spending.

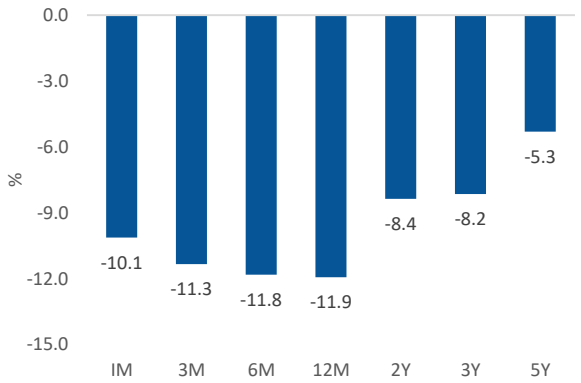
**Yield Curve: Approaching Normalcy**




Source: Zakheera

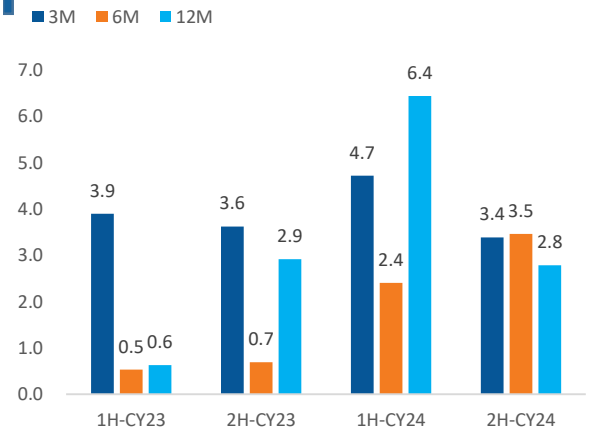
**Drop in Yields from Cycle High**

*Chng. since Sep-23 Avg. Yield*



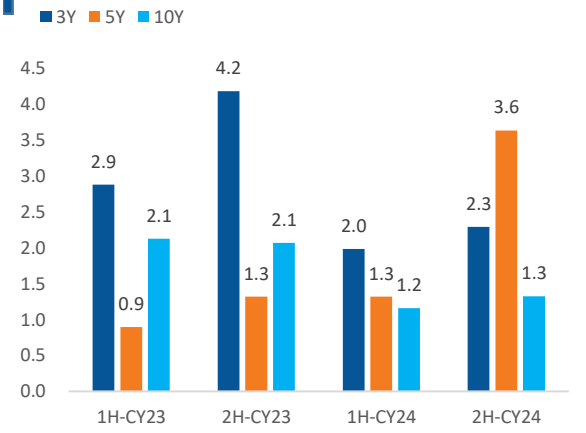

Source: Zakheera

**Bid Coverage Ratio - T-Bills**




Source: Zakheera

**Bid Coverage Ratio - PIBs**

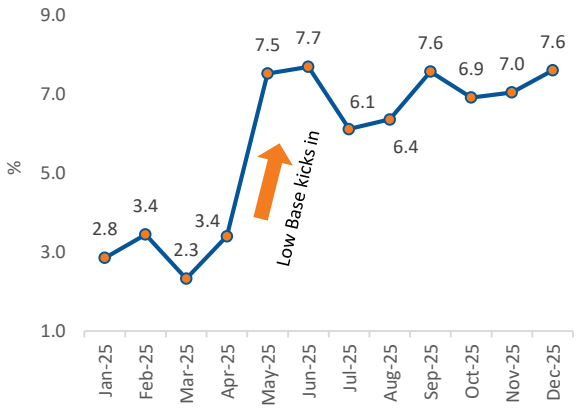



Source: Zakheera

However, we sense a general apprehensiveness in the market toward fully accepting the possibility of a single-digit policy rate. It is understandable, given where we've been coming from. Likewise, if we rewind to November of last year, the consensus leading up to the December MPC decision – following the 200bps rate cut on November 4th – was a modest expectation of a 100bps cut. Conventional wisdom at the time suggested that inflation would resurge by the second half of 2025, prompting calls for the SBP to exercise caution.

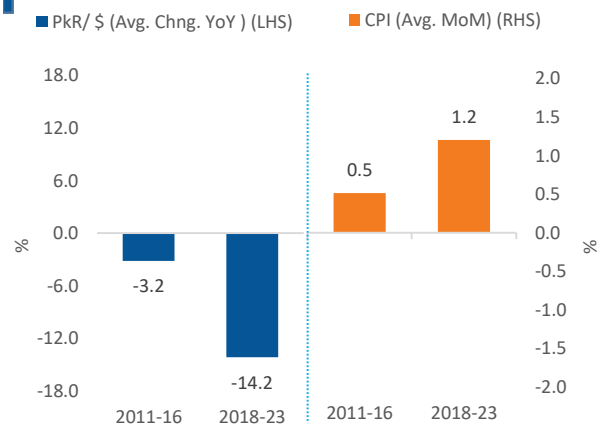
This perspective largely ignored interim developments and instead focused on longer-term concerns. For some segments of the market, this forward-looking apprehension persisted until December, when expectations shifted to a 200bps cut, which ultimately materialized. We believe a similar scenario is unfolding now – a recurring fear that the high-base effect could leave us unprepared to tackle inflationary pressures later in 2025.

