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Better Investments for a Better Future!

INVESTMENT OUTLOOK 2026

The Test of Scale

"If you aren't in over your head, how do you know how tall you are?" — T.S. Eliot

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Foreword

We are pleased to share JS Investments' Pakistan Investment Outlook for 2026: The Test of Scale.

Syed Hussain Haider, CFA, CIPM
Chief Investment Officer

In the Chinese calendar, 2026 marks the **Year of the Fire Horse** – a rare sixty-year convergence associated with momentum, decisiveness, and inflection points. Building on last year's progress, 2026 emphasizes purposeful acceleration, follow-through, and execution. It is a year that rewards readiness and resolve, leaving little tolerance for inaction.

For Pakistan, this symbolism is particularly resonant. As the country moves into 2026, the policy challenge extends beyond preserving a fragile sense of macro-order to articulating – and executing – a credible direction for economic growth. Merely firefighting to improve headline indicators cannot remain the guiding principle. Stability, whilst necessary, is not sufficient. The coming year demands choices that widen participation, improve productivity, and restore confidence in long-term economic opportunity. One clear lesson from 2025 – for all of us as investors – was the importance of remaining invested. Asset allocation, above all else, continues to matter most. Our preference remains tilted toward equities, with a broadly similar allocation to last year: 50% to equity funds for growth, 20% to income funds as yields decline, 20% to high dividend-yield stocks and REITs for stable income, and 10% to money market instruments for liquidity, tailored to individual risk profiles.

Both bond and equity markets are currently framed by relatively cautious sell-side expectations for 2026. We expect these to be comfortably exceeded. We anticipate a single-digit policy rate, with at least 200 basis points of easing in 2026. Likewise, we see 2026 as another defining year for equities, warranting a reset in market framing toward a materially higher plateau – where the KSE-100 Index is more appropriately framed in the 250,000–300,000 range.

We wish you a prosperous year ahead and reaffirm our commitment to disciplined capital stewardship and long-term value creation.

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01

Reflections 2025:

Conviction, Credibility, Confirmation

2025 largely unfolded along the contours we had outlined. Political continuity restored policy coherence, disinflation surprised decisively, and the rate cycle turned faster than consensus expected. Equities broke into a higher valuation range as macro credibility improved and risk appetite revived. Growth remained deliberately restrained, reflecting policy choice rather than weakness. Conviction, discipline, and adherence to the framework proved decisive.

2025 Reflections: From Forecast to Proof, Against Consensus

Looking back at 2025, the year unfolded broadly along the contours we had outlined in our Outlook 2025. Although, on the reform front, a meaningful progress could have been pursued beyond the confines of IMF conditionality – say, through expenditure rationalization rather than a tax framework already stretched to its limits, genuine follow-through on the inclusion of agriculture and wholesale–retail segments in the tax net rather than legislative formality, and decisive action against power-sector theft and distribution losses instead of tariff escalation that has accelerated grid defection via solar adoption – such structural choices, regrettably, remained largely untested.

Continuity as Anchor

Even so, our central conviction over the past two years was that political continuity and longevity at the helm were the true anchor for macro repair, providing the minimum conditions necessary for stabilization to take hold. By the end of 2025, this premise had been validated. The restoration of policy coherence and institutional follow-through proved to be the indispensable foundation for improving confidence, re-anchoring expectations and normalizing market behavior. This remains the most critical pillar for the period ahead; without it, macro progress would inevitably prove fragile and reversible.

Growth on Hold

Economic growth, as anticipated, remained deliberately subdued. Output expanded at a modest pace broadly in line with expectations, reflecting a conscious policy choice under the IMF program rather than a failure of economic momentum. The emphasis on stabilization over acceleration was evident throughout the year and, in our view, was an appropriate trade-off at this stage of the cycle. Within this framework, the currency remained broadly stable, in line with our projections, reinforcing the credibility of the external adjustment and helping to anchor domestic price expectations.

The Flagship Bet

Our most differentiated call entering 2025 was on the trajectory of inflation and interest rates, where we diverged meaningfully from prevailing market consensus. Inflation undershot expectations by a wide margin, reflecting tighter financial conditions, improved fiscal discipline and a more stable currency backdrop. Policy rates moved decisively lower and, absent the disruptions caused by floods and the western border episode, would likely have reached single-digit territory during the year itself. This was our highest-conviction macro view and, while the path was not linear, the direction and magnitude of the adjustment were broadly consistent with our framework.

The Breakout Year

In equities, our year-end target for the KSE-100 Index – among the highest in the market at the time – was reached and subsequently exceeded by more than 9,000 points. More important than the level itself was the nature of the move. The sustained break above the 165,000 threshold marked a clear regime shift, signaling a transition into a new valuation range and a re-rating driven by improving macro credibility, falling interest rates and a revival in risk appetite. The market's ability to hold these levels through periods of volatility reinforced the view that a more durable cycle had begun to take shape.

2025 Reflections: From Forecast to Proof, Against Consensus *(Contd.)*

Quality Over Hype

Under alternative investments, the trajectory we had outlined also played out largely consistently. In real estate, our expectation of a gradual recovery in transaction activity proved well-founded, with volumes improving steadily throughout the year. The resilience of Grade-A office assets was evident in sustained occupier demand and rental stability, while the strength of the hospitality cycle and the measured, incremental improvement in organized retail dynamics broadly matched our framework. Our caution regarding regulatory complexity and execution risk remained relevant, as project delivery and approvals continued to shape asset-level outcomes. Importantly, the structural divergence in demand–supply dynamics across major urban centers – particularly between Islamabad and Karachi – remained a defining feature of the market, as anticipated. In private capital, our central theme of sustainability over aggressive expansion, underpinned by cautious optimism, was equally validated. Capital allocation became more selective, unit economics regained primacy over growth-at-all-costs, and while funding conditions remained disciplined, a modest recovery in deal activity was visible as confidence gradually returned.

Markets Under Fire

On the global front, our constructive stance on gold and our expectation of a broad monetary policy pivot were also borne out. Gold re-emerged as a core portfolio hedge amid elevated geopolitical risk and shifting real-rate dynamics, while the long-anticipated turn in the global policy cycle gathered momentum as inflation pressures receded across major economies. These developments provided a supportive backdrop for risk assets and validated a more balanced asset-allocation framework.

Geopolitically, we had flagged the Middle East as the principal theatre of risk, overtaking Russia-Ukraine as the dominant source of global uncertainty. While these risks did materialize and at times intensified, markets proved more resilient than many had feared. Our core message throughout the year – to remain disciplined, forward-looking and constructive – remained appropriate, even as risk premia periodically repriced. As 2026 begins, these tensions continue to cast a long shadow, underscoring the need for vigilance and prudent portfolio construction.

Eyes on 2026; Discipline Still Wins...

We remain grateful for the trust placed in our framework and for our discipline in adhering to it in a complex, often noisy environment. The experience of 2025 reinforces the value of conviction anchored in fundamentals, tempered by humility in the face of uncertainty. As we enter 2026, we do so with measured confidence, mindful of the risks that remain, but encouraged by the progress made and the opportunities that lie ahead.

Events Shaping the Backdrop

After an eventful start to 2025, multiple market drivers occurred in the second half of the year as well. This backdrop underscores the complexity and dynamism investors may need to navigate heading into 2026.

Timeline of 2H 2025 Key Events

JUL

- 3 - SIFC seeks policy fix to revive $6bn Refinery investment
- 25 - BYD launches Shark 6 PHEV

AUG

- 2 - Nishat Group partners with Chery to launch Omoda and Jaecoo in Pakistan.
- 25 - Haval H6 PHEV launched

SEP

- 25 - Govt raises Rs1.225tn from 18 banks for power debt.

OCT

- 3 - UBL crosses PKR 1T market cap
- 7 - $3.5bn Reko Diq finalized
- 8 - Gaza ceasefire takes effect
- 29 - Nvidia $5T market cap
- 30 - Trump-Xi trade agreements

NOV

- 7 - ECC approves Rs659bn guarantee for circular debt financing
- 12 - US government shutdown ends
- 13 - Pakistan 27th Amendment passed

DEC

- 22 - Pakistan signs $4bn defence export deal with Libya
- 28 - UAE $1bn converted into Fauji Foundation equity.
- 31 - DG Khan Cement expansion
- 31 - PTCL completes acquisition of Telenor, Orion

Where will 2026 take your portfolio?

Key Takeaways for 2026

Beware the Adjustment Trap

Pakistan enters 2026 still in IMF-led adjustment mode, mistaking compliance for reform. Political continuity anchors policy coherence, but execution must accelerate beyond IMF compliance to deliver credible structural reform and growth momentum.

Single-Digit Rates Are Back

Disinflation, a firmer external account, and policy credibility create space for at least 200bps of easing in 2026, with a credible path toward single-digit policy rates.

The Momentum Regime

This is a momentum cycle, not a valuation reset. With liquidity and falling rates as tailwinds, we frame 250,000 on the KSE-100 as a plausible base case for 2026.

Real Assets, Real Income

Income durability becomes the primary differentiator. Commercial real estate, hospitality, and data centers offer attractive risk-adjusted returns in a normalizing rate environment.

The Private Markets Shift

Venture capital and private equity enter an institutional phase. Fintech infrastructure, Pakistan-GCC corridors, and regulatory clarity drive disciplined capital deployment.

Key Risks

Execution remains the binding constraint. Geopolitical volatility, water security, and the persistence of low domestic savings pose material downside risks to the base case.

"2026 will test whether improving sentiment can scale into sustained capital formation."

"Asset allocation, above all else, continues to matter most."

“Staying invested was the clear lesson from 2025."

02

Pakistan Economy:

A Window for Execution

Pakistan enters 2026 with macro calm, easing financial conditions, and improving headline indicators – yet confidence remains uneven. Policy intent is clear, but execution speed is now the binding constraint. Disinflation opens the door to further monetary easing, while growth remains secondary to repair. The challenge ahead is to convert narrative into delivery and stability into momentum.

Pakistan Economy: Policy Promises Face the Execution Reality

The future is forged in yesterday's decisions. With that lens, a brief look at how 2025 concluded provides useful context for assessing Pakistan's economic trajectory into 2026. From the standpoint of headline economic indicators, progress under the IMF program remained intact, the exchange rate stayed broadly stable, financial markets delivered strong returns, interest rates saw further easing and continued to trend downward – against popular expectations – and the long-delayed privatization agenda finally stirred at year-end, addressing at least one costly fiscal drain.

Yet beneath this surface stability, a contrasting set of frictions emerged: widespread narratives around multinational exits, agricultural strain, an unplanned solar boom disrupting the power sector, LNG contracts facing adverse market conditions, and the lingering NFC debate nearing a critical juncture. Karachi's BRT project remained mired in execution bottlenecks, whilst the disputed sealing of the KCA building and ABAD's renewed security concerns added to the unease. Textile exporters continued voicing concerns around competitiveness, taxation, and energy costs, whilst abrupt policy measures around Islamabad property valuations further weighed on investor confidence.

Early data for 1QFY26 delivered encouraging signals, yet they arrived with skepticism rather than unqualified relief. Headline GDP numbers surprised positively, challenging expectations of an immediate austerity-led slowdown. However, industry representatives remained cautious, questioning the breadth and durability of recovery whilst pointing to continued pressure on large-scale manufacturing. This divergence between macro indicators and ground realities underscores the central tension heading into 2026: the perception of stability has taken hold, but it remains fragile and unevenly distributed across sectors and stakeholders.

Key Indicators		FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Real GDP Growth	%	5.8%	6.2%	-0.2%	2.6%	3.0%	3.5%	5.0%
Headline Inflation (Avg.)	%	8.9%	12.2%	29.2%	23.4%	4.5%	6.1%	5.2%
Current Account Balance	US$bn	(2.8)	(17.5)	(3.3)	(2.1)	1.9	(2.4)	(1.9)
Current Account Balance	% of GDP	-0.8%	-4.7%	-1.0%	-0.6%	0.5%	-0.6%	-0.4%
SBP FX Reserves	US$ bn	17.3	9.8	4.5	9.4	14.5	17.8	23.3
Fiscal Balance	% of GDP	-5.5%	-7.1%	-7.6%	-6.9%	-5.4%	-4.9%	-3.9%
Primary Balance	% of GDP	-1.2%	-3.1%	-1.0%	0.9%	2.4%	2.5%	2.0%
Total Debt	% of GDP	74.8%	77.3%	78.5%	70.4%	72.9%	72.4%	69.9%
Domestic	% of GDP	48.3%	47.8%	47.4%	45.4%	48.1%	47.1%	45.5%
External	% of GDP	26.5%	29.5%	31.1%	25.0%	24.8%	25.3%	24.4%

Acknowledging the Real Constraint

One genuinely constructive development that merits attention is the Special Investment Facilitation Council's candid acknowledgement that Pakistan's investment problem is largely self-inflicted.

Excessively high taxes, weak infrastructure, policy inconsistency, and governance shortcomings have collectively eroded both local and foreign investor appetite. The recognition that facilitation alone cannot substitute for structural reform and institutional execution marks an important turning point in economic policymaking.

> The recognition that facilitation alone cannot substitute for structural reform marks an important turning point in economic policymaking.

Without first acknowledging the nature of the problem, meaningful planning becomes difficult; in that sense, this realism provides a necessary foundation for progress in 2026. Whether this acknowledgement translates into action will be the true litmus test. Much of 2026 is likely to be consumed by what can best be described as firefighting around the stability narrative—maintaining IMF compliance, managing external vulnerabilities, and executing politically difficult reforms that will demand substantial time and administrative bandwidth.

Privatization of DISCOs and other state-owned enterprises remains a formidable challenge; even with stronger resolve, such processes tend to be slow and absorbing, inevitably claiming a large share of the policy calendar in the year ahead. Even as strong momentum builds toward new digital-economy initiatives, 2026 will hinge on staying anchored to low-hanging fruits—especially agriculture—where execution, not novelty, will matter most for delivering tangible economic results.

The Execution Challenge

Pakistan has no shortage of initiatives or narratives—the recalibrated CPEC story, the establishment of SIFC, the Green Pakistan initiative, Uraan Pakistan, the Prime Minister's National Industrial Policy, and a proliferation of economic advisory councils and working groups all signal intent. Most recently, we have witnessed the launch of economic governance reforms, a call for an expanded mandate for the Planning Commission, and renewed deliberation on a permanent exit from the IMF programme.

The binding constraint, however, is no longer intent but execution speed. If stability is indeed the government's stated claim, tangible delivery across critical fronts should already be visible. Instead, Pakistan remains caught in a familiar loop of reform announcements, strategic reviews, and institutional re-engineering—without the follow-through required to convert plans into durable macro-stability as the country enters 2026.

At the same time, structural realities are forcing a reckoning. Sectors that have historically remained largely shielded from deeper fiscal adjustment—textile exporters, agriculture, and real estate—are now confronting ground realities. The scope for further squeezing already documented sectors and the salaried class is effectively exhausted. Tax collection has reached a ceiling through conventional rate hikes, leaving enforcement, tax-base broadening, and more progressive taxation as unavoidable next steps. If managed carefully, this transition could eventually create space for tax relief for listed companies and salaried taxpayers, though the adjustment phase will not be painless.

A Recovery with a Speed Limit

Against the backdrop of structural constraints and policy transitions, the 2026 growth path remains anchored in gradual normalization, with scope for a near-term uptick that will need to be assessed for durability as the cycle unfolds. Real GDP growth is expected to reach 3.5%, underpinned by a partial recovery in agriculture and an uneven industrial cycle.