## Headline Inflation YoY (CY25e)



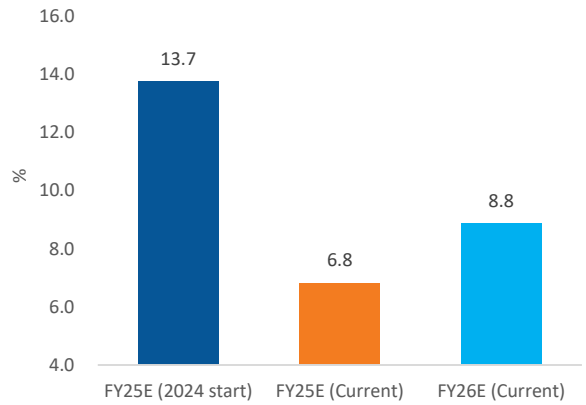

Source: JSIL

## Rupee vs Inflation



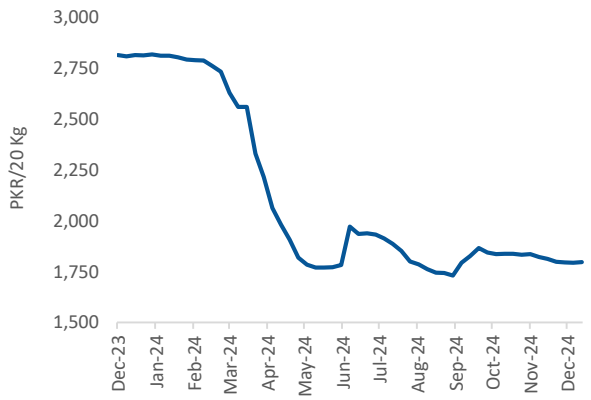

Source: Zakheera

## Street Forecast on Inflation




Source: Brokerage Research Reports

## Wheat Prices: The 2024 Savior




Source: Zakheera

Contrary to the prevailing consensus, we anticipate the easing cycle to be front-loaded, with larger rate cuts occurring earlier rather than later in the year. For instance, we expect a 200bps rate cut in the upcoming MPC meeting scheduled for January 27th. There could hardly be a better opportunity, given the widely anticipated sharp decline in inflation readings over the coming months. We also expect the SBP's long-term inflation target range of 5% - 7% will finally see the light of day in 2025. With subdued real GDP growth, targeting a 2% real policy rate (policy rate minus headline inflation) appears more pragmatic, especially given the persistently high fiscal deficit.

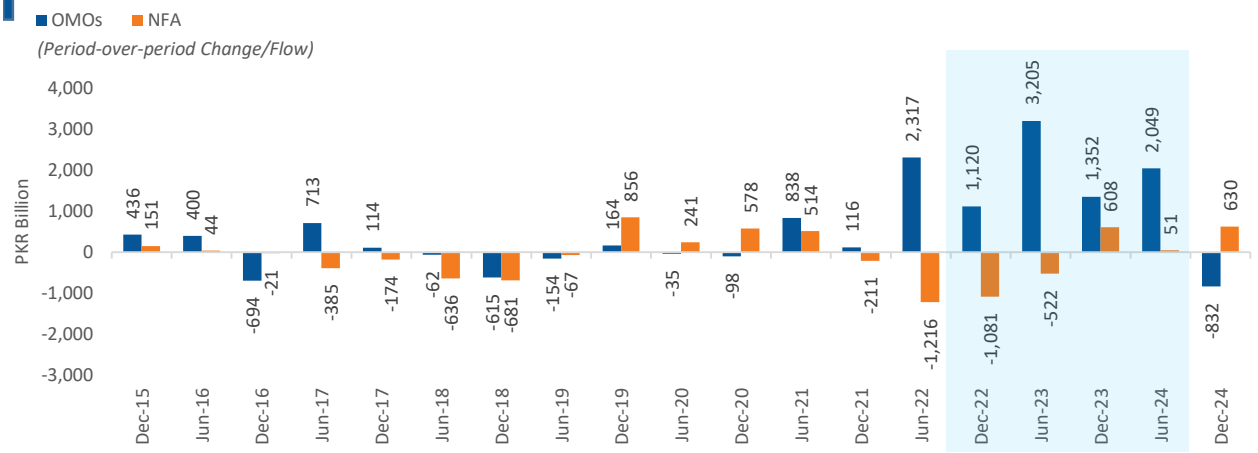
We see 2025 more resembling the 2011-2016 period than the 2018-2023 era, particularly when considering rupee depreciation, which starkly contrasts these two timeframes. Refer to the chart above, titled 'Rupee vs. Inflation Trend,' in this regard. This lends credence to relatively lower inflation readings than what the market is likely pricing in, given its overly cautious stance on the sudden inflation bump projected on Excel sheets for May 2025. Notably, the real policy rate averaged approximately 2% during the years following 2011 until a series of black swan events and the bursting of Pakistan's economic bubble post-2017-18 disrupted the trend.

Similarly, during this period, we observed interest rate differentials between Pakistan and the U.S. (SBP policy rate minus the Fed rate) dip below 5%. If we draw parallels to the present, this historical context makes the case for a policy rate below 10% entirely plausible.

The introduction of the new minimum deposit rate (MDR) regime at the end of 2024 marks a significant step toward addressing the long-standing disparity between conventional and Islamic banks. Moreover, this development is expected to enhance competition, prompting conventional banks to compete more aggressively for deposits. Additionally, it will likely foster greater alignment between deposit rates and the shorter end of the yield curve, as non-banking financial institutions (NBFIs) and active corporate treasuries may increasingly turn to primary and secondary markets to deploy their funds should bank daily product rates fail to meet their expectations.

As we highlighted in our 2024 outlook, OMOs were here to stay, and we reiterate that this scenario will persist moving forward. With the yield curve now nearly flat to slightly upward sloping – though still inverted across the one-year tenor, where rates have yet to adjust to prevailing realities fully – the aggressive positioning in longer-tenor bonds remains off the table. Having come down to 13% from the peak 22% policy rate, those who showed conviction early in the cycle (around September 2023, when rates peaked) are likely to take a similar stance in 2025, albeit with relatively smaller allocations to 3-year and 5-year fixed-rate bonds now when redeploying maturities in OMOs. Given the stark reality of substantial external financing needs, including repayments and rollovers, OMOs will remain a central feature of the market dynamic. Doesn't this further reinforce the case for a policy rate below 10%?

**Elevated OMOs amid a strained External Account**




Source: Zakheera

# NOW THAT'S WHAT I CALL RE-RATING

## Equities: The rally isn't over yet

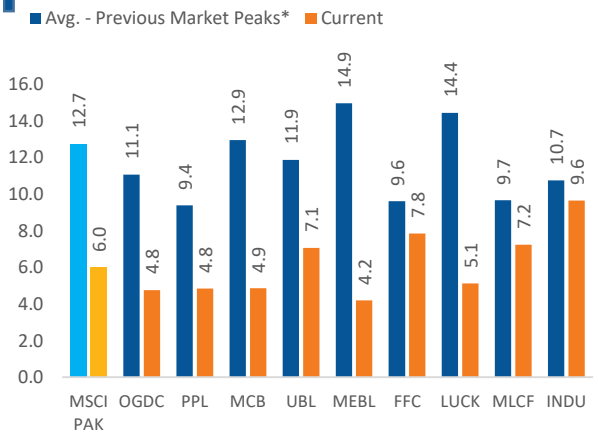
### Key Points

- A multiple expansion (commonly referred to as re-rating) is at play,' as flat earnings growth mirrors a slow recovery and sector-specific gaps in 2025.
- Despite a sharp rally, valuations are far from expensive compared to historical peaks or regional benchmarks, keeping the market attractive for investors.
- A correction-free rally poses risks for traders, while sustained momentum for investors ultimately hinges on strategic economic direction and reform execution.

Assuming a reversion to the historical average price-to-earnings (P/E) ratio of 7.7x from the current 5.7x, the equity market offers a potential upside of approximately 37%. This reflects the degree of undervaluation in current equity prices and aligns with prevailing street consensus. When combined with a robust dividend yield of 7.1%, the total expected return for 2025 stands at approximately 44%. This projection corresponds to an index level of 165,000, which we view as a baseline scenario. Achieving this target will depend on continued macroeconomic stability, successful policy execution, and sustained investor confidence. While these metrics present a compelling opportunity, investors should remain mindful of risks that could impact valuations, particularly those arising from any potential deviation from the reform agenda process.

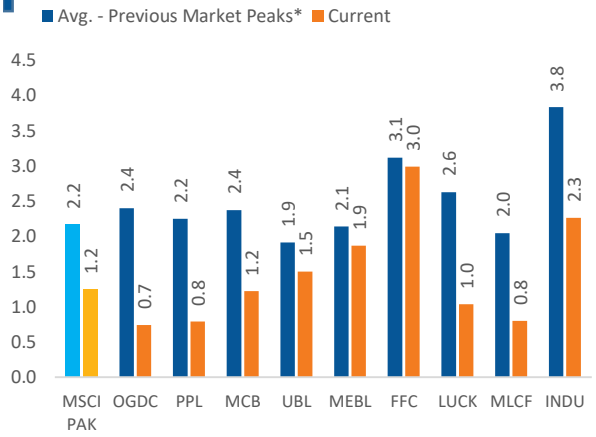
For perspective, if the current valuation discount to previous market peaks were to narrow by half, index levels approaching 200,000 would not be unrealistic. Valuations remain far from expensive, reinforcing that this is not a case of irrational exuberance. This is evident when compared to historical market peaks and relative to valuations in comparable frontier markets. By all accounts, the market remains attractively valued. Therefore, we recommend avoiding retrospective bias or being fixated on the recent sharp rally in stocks; otherwise, capitalizing on the opportunities ahead may prove challenging.