Agricultural output is projected to expand by roughly 2–4%, reflecting improved water availability and policy support amid persistent climate risks that continue to threaten crop yields. Large-scale manufacturing has posted early gains of about 5% year-on-year, with full-year growth likely moderating to the 4–5% range as base effects fade and demand constraints re-emerge.

3.5%

Real GDP Growth

Projected expansion for FY26

4-5%

Manufacturing Growth

Moderation from early gains

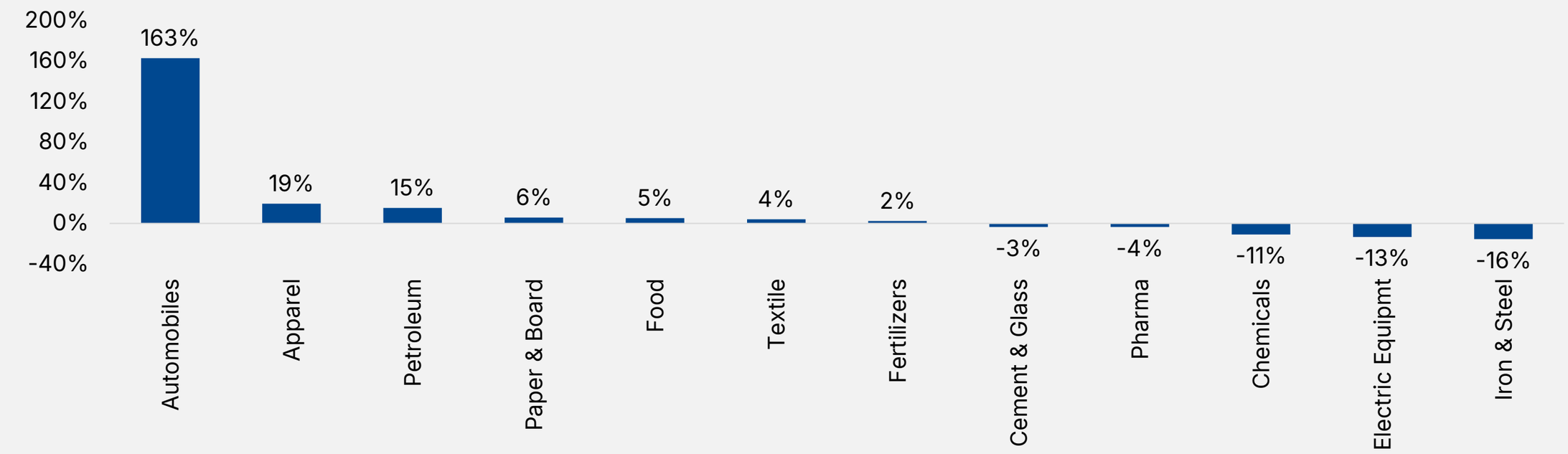
2-4%

Agriculture Growth

Partial recovery expected

Growth with a Skew

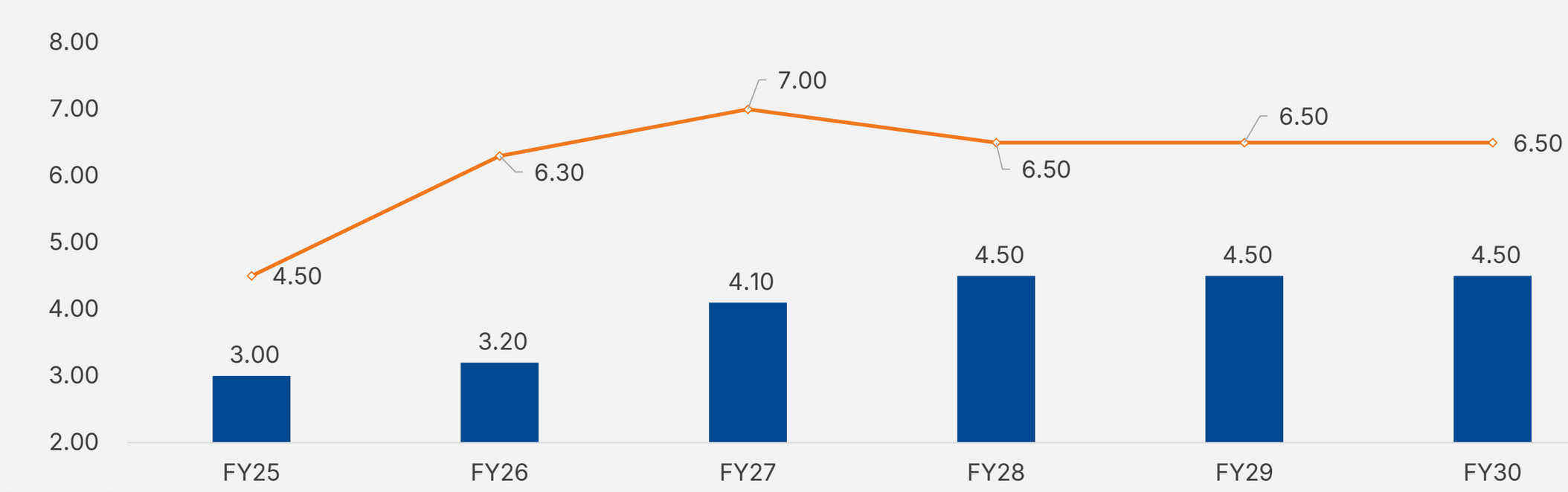
LSM Index - Major industries
Growth Since 2023 (Jul-Nov)



Source: PBS

Prices Tamed, Growth Chained

IMF Estimates (Staff Report Dec – 25)



Source: IMF

A Kinder Monetary Weather

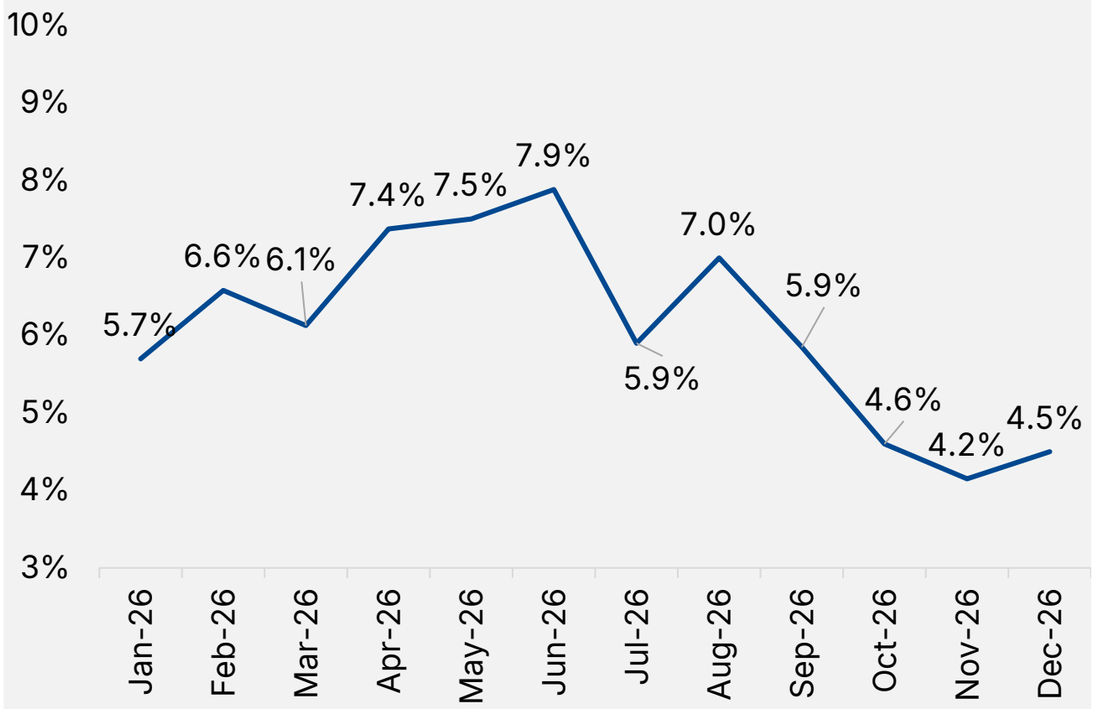
The Heat is Off

Inflation dynamics are expected to remain favourable relative to recent years. Headline CPI is projected to average 6–6.5% in FY26, helped by softer global energy prices, easing food inflation, and restrained purchasing power. Looking ahead, core inflation bears close watching; whilst it has proven sticky in the past, we expect this, too, is unlikely to become a source of concern in the year ahead.

The Rate Mountain Is Coming Down

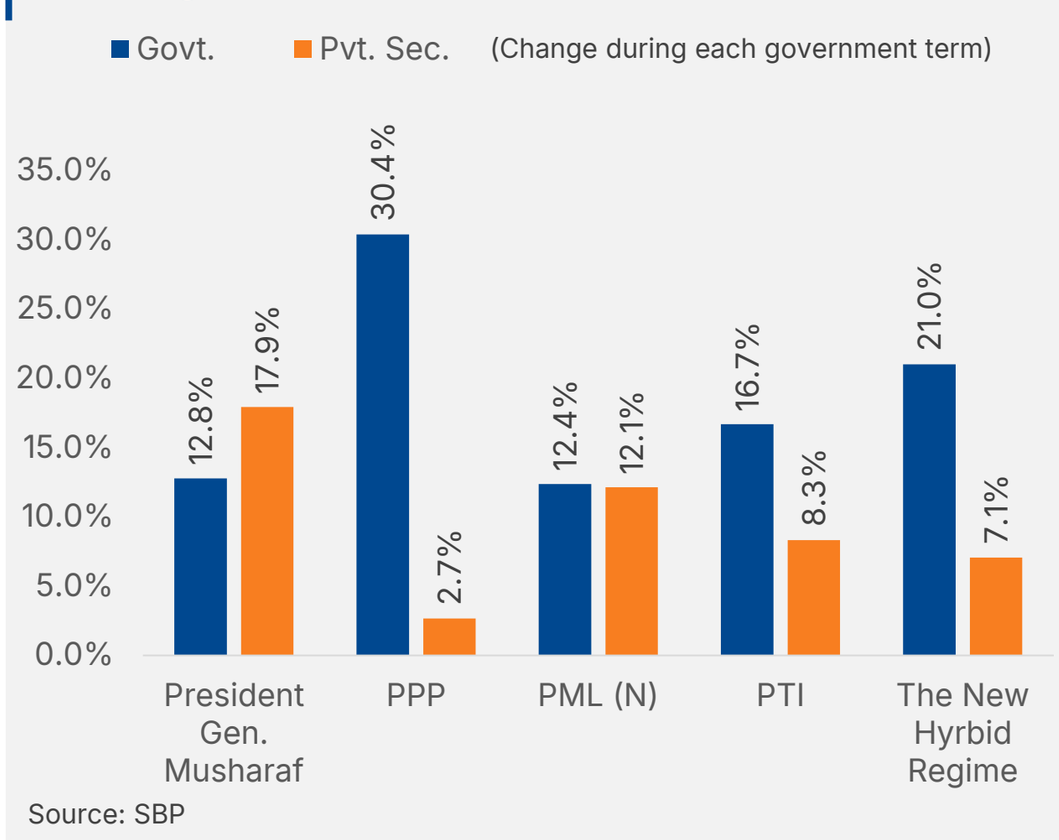
On monetary policy, defying widespread expectations, there is room to lean toward a single-digit policy rate over the course of 2026, implying cumulative easing of at least 200 basis points if disinflation trends persist and external conditions remain supportive. This would ease financial conditions for businesses and households, providing much-needed relief to borrowers whilst supporting productive investment across sectors.

CPI 2026E (%Y/Y)



Source: JSIL Research

Crowding-Out Effect in Action



Source: SBP

Walking the Macro Tightrope

1

External Front Dynamics

Structural constraints remain binding. Any meaningful pickup in domestic demand will need to be kept in check through administrative, quantitative, and qualitative measures, given Pakistan's chronically low savings and investment rates. Remittances continue to provide a critical buffer, and the current account is expected to post only a modest deficit in 2026.

2

Exchange Rate Stability

The already prolonged period of exchange-rate stability is likely to persist, with a 4–6% movement over the year possible on either side, including the prospect of appreciation should external inflows surprise positively through enhanced remittances or improved export performance.

3

Fiscal Consolidation Challenges

Fiscal consolidation remains tightly constrained. Revenue gains through rate hikes are largely exhausted, shifting the burden decisively toward enforcement and expenditure discipline. The challenge now lies in broadening the tax base and improving compliance without further burdening already overtaxed segments.

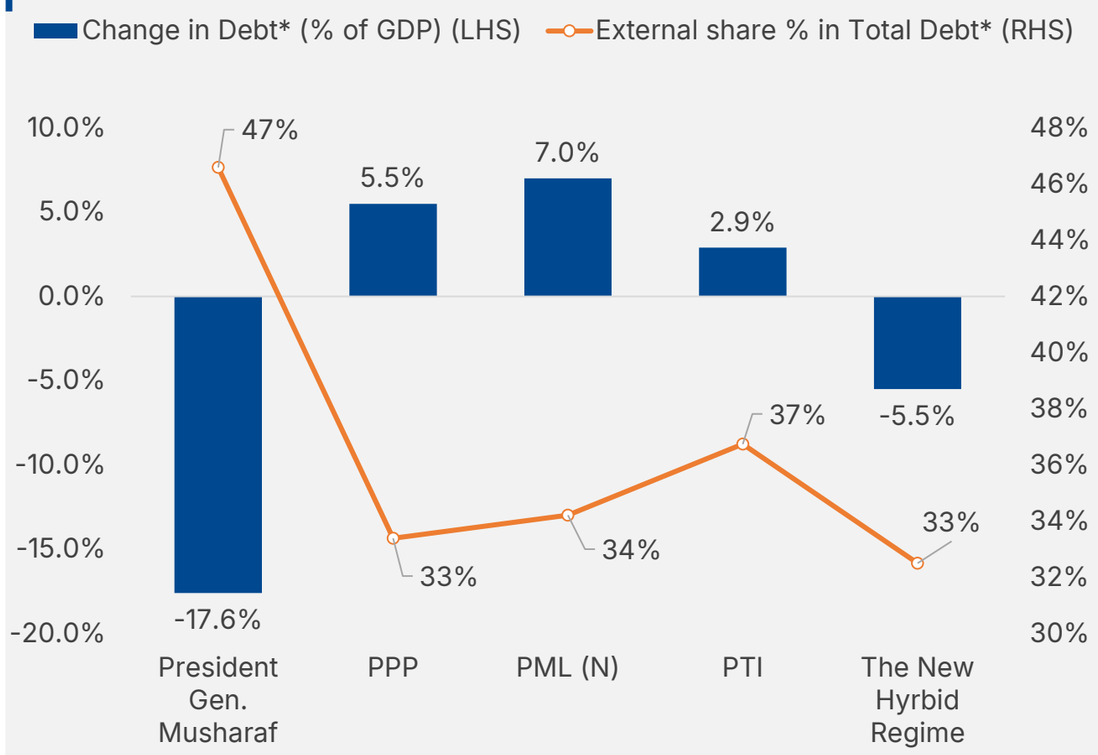
4

Power Sector Reform Imperative

Power-sector reform sits at the heart of fiscal challenges. The unplanned solar boom has reduced grid demand among higher-end consumers, weakening system utilisation just as contracted LNG supplies have moved into surplus—thereby intensifying take-or-pay exposures and cost-recovery gaps across the gas chain.