### Price-to-Earnings (PE) Ratio



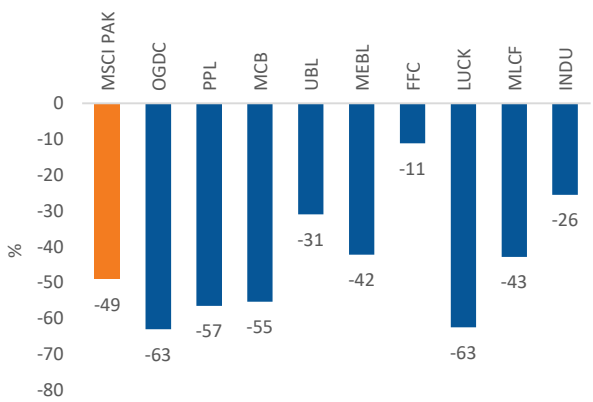

Source: Bloomberg, JSIL
**Previous peaks during 2017, 2015, 2013 and 2008*

### Price-to-Book value (PBV) Ratio



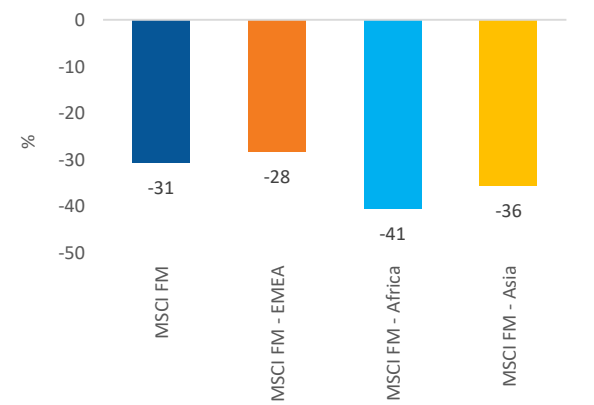

Source: Bloomberg, JSIL
** Previous peaks during 2017, 2015, 2013 and 2008*

### Discount to (Avg.) previous peaks




Source: Bloomberg, JSIL *(Avg. Disc. to PE & PBV Ratios)*

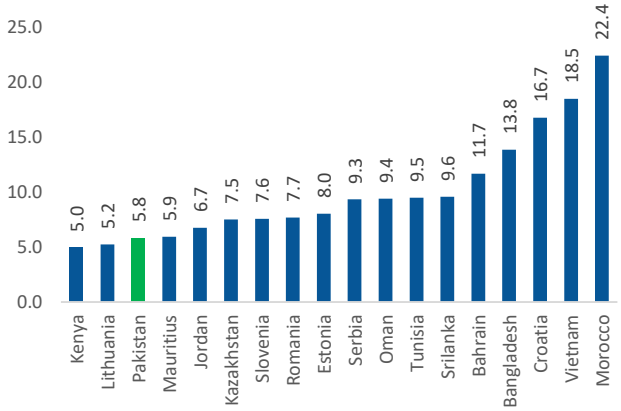
### Discount to MSCI FM




Source: MSCI *(Avg. Disc. to PE & PBV Ratios)*

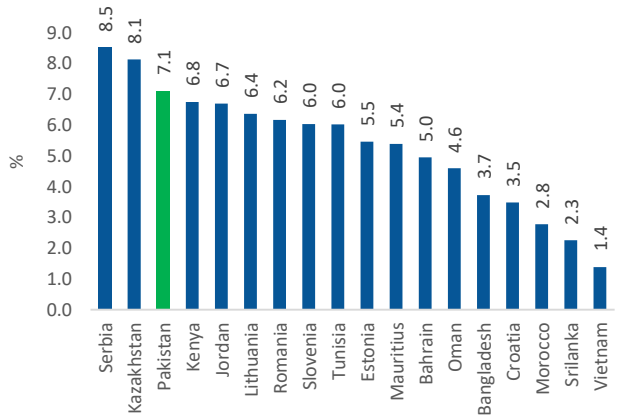
This is pure re-rating, as the prevailing rally in stocks is not expected to be driven by earnings growth in 2025, given the significant slack in the economy. The liquidity argument remains valid; for instance, insurance companies have so far exercised restraint and have yet to deploy their full potential. Furthermore, as highlighted in our 2024 Outlook, the 'Small is Beautiful' thesis continues to hold and is expected to work its magic, especially if large institutional investors and foreign participants rebuild their exposure to the market.

**MSCI FM Countries – PE Ratio**




Source: MSCI

**MSCI FM Countries – Dividend Yield**




Source: MSCI

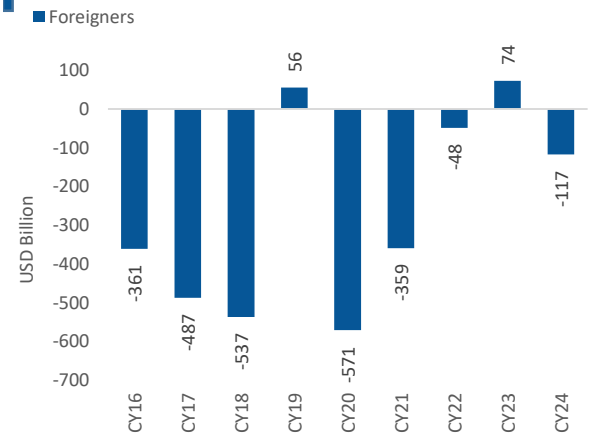
The rally contributes to a much-needed feel-good factor, effectively serving as a compelling pitch for Pakistan. Globally, it has captured significant attention, with widespread recognition and discussion around the performance of the Pakistan stock market. This is also a classic example of equities, as a high-risk asset class, leading the way – stock market rallies often precede broader recoveries in other asset prices, and this instance was no exception. The rally has created an optimistic atmosphere and sets the stage for presenting Pakistan's story to the world: a resilient nation with resilient listed companies, showcasing a promising growth narrative across both public and private markets.

Earnings growth is anticipated to remain essentially flat in 2025. While a potential rebound in cyclical sectors later in the year could offer some support, it is likely to be offset by a modest decline in the heavy-weight banking sector's profits. Moreover, sluggish macroeconomic growth is evident in corporate earnings. Not every industry, like Cement, is fortunate enough to benefit from a robust pricing strategy – enabled by cartelization – despite operating at still low capacity utilization levels. As such, sector-specific dynamics will be pivotal, with earnings trajectories varying significantly across industries.

Mergers and acquisitions (M&A) and foreign direct investment (FDI) are expected to be key drivers of Pakistan's stock market in 2025. Recently, the former has been predominantly driven by acquisitions, particularly in private markets, with notable transactions in sectors such as oil & gas, telecom, fintech, consumer goods, and renewable energy. This trend reflects a resurgence of global confidence in Pakistan's investment landscape. Similarly, potential acquisition activity in the publicly listed space could enhance investor confidence and unlock valuations, serving as an additional catalyst for 2025 and beyond. This, in turn, would contribute to the broader market re-rating theme discussed earlier. With a renewed strategic focus, industry expertise, fresh capital, advanced technology and improved operational efficiencies, the case for earnings growth could strengthen over time.

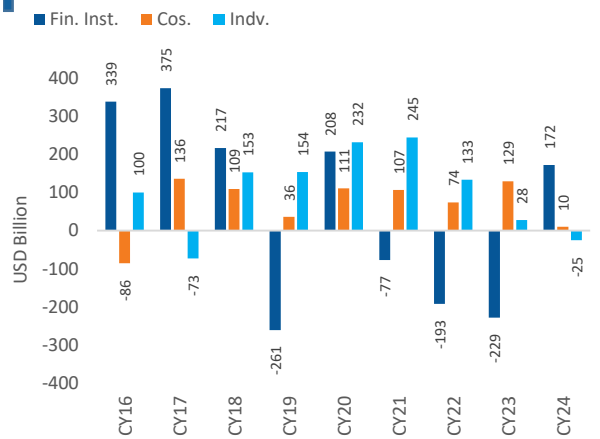
Another point, a silver lining, remains the SIFC initiative to position Pakistan as a strategic investment hub, particularly in mining, agriculture, energy, IT, and tourism. If successfully executed, this effort could serve as a fundamental catalyst in achieving long-term, sustained economic growth, realizing valuation potential, and uplifting market sentiment.

## PSX – Net Foreign Flows




Source: NCCPL

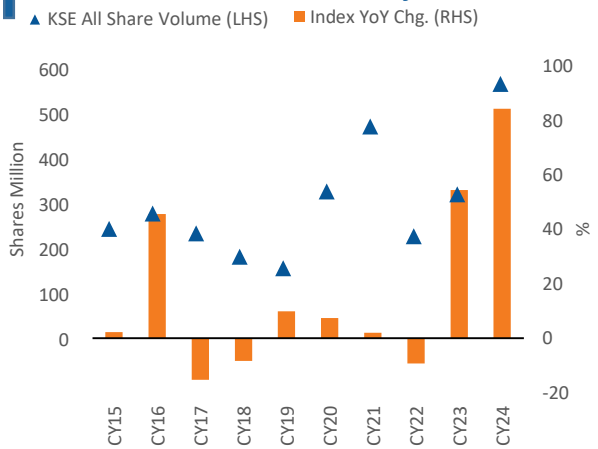
## PSX – Net Local Flows




Source: NCCPL

That said, beware that with the sharp rise in market activity and broader momentum, it's important to note that a 5% index move now equates to 5,570 points, and a 10% change implies 11,500 points – far more significant than the 2,500 or 5,000-point corrections of earlier times. While the current rally has been largely correction-free, market pullbacks are normal, particularly after rapid gains. We recommend maintaining faith, buying the dips, and staying long on equities.