The Weight of History

Govt. Debt Anatomy & Composition

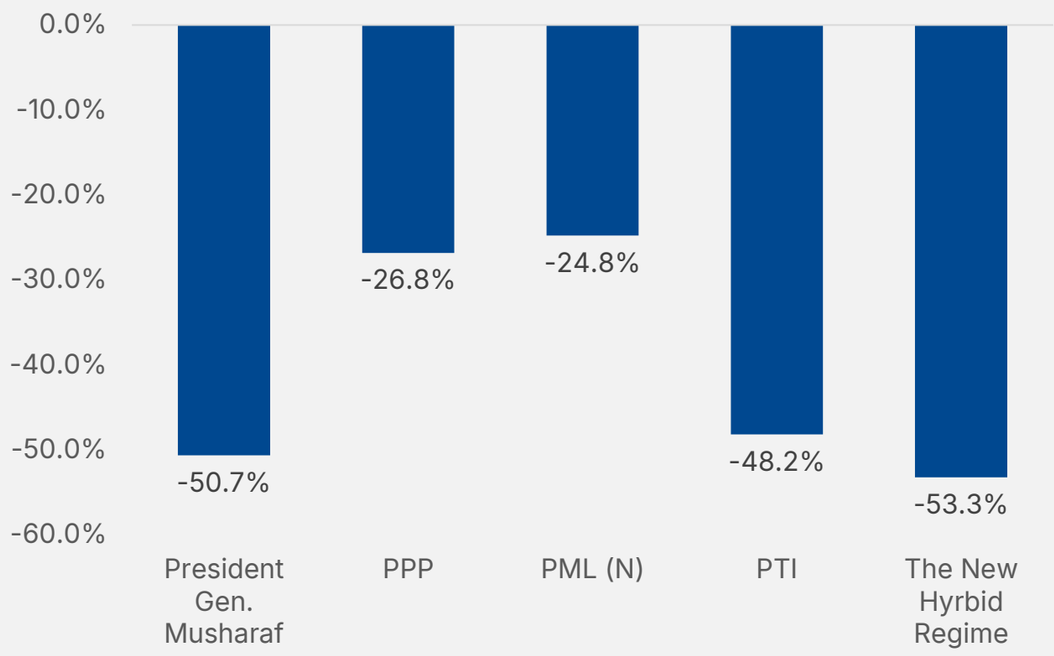


Source: SBP *(* Gross Public Debt)*

Recent trends suggest greater restraint, with slower debt accumulation and a reduced external share pointing to a balance sheet beginning to steady.

A One-way street

Rupee Devaluation - (Change during each government term)

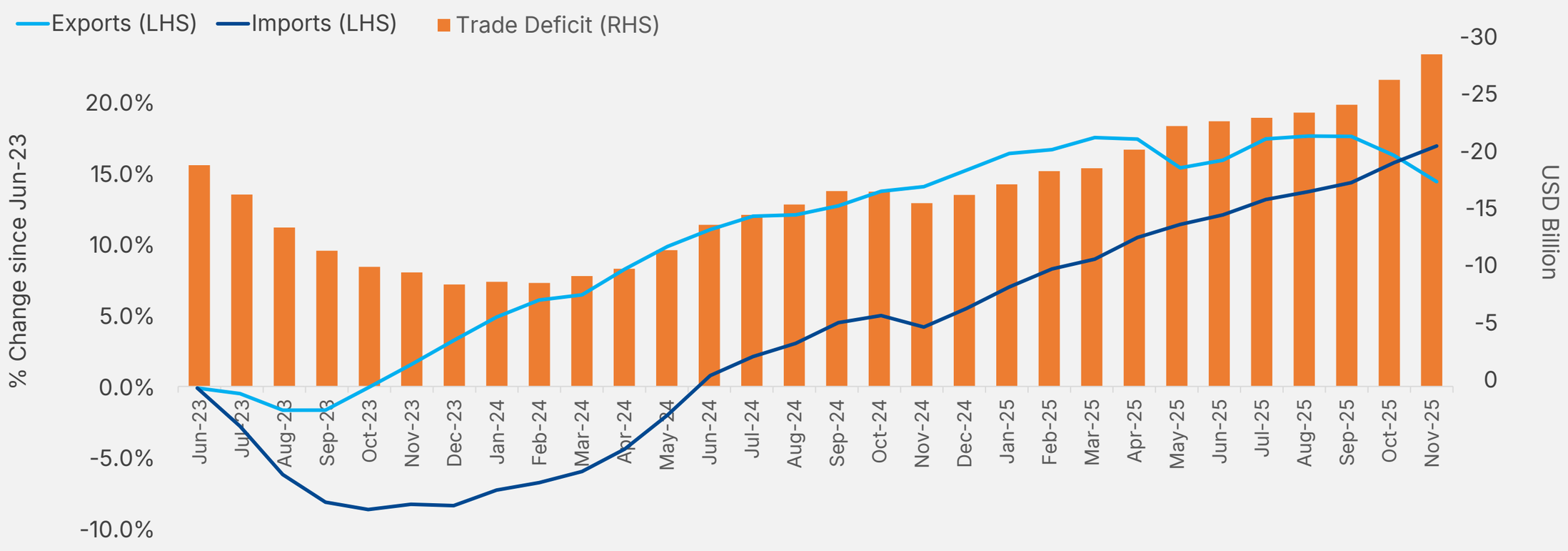


Source: SBP

Different governments, same direction – the rupee's journey reflects structural gravity rather than political weather.

Trade Gap Widens as Imports Return

Figures on a 12M rolling basis

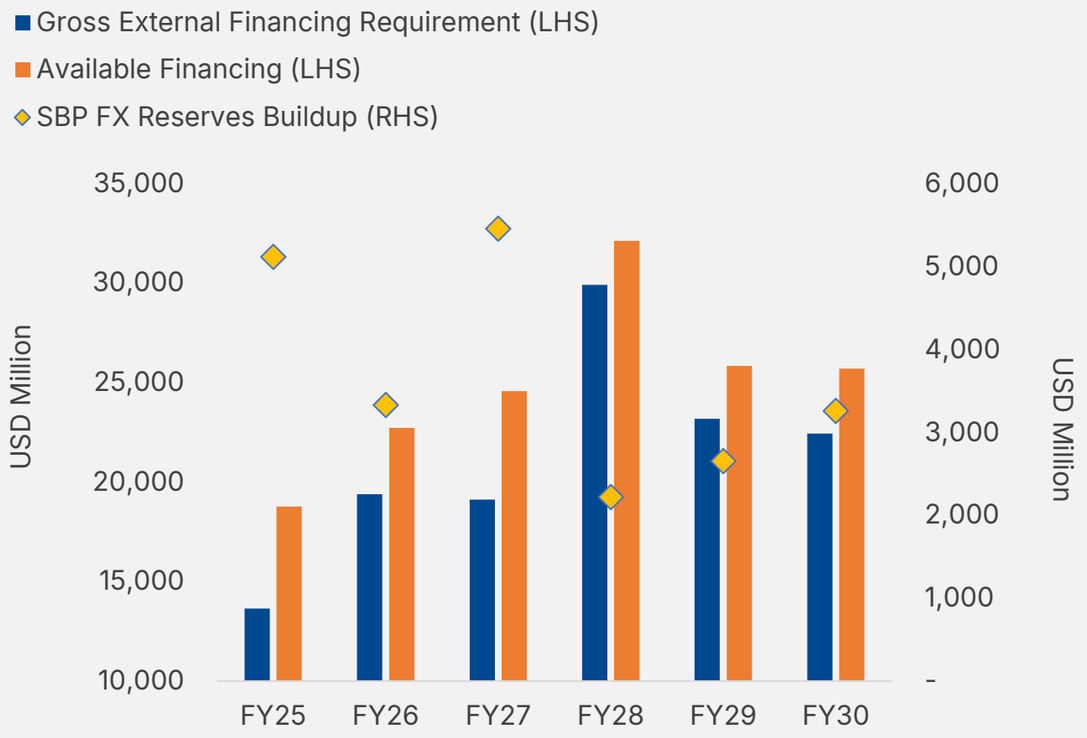


Source: SBP

That imports stirred back to life, and the trade balance answered immediately, needs no reminder of how tightly Pakistan's external accounts are hinged.

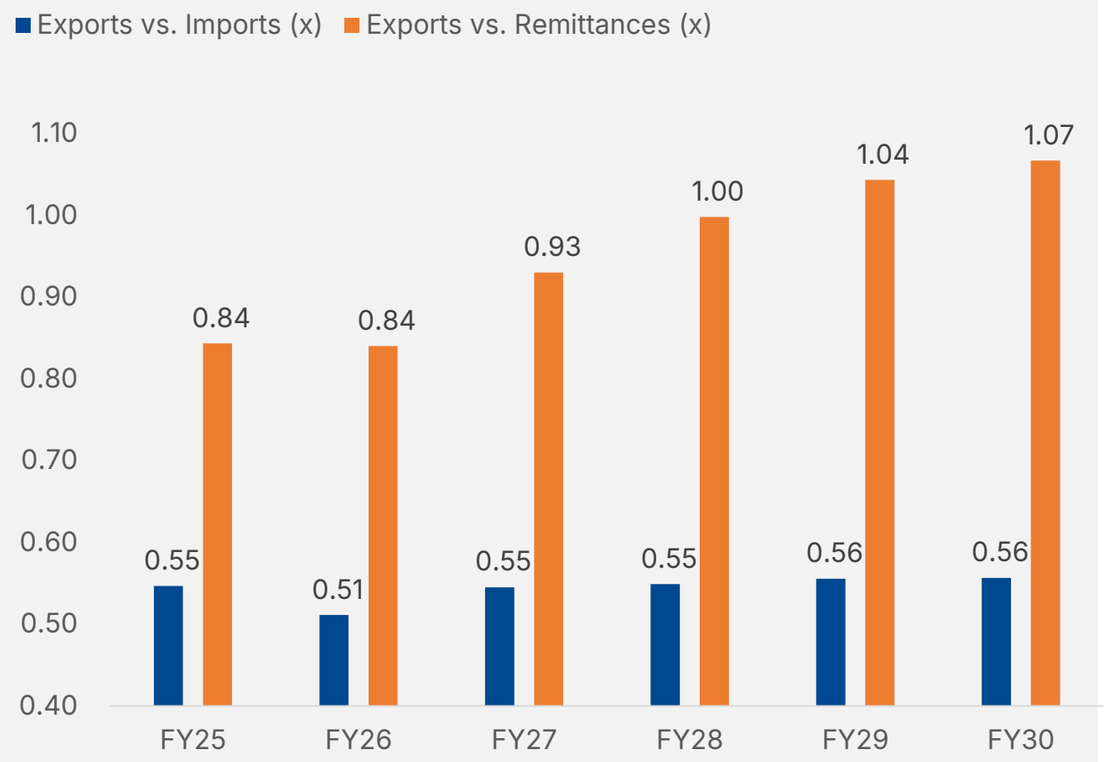
The Optimist's Playbook

External Account: Well-funded



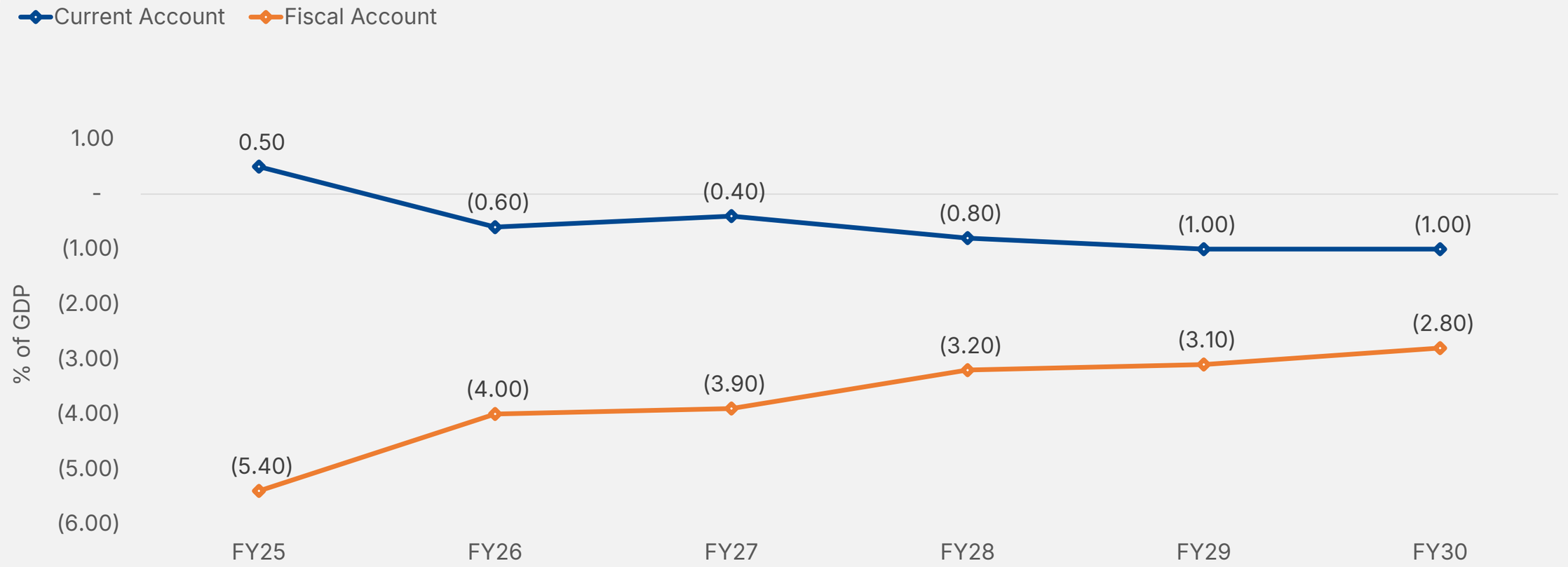
Source: IMF

Exports in the Driver's Seat



Source: IMF

Twin Deficits under control



Source: IMF

As ever, the IMF arrives with its best-case world neatly drawn in its latest staff report. We welcome the optimism and the support. Yet lasting progress will ultimately depend on building our own, practical roadmap — one that can be implemented on the ground and carry the economy toward sustainable growth.

The Long Game Underground

Pakistan has no shortage of initiatives or narratives—the recalibrated CPEC story, the establishment of SIFC, the Green Pakistan initiative, Uraan Pakistan, the Prime Minister's National Industrial Policy, and a proliferation of economic advisory councils and working groups all signal intent. Most recently, we have witnessed the launch of economic governance reforms, a call for an expanded mandate for the Planning Commission, and renewed deliberation on a permanent exit from the IMF program.

Phase-1 production at Reko Diq is targeted for the first half of 2029, with expected annual cash flows of USD 2–3 billion and copper concentrate exports alone potentially generating USD 4–5 billion per year.

In sum, 2026 begins with a widely held constructed sense of stability, but momentum remains tentative. The environment is unusually supportive—political continuity, softer global energy prices, and a window of macro calm—yet time is limited. The challenge now is to convert intent into strategy, and strategy into execution.