## Bullish Beats: Vols. & Gains in Sync




Source: PSX

# THE URBAN PARADOX

## Real Estate: Potential stalled by structural gaps

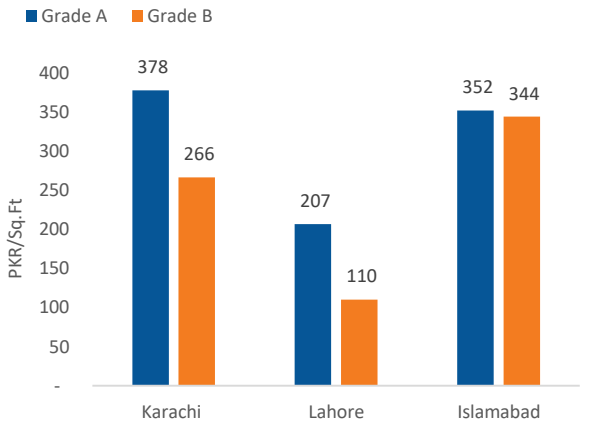
### Key Points

- Urbanization accelerates, with half the population in 21 cities, driving housing demand. Transactions and prices may rise while affordability challenges persist.
- Corporate growth, tourism, and consumer footfall to boost demand for offices, hotels, and malls. MNCs, events, and infrastructure upgrades drive commercial resilience in 2025.
- Zoning reforms and a housing task force support the market, but outdated rules, limited personal savings, and speculation still hinder affordability and urban balance.

The trajectory of Pakistan's real estate market in 2025 will be shaped by improved macroeconomic conditions, regulatory stability, legislative support, and demographic trends. Amid rapid urbanization and population growth, demand for residential housing in major metropolitan centers continues to rise. Over half of Pakistan's urban population resides in just 21 cities, with Karachi and Lahore alone accounting for nearly a third. This concentrated urban expansion presents an opportunity for the residential sector to cater to the growing need for quality housing solutions. While transaction volumes may grow gradually, property values are expected to appreciate as affordability challenges persist.

Similarly, the Grade-A office market in tier-1 cities is positioned for stronger demand fundamentals in 2025. Multinational corporations and large-scale manufacturing (LSM) enterprises seeking expansion will be key demand drivers. Moreover, a backlog of premium office space projects in prime locations is expected to exert upward pressure on existing stock, driving rental growth. According to Jones Lang LaSalle (JLL), a leading global real estate services firm, 53% of corporate occupiers anticipate expanding their office footprint over the next five years, signaling renewed confidence in commercial real estate. This shift allows Pakistan to capitalize on evolving global real estate dynamics and attract investment in office development.

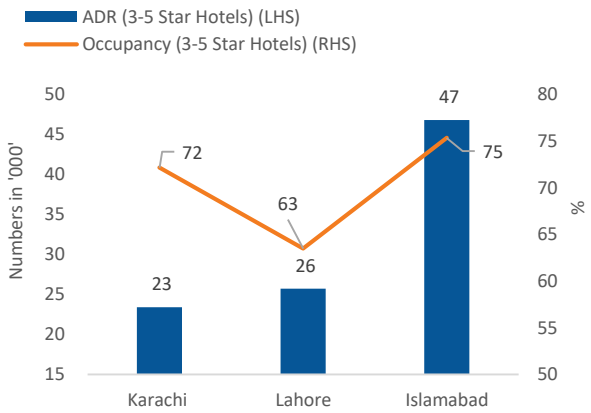
**Office Monthly Lease Rate**
*2024 Estimate*




Source: JSIL

The hospitality sector is poised for strong tailwinds in 2025, driven by major international events and rising tourism. The ICC Men's Trophy 2025, to be hosted in Pakistan & UAE, is expected to stimulate demand for hotels and lodging, particularly in Karachi, Lahore, and Islamabad (KLI). The average daily rate (ADR) for hotels is projected to rise by approximately 15%, while occupancy levels are anticipated to return to pre-pandemic norms in tier-1 cities. Meanwhile, tier-2 markets will likely see even higher growth rates, benefiting from infrastructure development and increased domestic tourism. According to the United Nations World Tourism Organization (UNWTO), Pakistan saw a 115% surge in foreign tourist arrivals in 2024, reinforcing its potential as an emerging tourism destination. With government-backed initiatives under the Special Investment Facilitation Council (SIFC), foreign investment inflows into hospitality are expected to accelerate.

**Hotels Average Daily Room Rate (ADR) & Occupancy** *2024 Estimate*



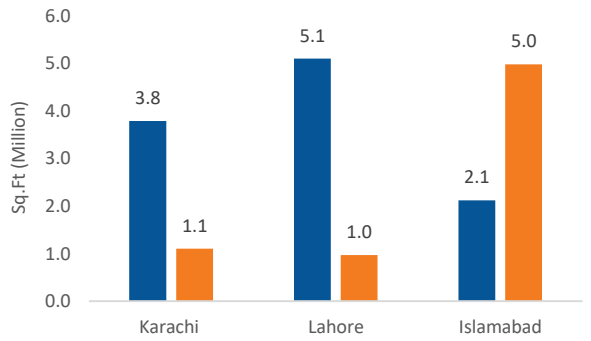

Source: JSIL

The retail sector is also positioned for steady expansion, particularly in tier-1 cities, supported by rising population, job growth, and infrastructure improvements. In this context, investors stand to benefit from rising lease rates and stable occupancy levels as malls continue to experience increased consumer traffic and growing footfall.