Intent

Multiple initiatives and reform narratives established

Strategy

Coherent policy frameworks and sequencing required

Execution

Tangible delivery and institutional follow-through essential

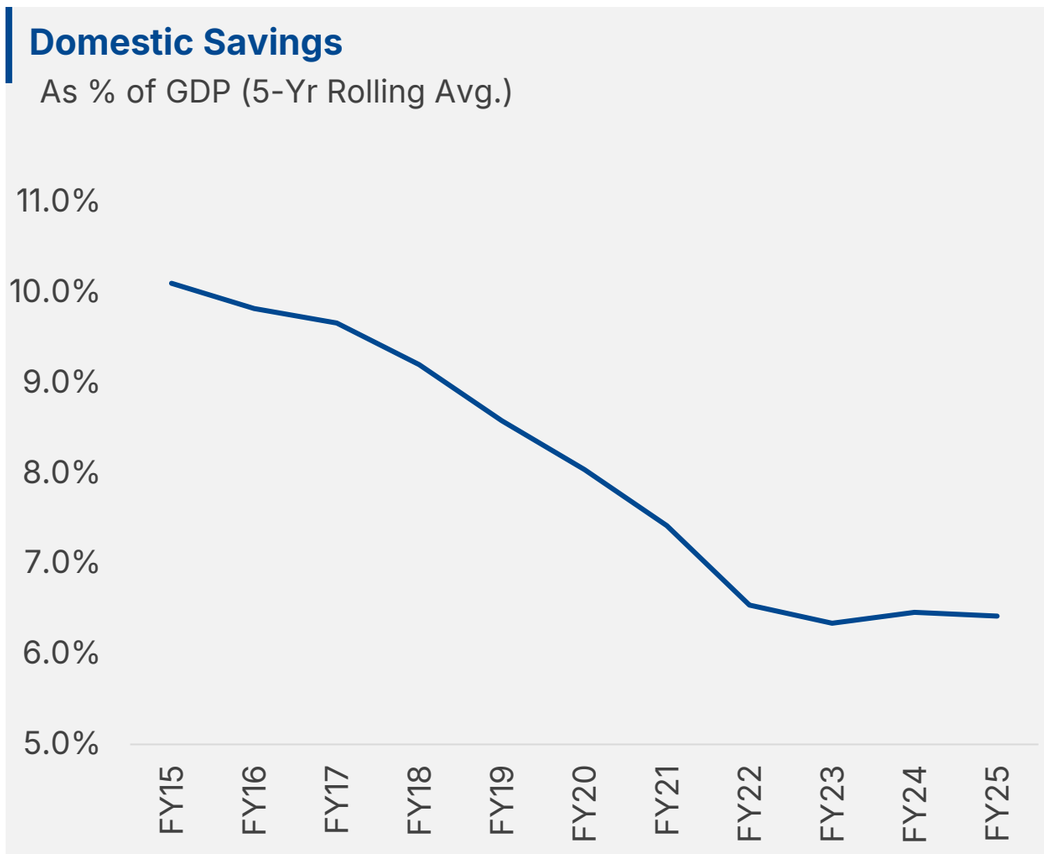
Whether Pakistan uses this narrow window to break from its familiar boom-bust cycle, or merely manages another year of controlled fragility, will define not just 2026, but the trajectory of the decade ahead. The stakes could not be higher, and the margin for policy error remains uncomfortably narrow.

The Empty Jar Problem

It is worth acknowledging the State Bank of Pakistan for devoting a substantive chapter in its Annual Report to the challenge of low savings, both in analytical depth and breadth of coverage. The chapter usefully establishes that Pakistan's low savings problem is largely policy-driven: persistent public dissaving, heavy reliance on domestic borrowing, and inflationary financing have weakened real returns and crowded out private intermediation, whilst distortionary measures have pushed households towards informal avenues—leaving much of the formal savings pool absorbed in funding the sovereign rather than productive investment.

Domestic Savings

As % of GDP (5-Yr Rolling Avg.)



Source: SBP, MoF

Two additional policy inconsistencies merit attention. Whilst the report rightly highlights vehicles such as REITs, the government allowed the income-tax exemption under Clause 99A to lapse after 30 June 2023, undermining the very framework needed to mobilise long-term savings and attract capital. Similarly, even as quasi-mandatory pension and insurance structures are advocated to institutionalise savings discipline, fiscal pullbacks in recent years have diluted incentives for voluntary pension schemes.

Public Dissaving

Persistent fiscal deficits crowd out private savings and investment opportunities

Policy Reversals

Tax incentives for REITs and pension schemes withdrawn, undermining mobilisation efforts

Technical Glitches

IRIS portal issues impose capital gains tax on mutual funds, breaking pass-through structure

Most recently, at the very start of FY26, the IRIS portal abruptly lost the functionality used by fixed-income mutual funds to apply for an exemption from withholding tax on capital gains arising from the disposal of debt securities. This glitch is now resulting in the imposition of capital gains tax, undermining the funds' pass-through structure and running counter to the objective of deepening formal savings. Despite repeated representations by the mutual fund industry, the issue remains unresolved as 2026 begins. Looking ahead, a clear starting point for the government would be to anchor policy around the State Bank's comprehensive work on low savings and restore and realign incentives that genuinely encourage household and institutional saving. That, in substance, is what should qualify as reform.

Tearing Down the Trade Barriers

We highlight tariff rationalization in Pakistan's FY2025–26 Budget as a defining reform milestone because it marks one of the few instances in recent years where structural change has moved decisively from rhetoric to execution. Anchored by IMF conditionality and embedded in the Finance Act, the reform reflects a moment where policy space narrowed to the point that inaction was no longer an option. In a reform cycle otherwise marked by delays and reversals, tariff rationalization stands out as a rare example of forward momentum.

01

Compress duty slabs

Simplification into four bands: 0%, 5%, 10%, and 15%

02

Phase out regulatory duties

Gradual elimination of additional customs duties

03

Unwind exemptions

Medium-term removal of fifth-schedule exemptions

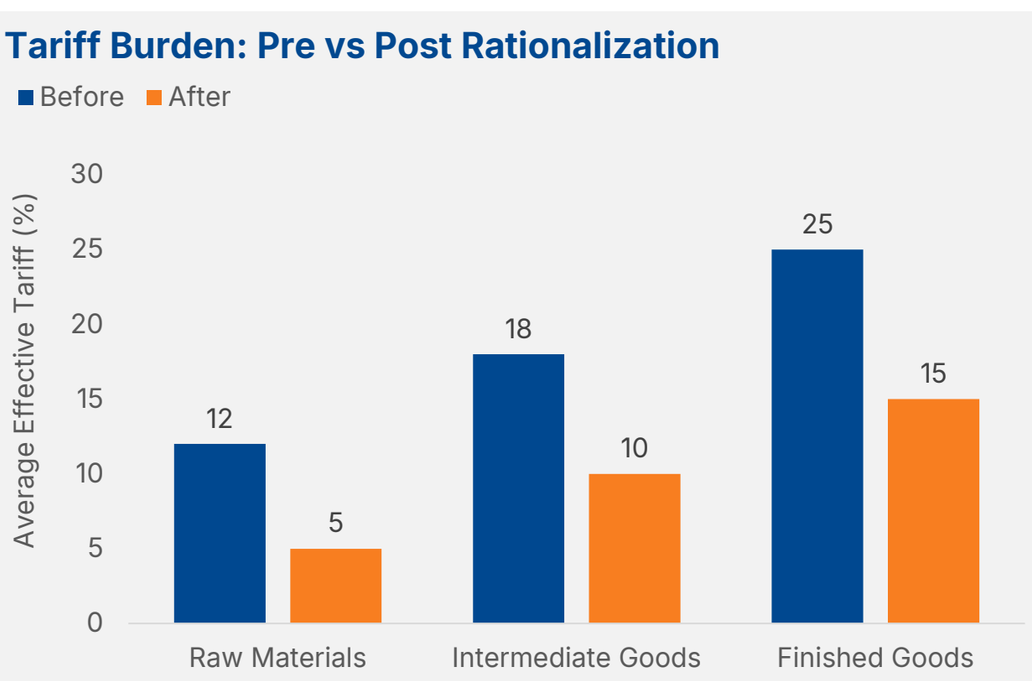
04

Enhance competitiveness

Lower input costs and stronger export orientation

For decades, Pakistan relied on tariffs to generate fiscal revenue and protect the domestic industry. The result was a distorted incentive structure that penalized exporters with high input costs, weakened integration into global value chains, entrenched inefficiencies, and perpetuated an anti-export bias. The National Tariff Policy 2025–30, operationalized through the FY25–26 budget, represents a clear break from that legacy, setting a roadmap to compress duty slabs, phase out distortionary levies, and unwind exemptions over the medium term.

Tariff Burden: Pre vs Post Rationalization



Source: Ministry of Commerce - National Tariff Policy 2025-30

The reform has inevitably triggered resistance. Steel producers, auto assemblers, and chamber groups have warned of factory closures, job losses, and import surges. These reactions reflect a deeper reality: much of Pakistan's industrial base has evolved behind tariff walls, insulated from competition but also shielded from the discipline of productivity, scale, and innovation. Tariff rationalization removes that insulation. The near-term costs are real, with potential short-term revenue impacts running into several hundred billion rupees. Yet the medium-term logic is compelling: lower input costs, stronger export competitiveness, reduced smuggling, higher compliance, and broader-based tax collection. For investors, this reform marks a structural turning point, signaling that Pakistan is finally moving from a protectionist, revenue-driven trade regime towards a competitiveness-led growth model. The transition will be uneven and politically noisy, but 2025 demonstrated that the direction of travel is now unmistakable—and, for the first time in years, credibly irreversible.

Key Risks – The Ground Beneath the Outlook

1

The Comfort of False Reform

Pakistan's most consequential risk in 2026 lies not in external shocks but in the continued mischaracterization of IMF-led adjustment as 'reform' under the false pretense of progress, masking the absence of a credible, domestically driven growth agenda. Absent a genuine pivot toward such a model, the economy risks remaining locked into a low-growth equilibrium, punctuated by episodic intermissions rather than durable momentum. For 2026, advancing in-house reforms therefore remains the central priority, echoing the experience of several emerging markets where durable gains have come from domestic policy execution rather than external relief.

2

The Vulnerability of a Higher Pedestal

A key vulnerability is the elevated base effect from Pakistan's improved global standing in 2025. Any adverse geopolitical turn, especially one complicating rejuvenated engagement with the United States, poses asymmetric downside risks. This is further amplified by the evolving US-India strategic equation, which may shape regional alignments.

Historical Endurance: Despite geopolitical shifts, historical precedent shows Pakistan's ability to convert heightened global tension into strategic relevance. Periods like the formative decades, the 1980s, and post-9/11 phases demonstrate this pattern, which is not expected to break in the current cycle.

3

Western Frontier Fragility

The western border remains critical due to strained engagement with Afghanistan. This has kept the border environment fragile, with Pakistan signaling willingness to act across if security threats persist. While actions are expected to be limited, spillover implications for trade, confidence, and internal stability cannot be discounted.

4

Eastern Strategic Backdrop & Water Crisis

To the east, the strategic backdrop with India remains delicate, particularly concerning the Indus Waters Treaty. Ambiguity around its interpretation or implementation carries material downside implications, exacerbating Pakistan's deepening domestic water crisis caused by mismanagement, climate stress, and rising demand. External water pressures intensify existing domestic constraints affecting agriculture, energy, and long-term growth.

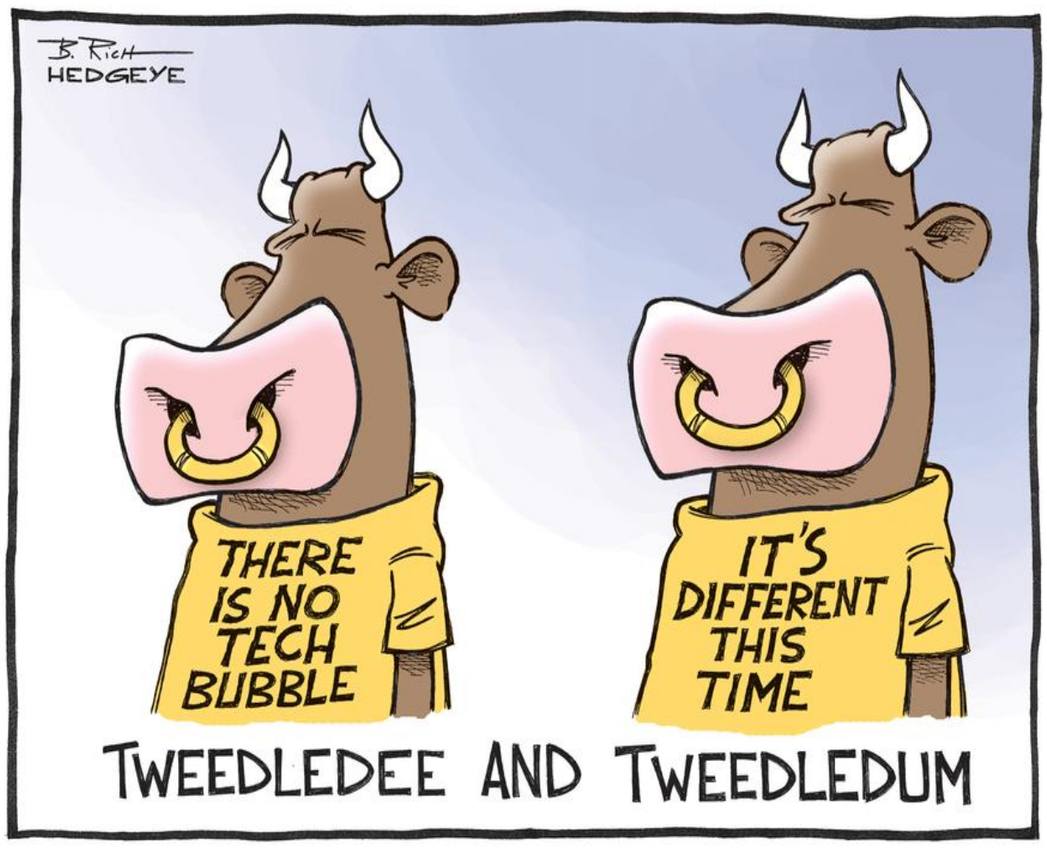
Global Markets:

The Resilience Mirage

Global markets appear resilient, but the expansion is narrow, AI-driven, and increasingly detached from underlying economic breadth. The AI investment cycle is showing signs of late-stage excess, while gold’s rally reflects deepening geopolitical fractures and institutional distrust. Trade wars, power politics, and financial fragmentation are reshaping the macro-order. Apparent resilience masks a more fragile global regime.

Global Outlook: A World Running on Borrowed Confidence

AI bubble fears, gold's rally, and the dollar's bruising define the global investment landscape into 2026. While global growth defies pessimists, equities remain buoyant, and financial conditions appear looser than macro models imply, this resilience is illusory. Excluding the unprecedented surge in AI-driven capex, the global economy is materially weaker, more uneven, and increasingly exposed to geopolitical and financial shocks. What markets celebrate is not broad-based dynamism but a narrow, highly concentrated technology boom that masks deep structural fault lines — the essence of the Resilience Mirage.



The global AI investment cycle has become the defining macro force of this decade, reshaping balance sheets, equity leadership, venture funding, and capital allocation worldwide. Capital deployment into data centers, advanced semiconductors, cloud infrastructure, foundation models, and applied AI platforms is unprecedented outside wartime mobilization. Yet the cycle now exhibits classic late-stage excess: extreme valuation dispersion, multiple expansion untethered from near-term cash flows, rising leverage across the supply chain, and an extraordinary concentration of index returns in a handful of mega-cap platforms. As in the late-1990s internet boom, the technological shift is real, but investment has raced far ahead of monetization. The gap between narrative-driven growth expectations and deliverable earnings is widening, leaving markets vulnerable to regime shifts as capital discipline reasserts itself. The AI bubble increasingly looks real.