While 2025 presents opportunities for recovery, structural challenges from previous years continue to impact market dynamics. Outdated building regulations, limited financial inclusion, lack of ESG adoption, and speculative real estate trading remain key hurdles, constraining affordability for middle-income segments. Encouragingly, regulatory adjustments are taking shape, signaling a more proactive approach to market recalibration. The Capital Development Authority (CDA) has increased the Floor Area Ratio (FAR) and extended commercial payment plans, fostering inclusivity beyond high-income demographics. However, the Sindh Building Control Authority (SBCA) has yet to adopt similar measures, leaving Karachi and other key urban centers facing development bottlenecks amid urban migration trends.

**Retail Mall - Gross Floor Area**

*2024 Estimate*




Source: JSIL

A government-led task force on housing sector development, established under the Prime Minister's Office, is expected to provide critical support to the real estate sector. The task force is evaluating the impact of recent taxation policies and working toward a more balanced tax framework for housing and construction. If implemented effectively, these measures could unlock growth potential in the residential segment and support sustainable development. The progress of the REIT industry will largely depend on the revival of Section 99A of the Second Schedule - Part 1 of the Income Tax Ordinance being the most critical, as steps in this direction can effectively drive its trajectory upward.

A key trend that emerges from Pakistan's real estate data is the disparity between demand-supply dynamics and population distribution across cities. Despite Karachi being Pakistan's largest city in terms of population and economic contribution, it lags in all major real estate segments – residential, retail, office, and hospitality. In contrast, Islamabad exhibits stronger business dynamics, with higher apartment prices, office lease rates, retail rental yields, and hotel ADRs, despite having a population of just one-twentieth the size of Karachi and a land area only a quarter as large. This imbalance underscores the need for a structured urban planning framework to align real estate development with economic potential.

In sum, 2025 presents an inflection point for Pakistan's real estate sector. Improving investor sentiment and rising institutional demand will set the stage for a more structured and resilient market. However, policy execution and regulatory overhaul will be critical in shaping the sector's trajectory.

# A RESURGENT FRONTIER

## Venture Capital: Bridging the Divide

### Key Points

- Despite a sharp funding decline in recent years, renewed investor interest, sectoral repositioning towards profitability, and strategic M&A activity signal a slow but promising revival of Pakistan's VC ecosystem.
- Cleantech, fintech, agriculture, and digital education present significant growth potential, but scaling-stage startups face persistent funding constraints, requiring innovative financing solutions and diaspora engagement.
- Simplifying regulations, introducing tax incentives, enhancing IP protection, and fostering public-private partnerships are crucial to building a resilient VC ecosystem and aligning with global investment trends.

Pakistan's venture capital ecosystem, though constrained by funding limitations and structural inefficiencies, enters 2025 with cautious optimism. While global VC landscapes have witnessed unprecedented sectoral shifts, particularly driven by the surge in artificial intelligence (AI) investments, Pakistan's domestic landscape remains marked by challenges. Yet, a combination of improving macroeconomic conditions and a resetting of priorities among startups and investors alike offers a promising foundation for growth. This narrative explores the potential, obstacles, and strategies for capitalizing on Pakistan's venture capital prospects.

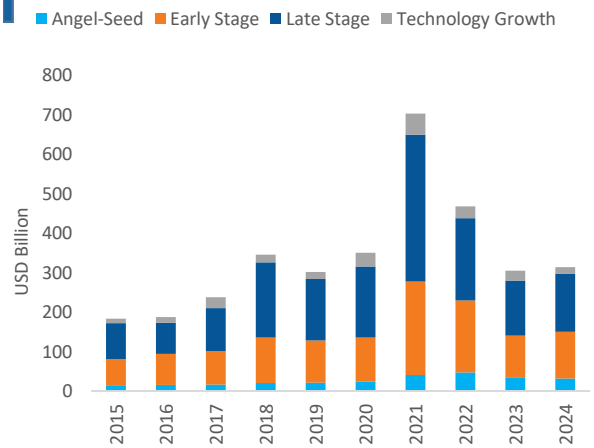
The domestic venture capital landscape has experienced a turbulent few years. Funding activity sharply declined from $355 million in 2022 to $37 million by the end of 2024, underscoring the fragility of investor confidence amidst economic volatility. Nevertheless, the recent launch of new funds – including Gobi Partners' $50 million Techxila Fund II and Sarmayacar's $40 million Climaventures Fund – signals a gradual recovery. These funds, with a focus on fintech, e-commerce, and cleantech, reflect renewed interest in high-growth sectors. The market is also witnessing a shift in focus among startups, with an emphasis on sustainability over aggressive expansion. This recalibration is evident in the rise of mergers and acquisitions (M&A), where local conglomerates are stepping in as strategic acquirers to extend financial runways and diversify portfolios. Notable deals, such as SadaPay's acquisition by Turkish fintech Papara and Laam's $5.5 million funding round, exemplify this trend.

Opportunities in underutilized sectors remain a cornerstone for future growth. Pakistan's significant energy challenges create an urgent need for innovation in cleantech and renewable energy. Startups focusing on solar, wind, and energy storage solutions stand to benefit from global interest in sustainability and local demand for reliable energy infrastructure.

Similarly, the agriculture sector, often overlooked, holds immense potential for leveraging AI in agriculture for predictive analytics and resource optimization in smart irrigation, crop yield optimization, and supply chain management. The education and healthcare sectors also present ripe opportunities for technological disruption. Digital education platforms can bridge the urban-rural divide, while telemedicine and AI-powered diagnostics offer scalable solutions to healthcare access challenges.