AI Investment Cycle

Unprecedented capital deployment into the technology infrastructure

Gold's Structural Rally

Central bank diversification and geopolitical risk hedging

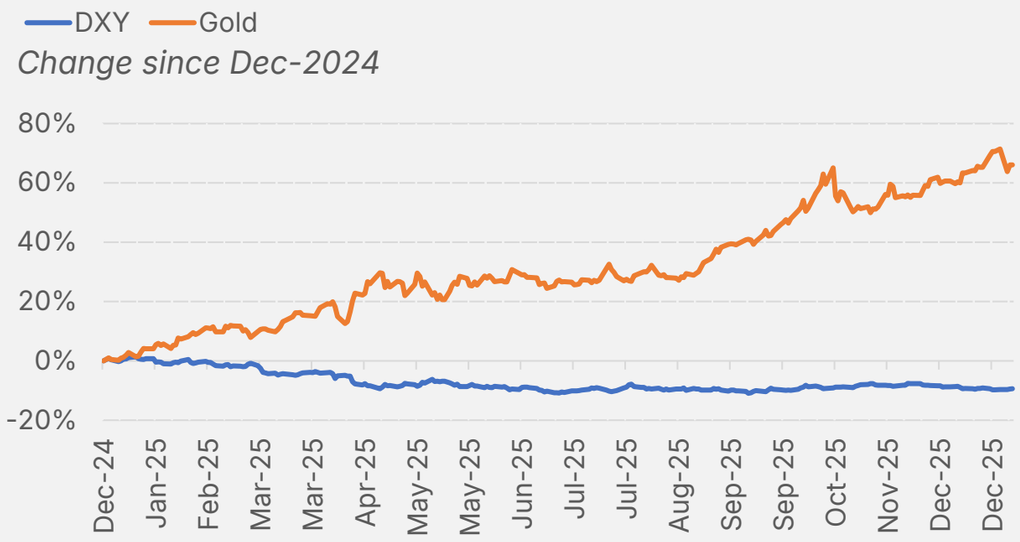
Dollar Under Pressure

Erosion of reserve status amid sanctions and fiscal expansion

When Gold Speaks

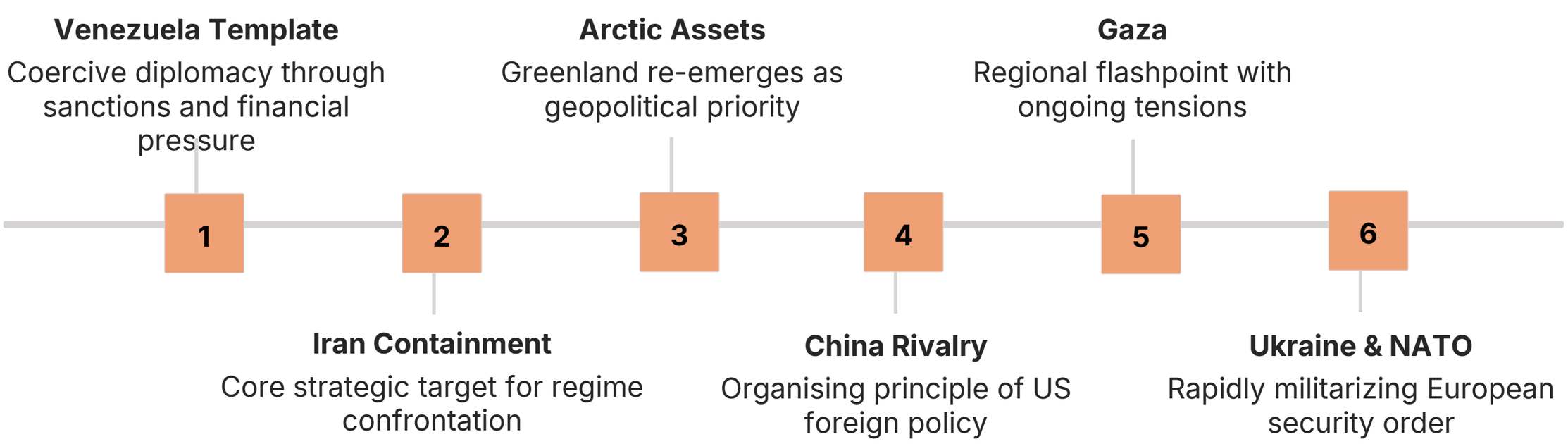
In parallel, gold's rally is delivering a far more sobering signal about the global system. It is not driven by speculative momentum, but by a structural repricing of geopolitical risk, sovereign credibility, and monetary stability. Central banks are accelerating reserve diversification away from the dollar amid sanctions risk, weaponized finance, and eroding multilateral trust. Persistent fiscal expansion in the US and Europe,

Dollar vs Gold



Source: Bloomberg

alongside rising political interference in monetary institutions, is reviving long-standing fears of currency debasement and financial repression. Gold has become the ultimate hedge against geopolitical fracture, institutional decay, and the slow unravelling of the post–Cold War order. Its rally is structural, not cyclical, and remains well supported into 2026.



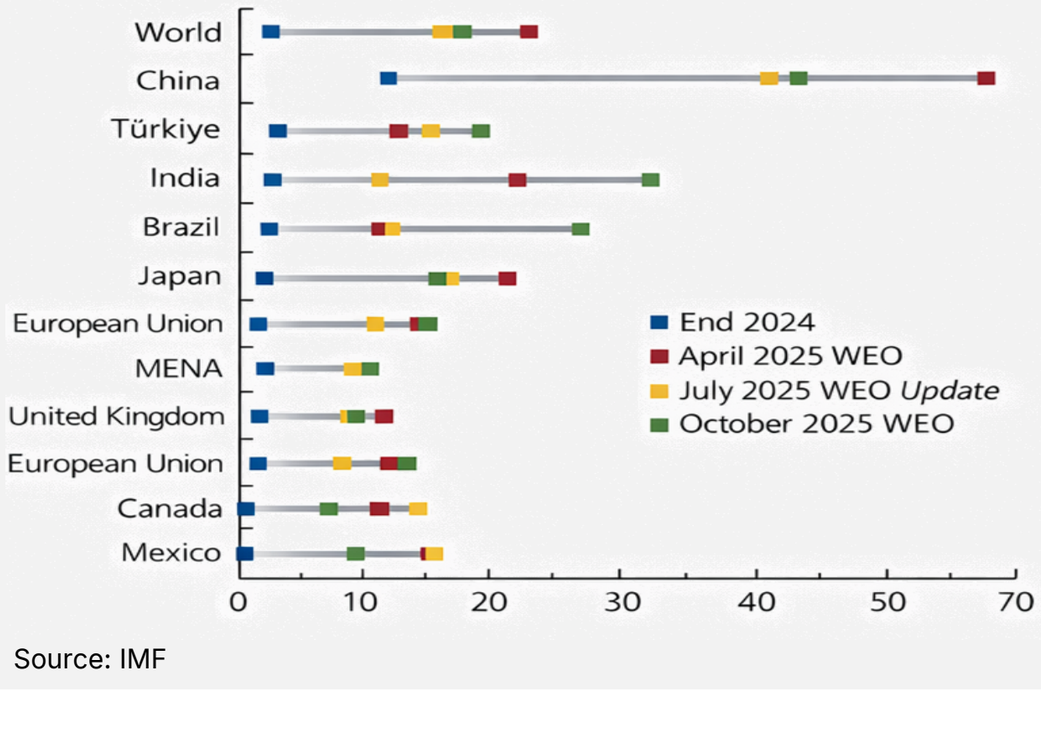
A Power-Centric World

President Trump’s return to the center of global power marks a decisive inflection in the international system. The policy agenda of his second term has moved rapidly from signaling to implementation, reshaping the global diplomatic and economic landscape. Multilateral frameworks are increasingly giving way to bilateral pressure and transactional engagement, reinforcing a shift toward power-based geopolitics and embedding geopolitical risk as a permanent feature of the macro environment.

Trade Wars Bite Late

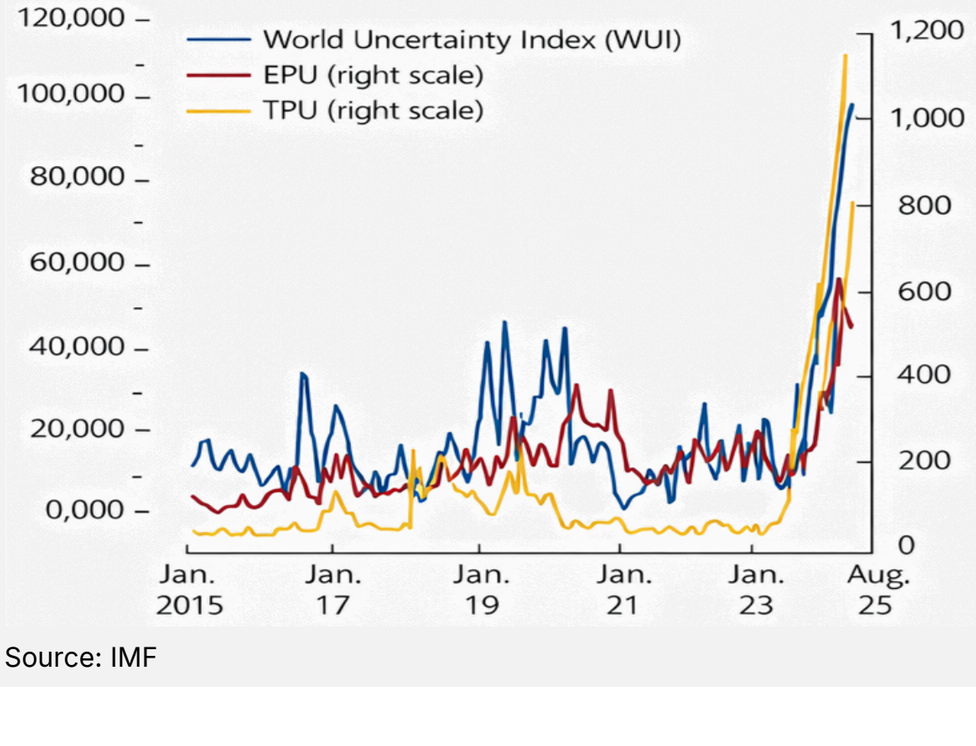
The global economy is already absorbing the early effects of a renewed trade-war regime. Tariff escalation is now structural, not episodic. Supply chains are fragmenting into rival geopolitical blocs, capital is being redirected toward politically aligned rather than economically efficient jurisdictions, and industrial policy is displacing comparative advantage as the organizing framework of global production. The weaponization of trade, technology, and finance is now a core pillar of statecraft. While markets have treated this as political noise, the economic aftershocks are only beginning: higher input costs, lost scale efficiencies, duplicated capacity, and constrained technology diffusion will steadily erode global productivity. The tariff shock is still ahead. The real impact is yet to be fully felt.

US Effective Tariff Rates by Country
(Percent)



Source: IMF

Overall, Economic Policy and Trade Policy Uncertainty
(Index)



Source: IMF

When Politics Meets Rates

Monetary policy is entering a more complex and politicized regime. On the one hand, we believe trade wars are deflationary over time — suppressing demand, weakening investment, and compressing margins — creating an eventual bias toward easing even as fiscal dominance and rising debt constrain policy flexibility. On the other hand, US government debt is now predominantly held by private investors, heightening market sensitivity to fiscal credibility and political risk. The result is a structurally higher-volatility environment for rates and funding markets. President Trump's influence over institutional independence is already evident, and the Federal Reserve is unlikely to remain insulated from executive pressure in an era of economic nationalism. If Venezuela can happen, so can pressure on the Fed. Trade wars may be deflationary — but US rate volatility will remain structurally elevated.

United States

Growth concentrated in government spending and AI investment as household balance sheets weaken under higher borrowing costs

China

Locked in balance-sheet recession driven by property deflation, demographic decline, and eroding private-sector confidence

Europe

Squeezed by fiscal constraint, energy insecurity, and deindustrialisation

Japan

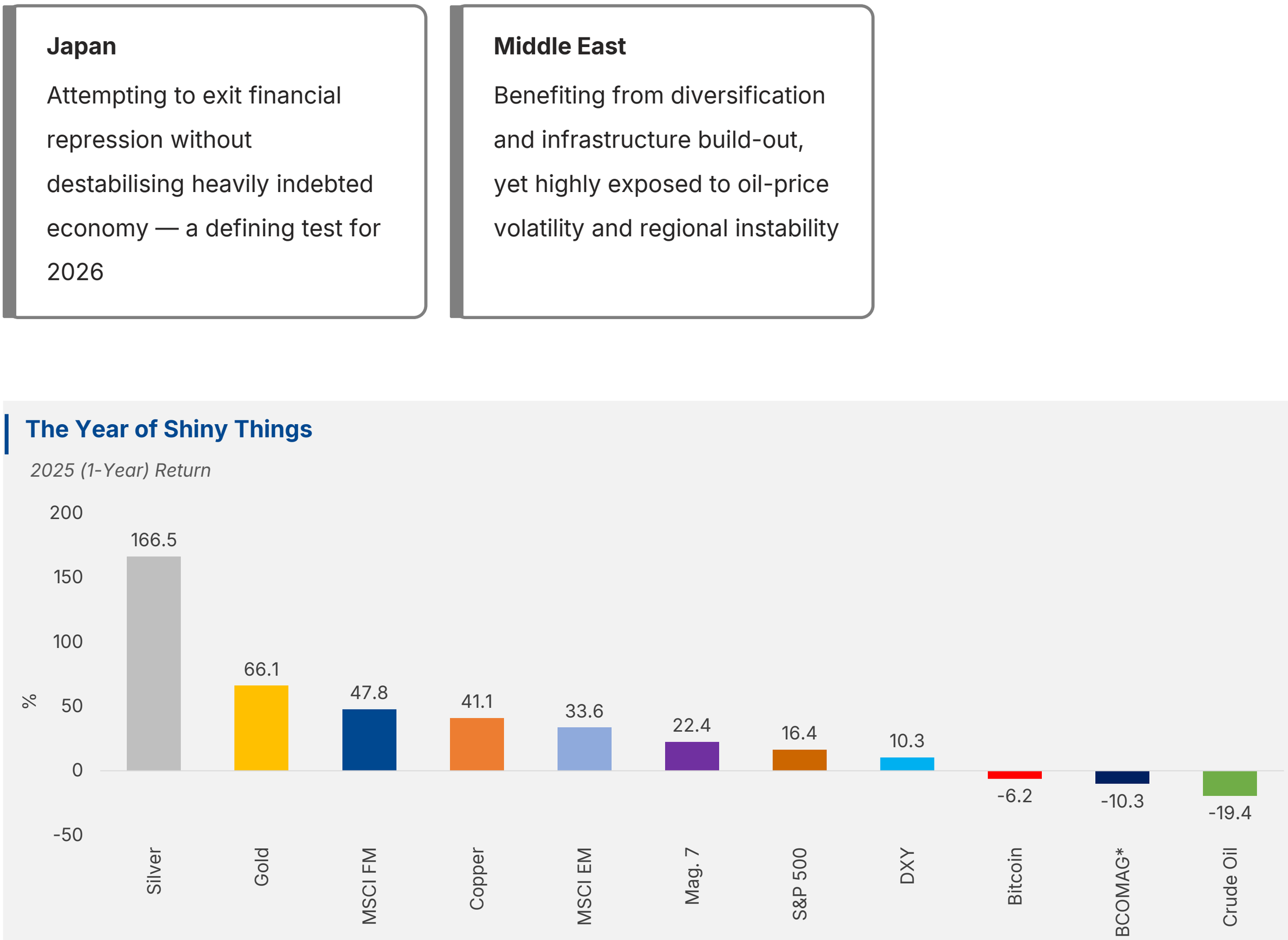
Attempting to exit financial repression without destabilising heavily indebted economy — a defining test for 2026

Middle East

Benefiting from diversification and infrastructure build-out, yet highly exposed to oil-price volatility and regional instability

The Year of Shiny Things

2025 (1-Year) Return



Source: Bloomberg; * Bloomberg Agriculture index

The Next Supercycle

The final investment signal for the next cycle is now coming from commodities. The forces shaping global growth are no longer consumption-led, but infrastructure-driven. Electrification, energy transition, grid modernization, and defense-led industrial expansion are redefining the demand curve for raw materials. This is not a traditional reflation trade. It is a structural re-industrialization cycle. In this environment, the commodity complex is being reshaped around strategic metals rather than fossil fuels. The next cycle will be built on conductors, storage, and infrastructure — not combustion. The implication is clear: the coming commodity super cycle favors metals, not hydrocarbons.

Silver

Dual role as monetary metal and critical manufacturing input for solar & electronics

Copper

Anchors electrification super cycle with structurally constrained supply

Oil

Complex outlook with episodic spikes but medium - term demand challenges

The global economy enters 2026 at a decisive crossroads. The old order is fragmenting, giving way to power politics, economic nationalism, and strategic coercion. The Resilience Mirage will not endure. When it fades, asset repricing will be swift and unforgiving, demanding a far more selective and disciplined deployment of capital.

Deepening Fragmentation

Geopolitical blocs replacing integrated global system

Trade Dislocation

Structural tariff escalation and supply chain realignment

Institutional Erosion

Multilateral frameworks giving way to bilateral coercion

Fiscal Vulnerability

Rising debt and political pressure on central banks

Key Insight: Across major economies, the macro backdrop is uniformly fragile. There are no clean macro havens. Fragility is everywhere. Capital must be deployed with far greater selectivity, discipline, and geopolitical awareness.

1

Greater Volatility

Growth patterns becoming more uneven and politically contingent

2

Swift Repricing

Asset, currency, and commodity adjustments will be disorderly

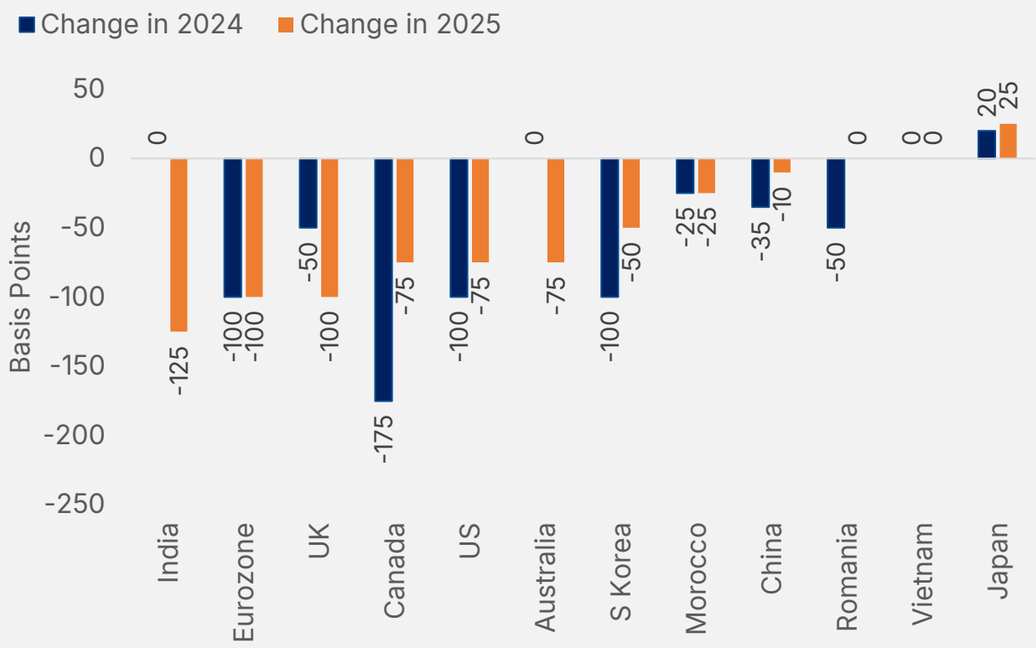
3

Permanent Transition

A world defined by strategic competition, not stability

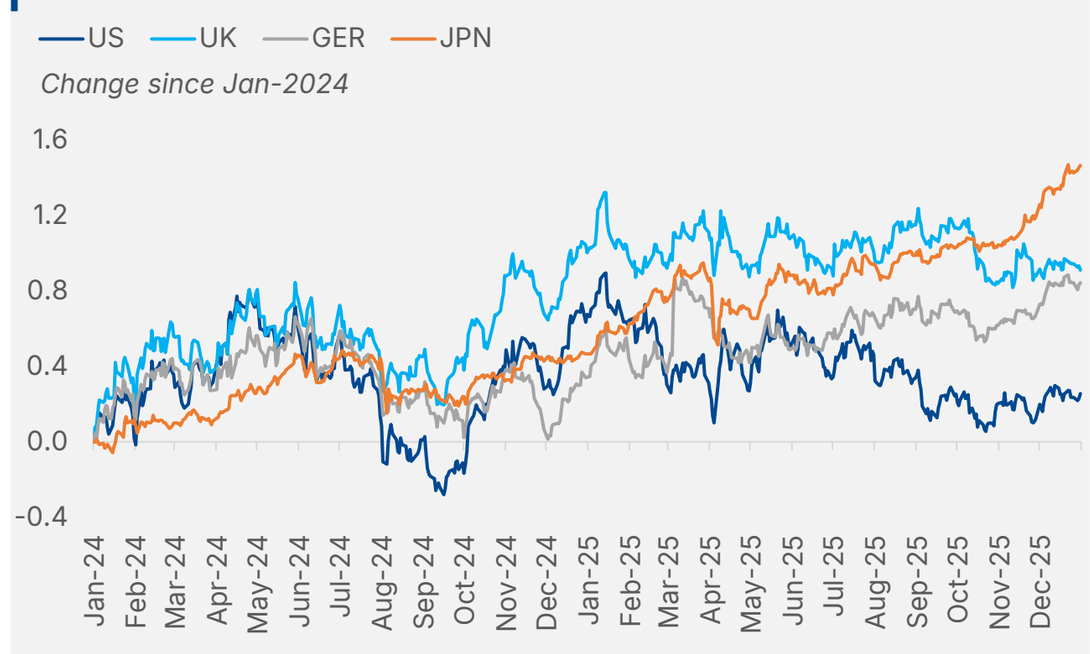
Easing Meets a Reluctant Bond Market

Global Monetary Policy



Source: Bloomberg

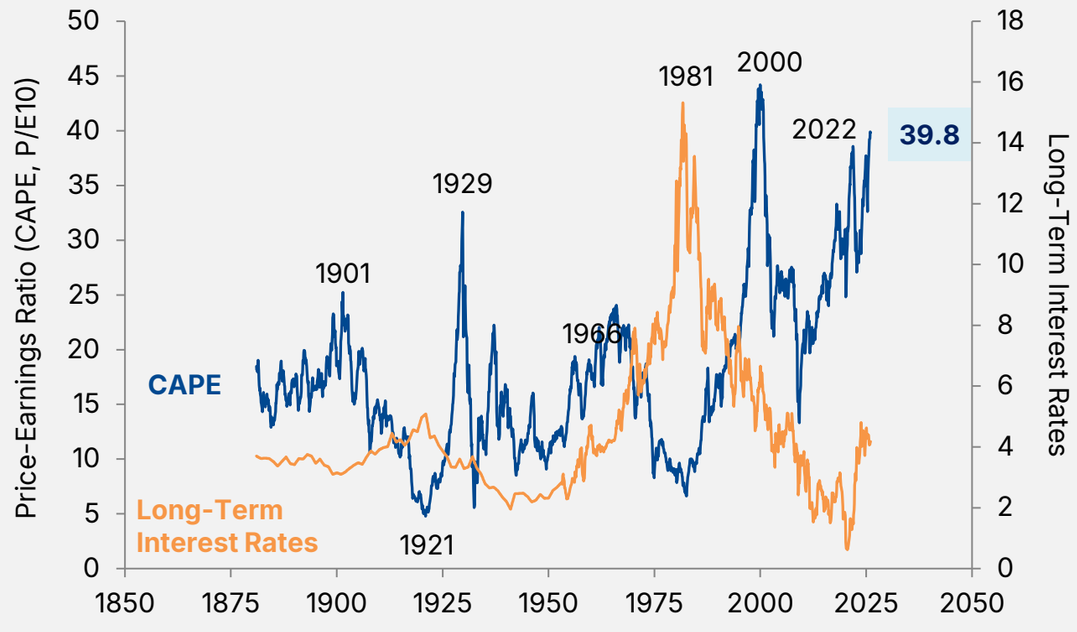
10-Yr Govt. Bond Yields



Source: Bloomberg

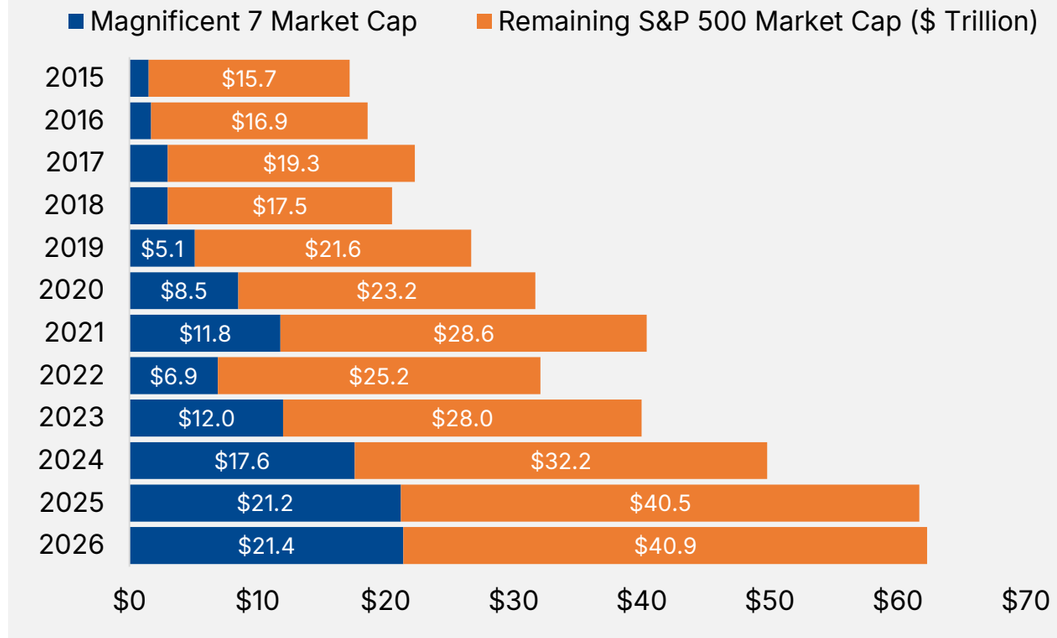
Long-Horizon Dreams in a Short-Run World

US Equities: Still chasing the dot-com multiple



Source: shillerdata.com

The magnificent 7's growing share of the S&P 500



Source: The Motley Fool

04

Fixed Income:

From Flat to Flattening

The December rate cut forced a reset in market psychology and reopened the easing narrative. Inflation dynamics are benign, the currency regime is more resilient, and global monetary conditions remain supportive. Debt management is becoming more transparent and predictable. A flat curve sets the stage for the next phase of bull-flattening as easing deepens.

Fixed Income: Where the Curve Finally Starts Talking

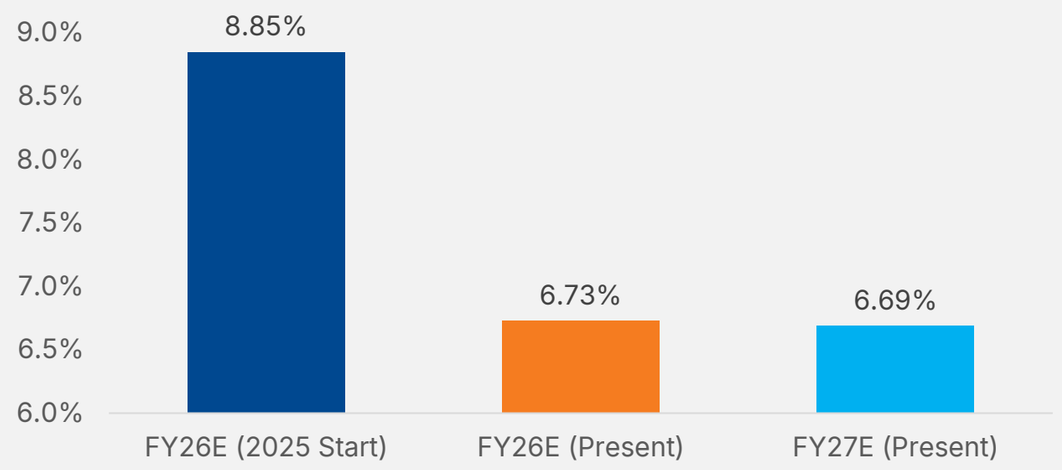
If 2025 had a single defining market moment, it was the year-end 50bp policy-rate cut. Beyond easing financial conditions, it reset psychology. Through 2H, a widespread belief had hardened that rates had already bottomed – almost a fad – making caution the default. Trade-deficit worries, recurring debates over rupee overvaluation, and fears of external slippage reinforced a consensus that easing was over, or at best shallow.

Arguing otherwise risked being seen as premature or willfully contrarian. Our call for a return to single-digit rates – made confidently last year – sat well outside the mainstream by mid-2025. Absent flood disruptions and the western border episode, that milestone would likely have been reached within the year. Even so, 2025 closed with a forced change of heart: the December cut left little room for denial and made the direction unmistakable.

This shift has set the tone for 2026, which opens against a markedly more constructive macro-financial backdrop. Inflation dynamics are firmly benign, the currency outlook is materially more stable than in recent cycles, and the evolution of Street forecasts provides a timely reality check.

At the start of 2025, consensus inflation estimates for 2026 were still anchored in the high single digits, reflecting lingering skepticism about the durability of disinflation. As the year progressed and data surprised on the downside, projections were steadily revised lower. The same re-anchoring is now evident for FY27, marking not just a statistical adjustment but a structural shift in how the cycle is being framed.

The Come-Down: Street Forecast on Inflation



Source: Brokerage Research Reports

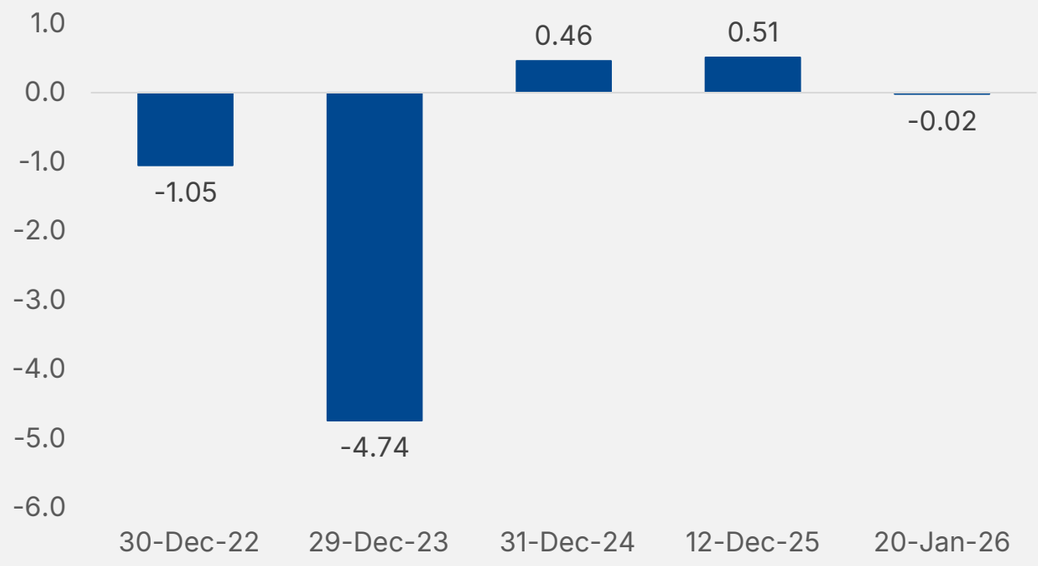
On the external front, the rupee now operates under a different regime. Policy credibility is anchored to reserve accumulation and balance-of-payments resilience rather than any specific exchange-rate level. The currency is allowed to move in both directions, with intervention focused on smoothing volatility rather than defending a line in the sand.