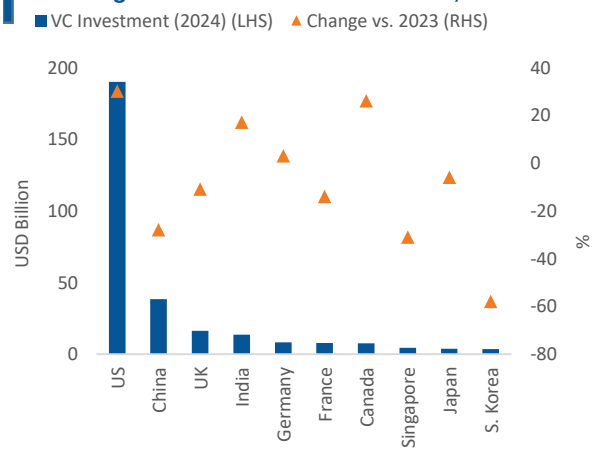
The funding gap remains a critical hurdle for Pakistan's venture capital ecosystem. Early-stage startups continue to secure small rounds, but scaling-stage businesses face prolonged delays in

**Global VC amount raised**




Source: Crunchbase

**Leading countries for VC investment, 2024**



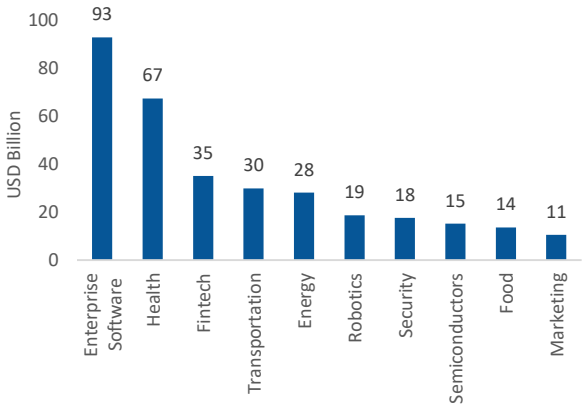

Source: Dealroom.co

accessing growth capital. Addressing this gap requires innovative approaches, such as the development of crowdfunding platforms tailored to local needs and the expansion of blended financing models that combine public and private investments. Additionally, engaging Pakistan's diaspora investors can bring critical capital and expertise, while fostering cross-border collaborations with accelerators and incubators in South Asia and the Middle East could enhance growth prospects.

Policy reform is indispensable to creating a thriving VC ecosystem. Simplifying regulatory pathways and offering tax incentives for venture funds and angel investors are essential first steps. The launch of sovereign-backed VC funds could also offer a much-needed boost to early-stage ventures. Intellectual property (IP) protection laws require strengthening to attract tech-driven startups, while the development of innovation hubs and incubation centers can provide entrepreneurs with the resources and mentorship needed to scale.

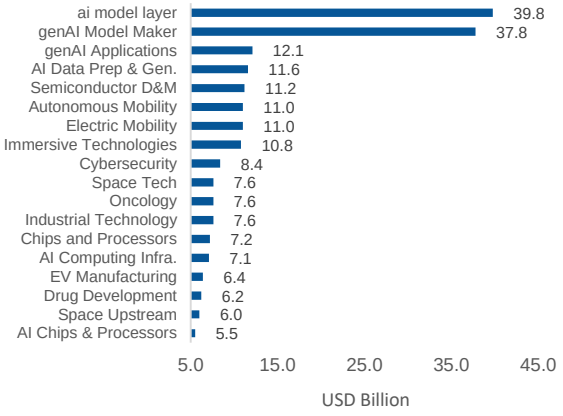
Pakistan's venture capital ecosystem can also draw lessons from international markets. Emerging/Frontier economies such as India and Kenya have demonstrated how targeted policies and public-private partnerships can accelerate growth. India's dominance in SaaS platforms and Kenya's fintech revolution illustrate the transformative impact of aligning policy frameworks with global trends. In Pakistan, the government-backed Green Climate Fund's investment in Climaventures and initiatives under the Special Investment Facilitation Council (SIFC) represent promising starts, but sustained efforts are required to build momentum.

**Global leading industries by VC investment, 2024**




Source: Dealroom.co

**Global leading tech segments by VC investment, 2024**



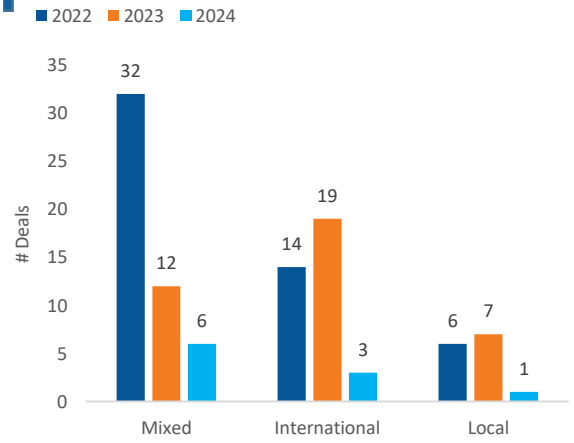

Source: Dealroom.co

The global VC landscape in 2024 experienced a modest resurgence, with investment levels increasing slightly from 2023, though still well below the 2021 peak. AI largely fueled this growth, which dominated a significant share of venture funding. Companies such as xAI, Databricks, Anthropic, and OpenAI collectively raised billions, while Q4 2024 set new fundraising records for AI-driven ventures. Investors are prioritizing AI solutions that integrate into enterprise workflows, enhancing efficiency and productivity across industries.

However, the AI boom presents challenges for Big Tech, as the Magnificent 7 continue to invest heavily in AI infrastructure. While AI adoption is gaining momentum, uncertainties remain regarding its long-term monetization and regulatory oversight. The substantial capital outlay for AI data centers could erode profit margins, raising concerns about overvaluation and sustainability.

Beyond AI, a broader "exit problem" persists, with many private tech firms struggling to go public or secure acquisitions due to antitrust scrutiny and a subdued IPO market. However, VCs anticipate a rebound in IPOs and M&A in 2025, driven by regulatory easing and continued AI expansion. While private markets appear to be thriving and increasingly favored for capital-raising, private credit is also expanding rapidly. However, rising defaults and opaque risk structures signal potential instability. As firms repackage risky assets for broader distribution, greater regulatory scrutiny in 2025 may be necessary.