Periods of strength are used to rebuild buffers, whilst administrative and quantitative tools are deployed to manage excess demand, which materially lowers the probability of disorderly devaluations. Now, currency stability ceases to be a source of macro risk and instead becomes a stabilizing input into the rate outlook.

From Hold to Cut
Yield Curve | PKRV (%)

Source: Zakheera

Maturity Spread (3-Yr vs. 3M Yield)



Source: Zakheera

The Cut Has Company

Overlaying this domestic adjustment is a global policy cycle that remains firmly tilted toward easing. The US Federal Reserve will once again be a central character in 2026, not only because of its direct impact on global financial conditions, but also because of the political economy surrounding it. Whether for President Trump or otherwise, the direction of travel is clear. Global disinflation has created space for a synchronized pivot, and we expect monetary easing across major economies to remain steadfast into 2026.

In Pakistan's case, this global backdrop reinforces an already constructive domestic setup. Against this backdrop, our house view is for at least 200bps of cumulative easing over the course of the year, taking policy rates comfortably into single-digit territory. And as it turned out, the December cut was not the end of the story; it was the opening chapter.

A More Transparent Debt Regime

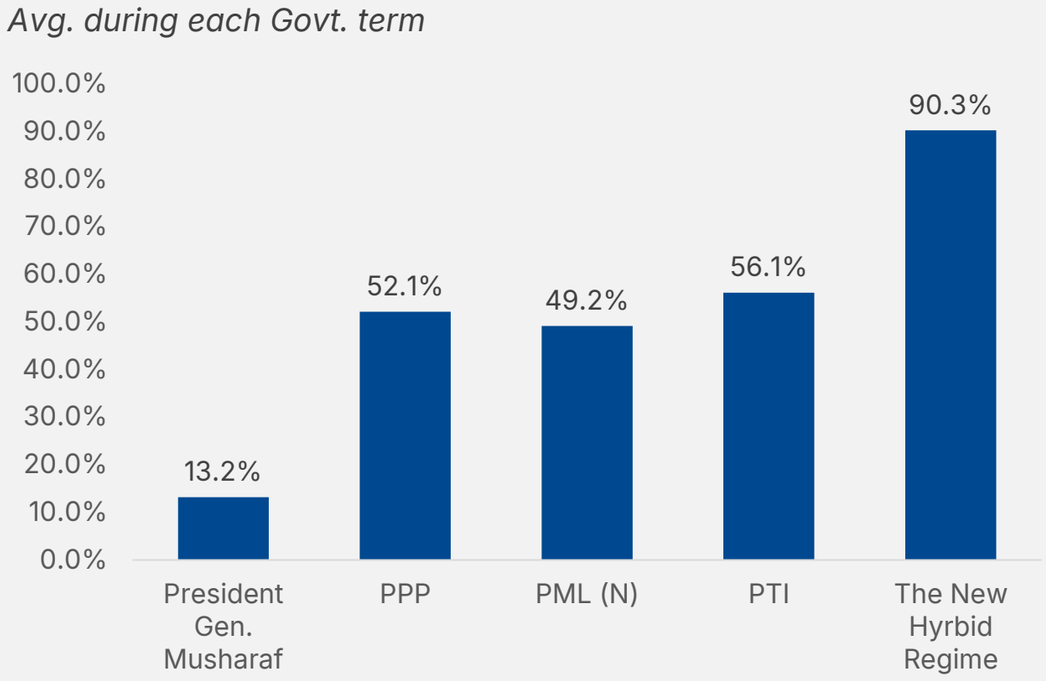
This constructive macro setup has been complemented by a more deliberate and transparent approach to public-debt management. The Ministry of Finance's recent engagement with the financial industry at the Pakistan Stock Exchange marked an important step in re-anchoring investor confidence. The Debt Management Office outlined its vision and borrowing strategy for 2026, framed within a coherent macro framework. The emphasis was on predictability through a well-structured auction calendar, regular disclosure via debt bulletins and annual reviews, and a medium-term debt-management strategy approved at the highest level.

Notable progress in Sukuk issuance during 2025 was highlighted with concrete statistics, underscoring the intent to broaden the investor base and deepen Shariah-compliant markets. Equally important were the reforms implemented in secondary-market trading, including analyses of traded volumes and steps to improve market liquidity and transparency.

The session was not a one-way briefing; it was a signal of a more open and consultative approach to domestic debt markets, reinforced by an interactive dialogue with key stakeholders.

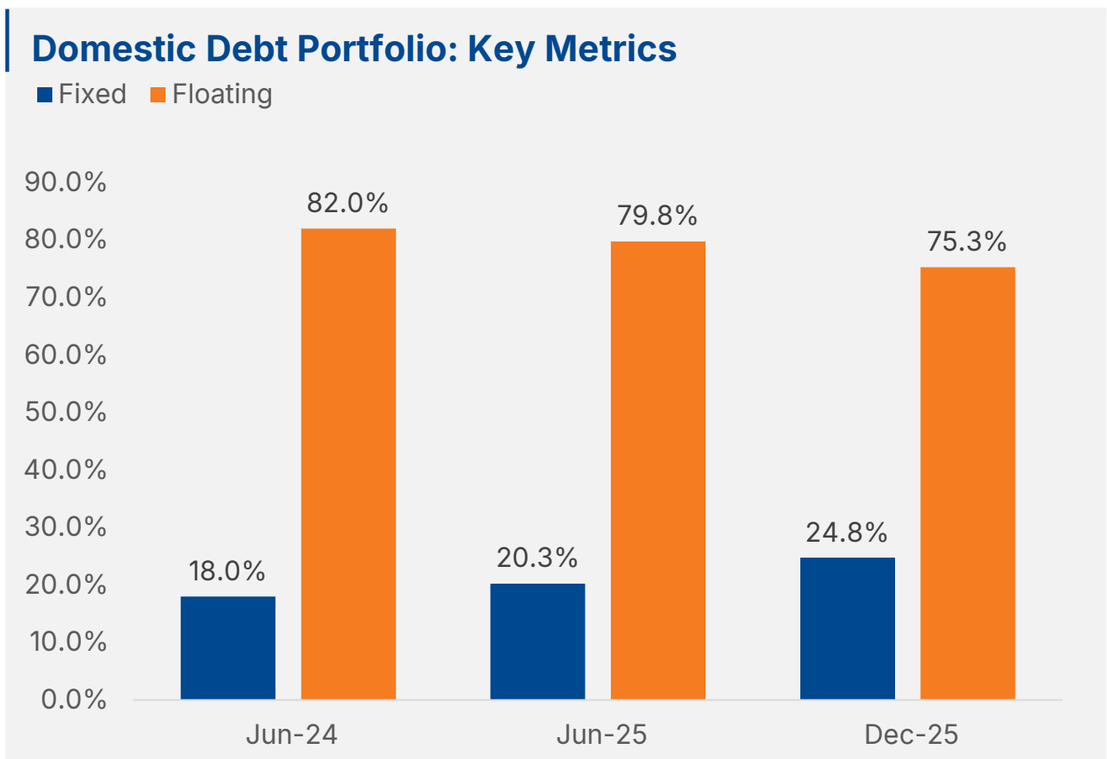
Bank Financing % of Fiscal Deficit

Avg. during each Govt. term



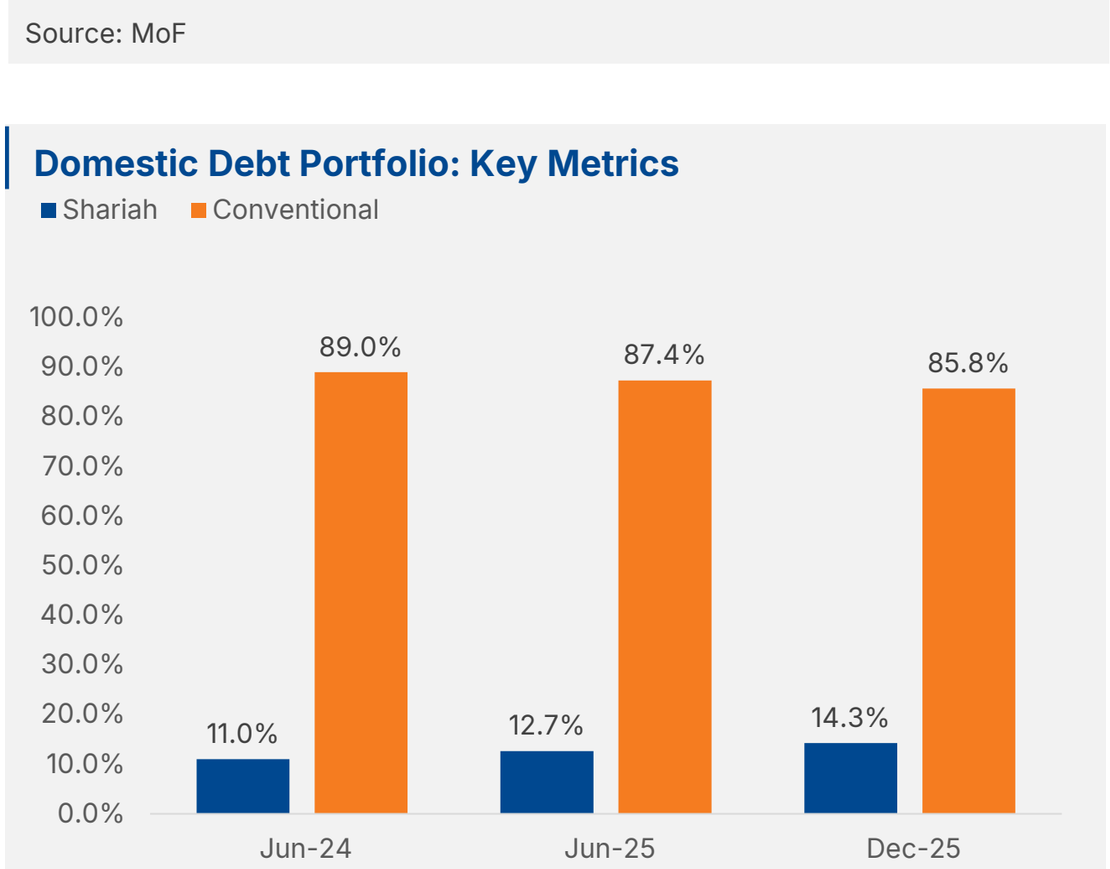
Source: Ministry of Finance (MoF), SBP, Zakheera

Domestic Debt Portfolio: Key Metrics



Source: MoF

Domestic Debt Portfolio: Key Metrics



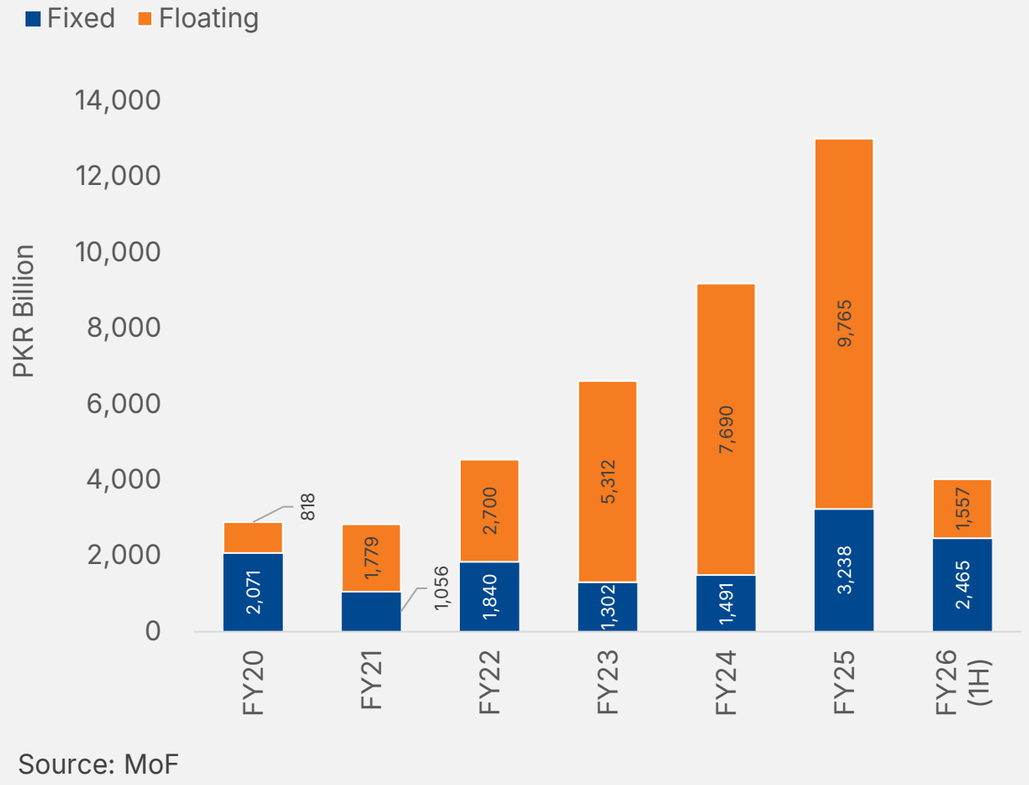
Source: MoF

A Front-End Bias: The Market's Comfort Zone

Perhaps the most consequential signal from the Ministry, however, was the clear tilt toward fixed-rate issuance. In a market characterized by an almost flat yield curve following the December cut, institutions have understandably been reluctant to extend duration in size. The preference, at least for now, has remained skewed toward the front end and toward floating-rate instruments, which have only recently begun to offer spreads with sufficient gravity to attract incremental demand.

These floaters, in turn, continue to serve as natural fodder for open-market operations, whilst strong banking deposit growth provides the system with the capacity to finance the fiscal deficit.