**Pakistan VC deal activity by investor**



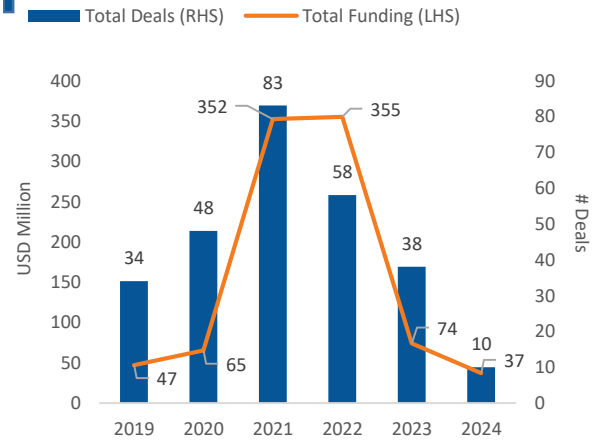

Source: i2i Ventures

As VC increasingly focuses on high-growth areas like AI, the need for long-term sustainability must not be overlooked. For instance, global clean energy remains a critical area requiring sustained attention. This underscores the importance of balanced investment strategies that support both innovation and environmental sustainability i.e. exploring how AI can drive sustainability initiatives in the years ahead.

In this vein, Pakistan also holds promising opportunities in locally produced consumer goods, driven by high import costs, rupee depreciation, and supply chain disruptions – developments that have become more pronounced in recent times. This could create momentum for domestic manufacturing, digital retail, and fintech solutions. While Pakistan has yet to see major traction in these areas, targeted policy support and investment incentives could accelerate growth. Shark Tank Pakistan has raised public awareness of entrepreneurship, but concerns about limited due diligence, inflated valuations, and non-scalable business models persist, casting doubt on its broader impact on serious VC funding.

For Pakistan's VC ecosystem to transition from survival to sustainable growth, regulatory reforms, digital infrastructure expansion, and more substantial local investment pools are essential. With a coordinated approach and investor-friendly policies, Pakistan's venture ecosystem could unlock new growth avenues in 2025 and beyond.

**Total startup funding in Pakistan**




Source: i2i Ventures

# CONCLUSION

We see more upside than consensus in stocks and bonds, driven by momentum and fundamentals, with valuations still reasonable. A muted inflation outlook adds breathing room while real estate gains from rising demand. Venture and private markets, tempered by recent realities, pivot toward sustainability. To strengthen investor confidence, policymakers must ensure strategic coherence, enforce regulatory clarity, and prioritize fiscal reforms. Foreign capital is a key enabler but must align with long-term national priorities to unlock its full potential. The question is no longer whether we can steady the ship but how decisively we can navigate toward progress. By addressing past challenges, we lay the foundation for growth in 2025 and beyond.

Globally, public and private markets reflect a reality of exponential scaling and rapid growth reshaping business evolution. Pakistan also has the opportunity to harness AI-driven gains through investments in digital infrastructure and skilled talent. Leveraging core strengths is key to lasting growth, making 2025 a defining year.

# GLOSSARY

**ADB (Asian Development Bank):** A regional development bank aimed at reducing poverty in Asia and the Pacific through loans, grants, and technical assistance.

**ADR (Average Daily Rate):** A metric used in the hospitality industry to measure the average revenue earned per occupied room.

**AI (Artificial Intelligence):** Technology simulating human intelligence processes, including learning, reasoning, and self-correction, often applied in predictive analysis, automation, and productivity enhancement.

**Black Swan:** An unpredictable, rare event with significant impact, often used in economic and geopolitical contexts.

**CAPE Ratio (Cyclically Adjusted Price-to-Earnings Ratio):** A valuation measure for equity markets, adjusted for inflation over a 10-year period.

**Crowding-Out Effect:** A situation where high government borrowing limits private sector access to funds, hampering economic growth.

**Deflationary Shock:** A sudden decrease in general price levels, often caused by reduced consumer demand or excess supply.

**EFF (Extended Fund Facility):** An IMF program providing financial assistance to countries facing economic challenges requiring structural reforms.

**ESG (Environmental, Social, Governance):** Criteria used to evaluate a company's ethical impact and sustainability practices.

**Export-Led Growth:** An economic strategy focusing on increasing exports to drive GDP growth.

**FAR (Floor Area Ratio):** A measure in urban planning that determines the maximum allowable building area relative to the plot size.

**KSE-100 Index:** A stock market index comprising the top 100 companies listed on the Pakistan Stock Exchange by market capitalization.

**Macroeconomic Stability:** A state of balance in an economy, characterized by low inflation, sustainable fiscal policies, and steady economic growth.

**MSCI (Morgan Stanley Capital Intl.) Equity Indices:** Global equity indices tracking the performance of stocks across different markets.

**OMOs (Open Market Operations):** Actions by central banks to regulate money supply and interest rates by buying or selling government securities.

**P/E Ratio (Price-to-Earnings Ratio):** A valuation measure comparing a company's stock price to its per-share earnings.

**PSX (Pakistan Stock Exchange):** The main stock exchange in Pakistan where securities are bought and sold.

**REIT (Real Estate Investment Trust):** Companies owning or financing income-generating real estate across a range of property sectors.

**SIFC (Special Investment Facilitation Council):** A governmental body promoting investment and economic reforms in Pakistan.

**Term Premium:** The extra yield investors demand for holding a long-term bond instead of multiple short-term bonds.VC (Venture Capital): Funding provided to startups and small businesses with long-term growth potential.

**Yield Curve:** A graph showing the relationship between interest rates and the maturity of debt securities.

**Zoning Regulations:** Rules and guidelines governing land use and building development in specific areas.

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JS Investments Limited (JSIL) (estd. 1995) is Pakistan's oldest private sector Asset Management Company. Our founding partners were INVESCO PLC (formerly known as AMVESCAP PLC) – Europe's largest investment Management house & International Finance Corporation (IFC) – the private sector arm of the World Bank Group. JSIL is a subsidiary of JS Bank, one of the fastest growing banks in Pakistan, with a rapidly expanding network of 277 branches across the country.

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The company has played a key role in defining the standards of the Asset Management Industry in Pakistan.

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