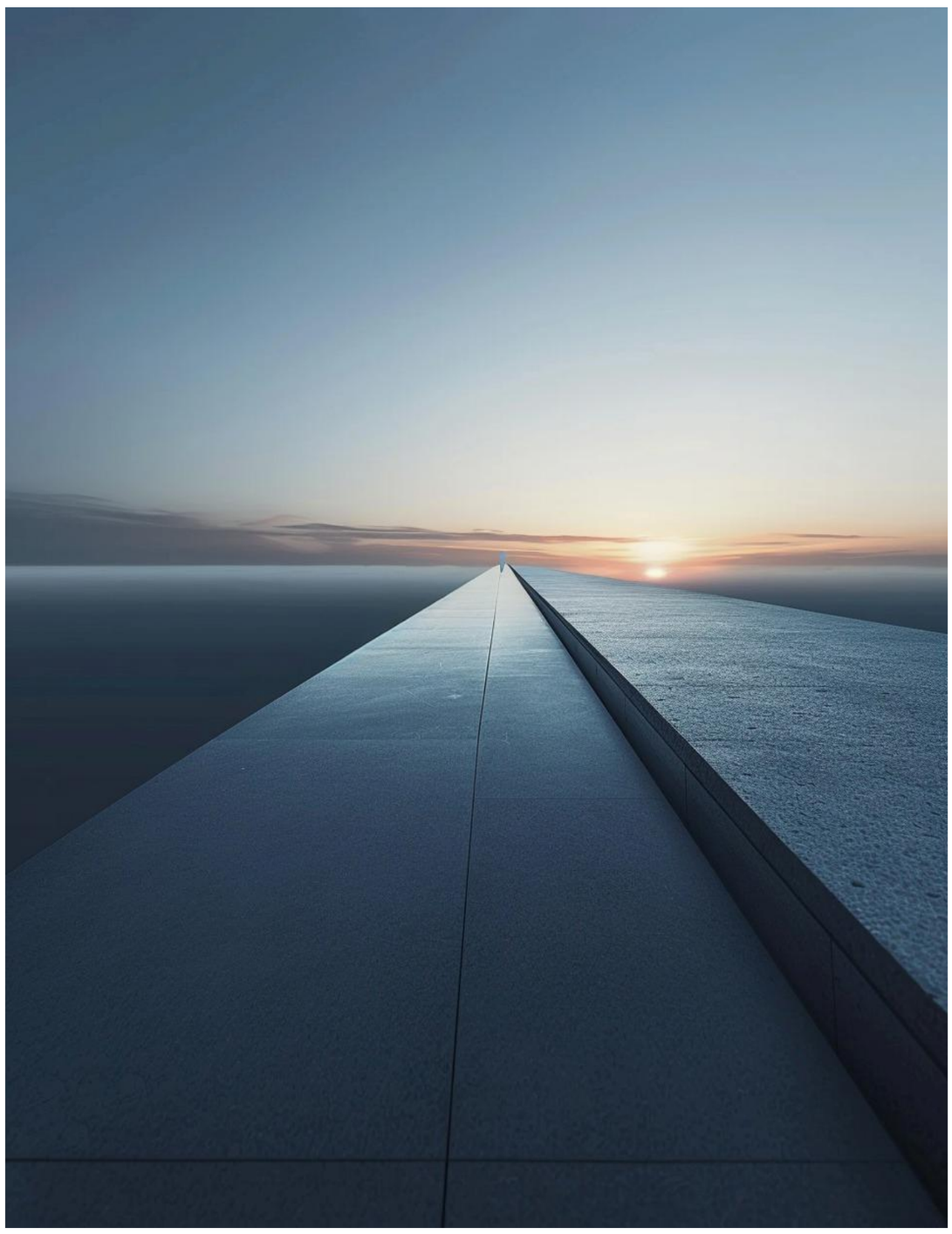
Fixed vs Floating Issuances



Source: MoF

The Curve Is Expecting

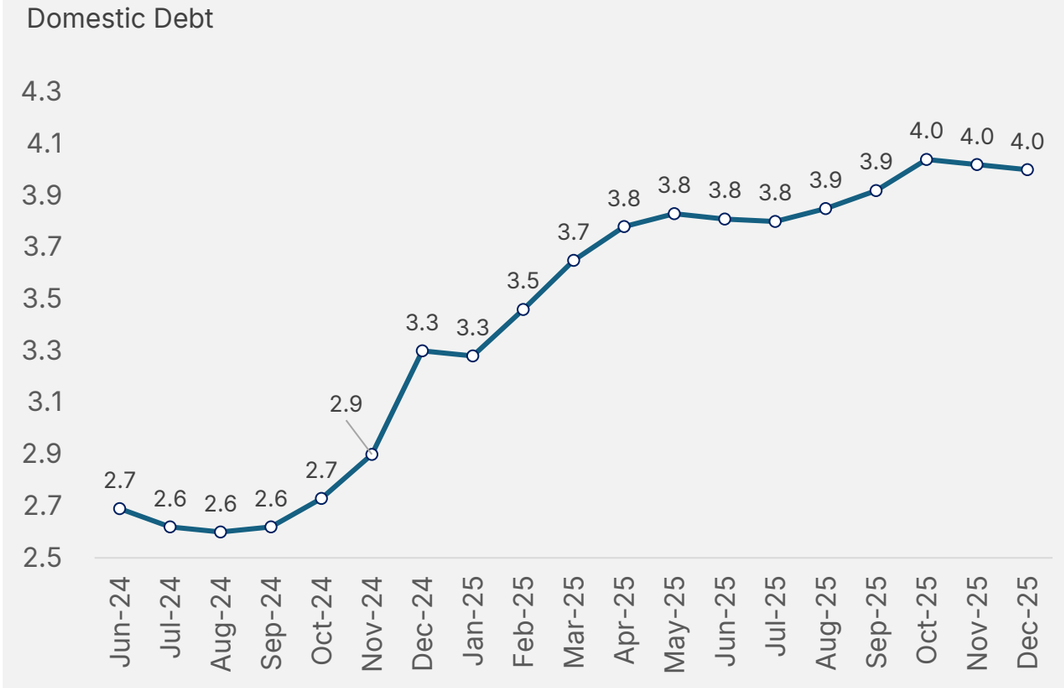
Yet this near-term caution sits alongside a curve that, in many respects, is pregnant with a bull-flattening dynamic. As the easing cycle gathers momentum, the front end is likely to reprice more aggressively than the long end, flattening the curve and setting the stage for a more compelling duration trade later in the cycle. Here, the challenge is as much behavioral as it is analytical. The same anchoring bias that confronts equity investors is evident in fixed income.



With rates now comfortably in the lower mid-point of their historical range, the instinct is to assume that the easy money has already been made. Institutions, mindful of their experience in 2025, spent much of the year in a "caution, caution" mode, reluctant to commit to longer paper. Over time, however, as the curve steepens from a flatter base and real yields compress further, the case for extending duration is likely to become more persuasive.

Average Time to Maturity (Years)

Domestic Debt

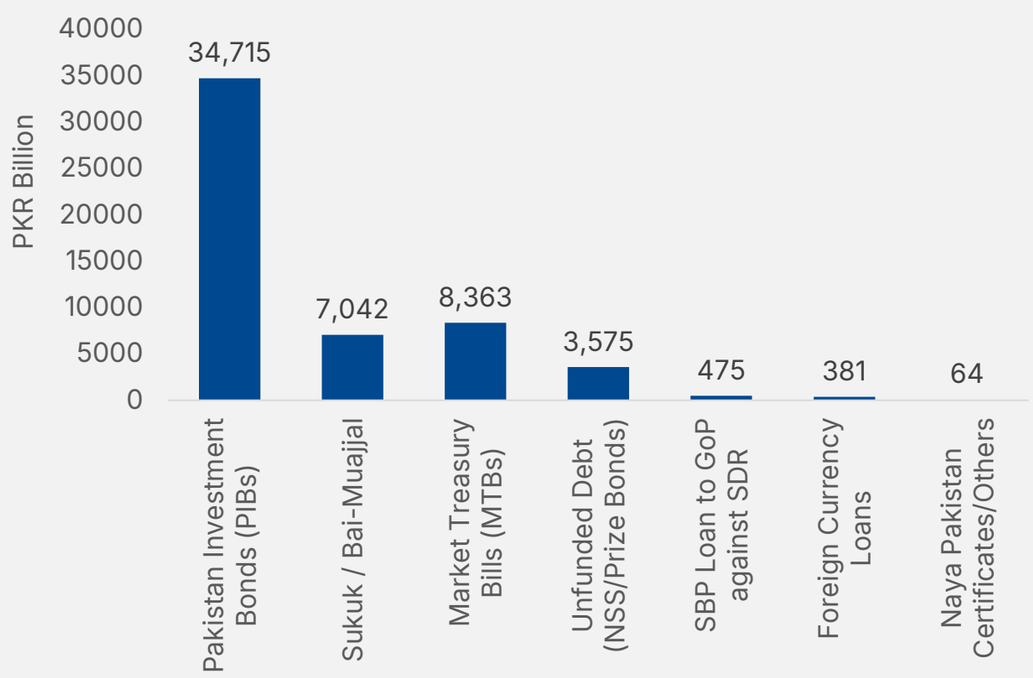


Source: MoF

Inside the Sovereign Balance Sheet

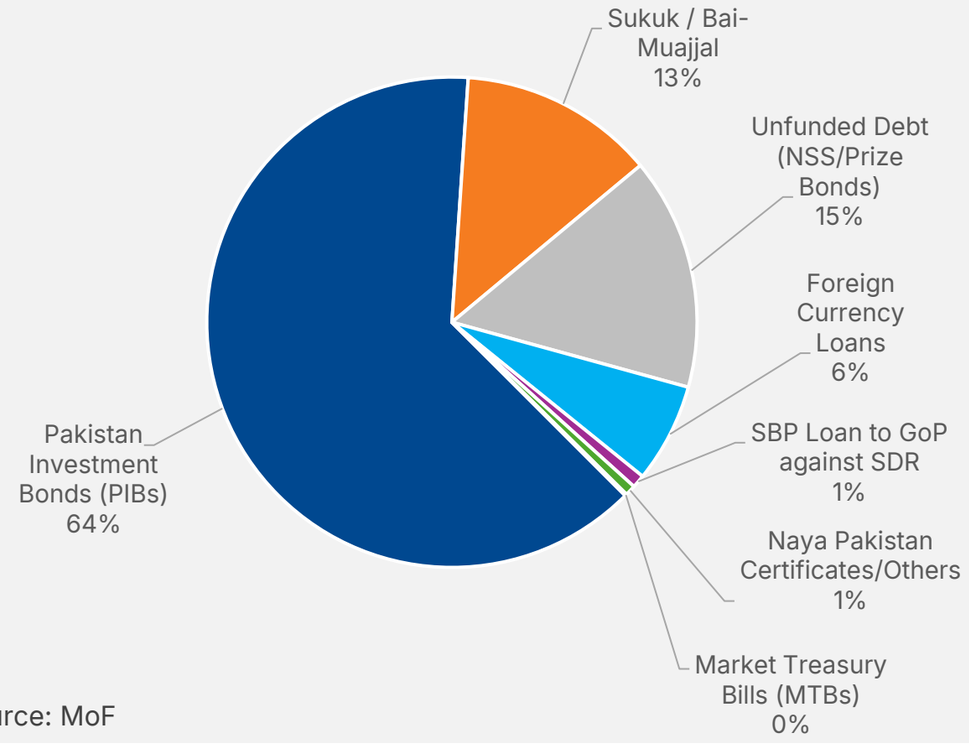
The Domestic Book

Stock (Jul-Nov 2025)



Source: MoF

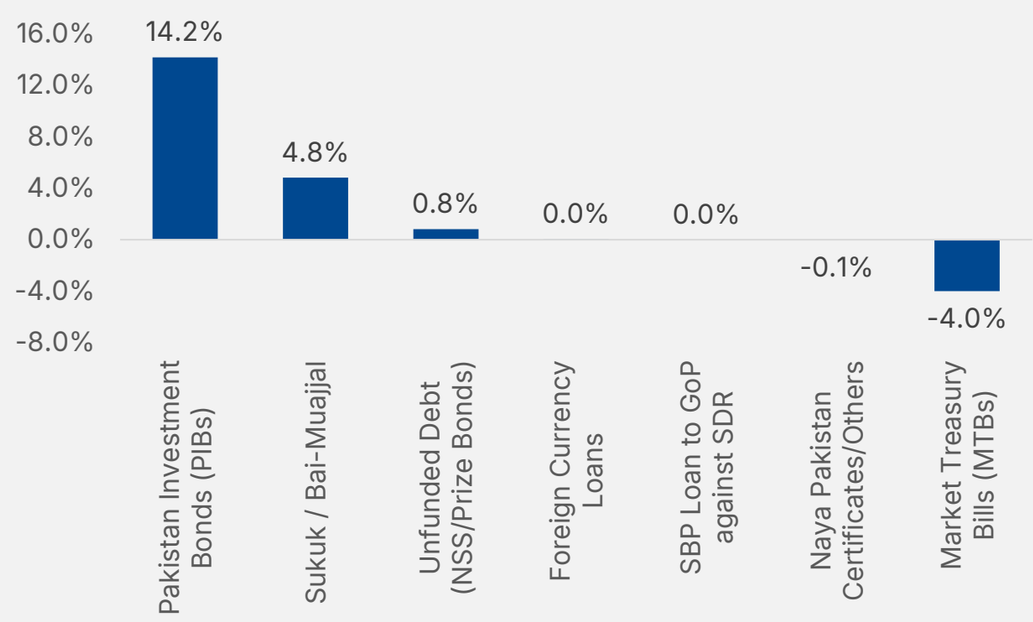
Composition (Jul-Nov 2025)



Source: MoF

Growth Attribution by instrument

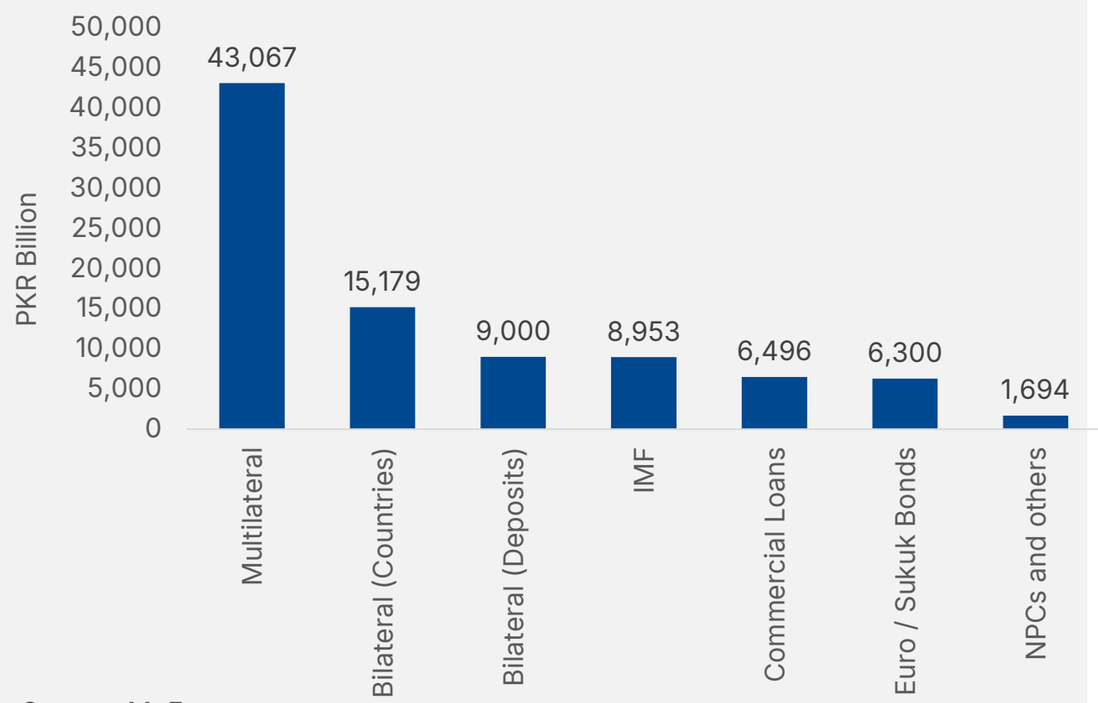
Since FY24



Source: MoF

The External Book

Stock (Jul-Nov 2025)



Source: MoF

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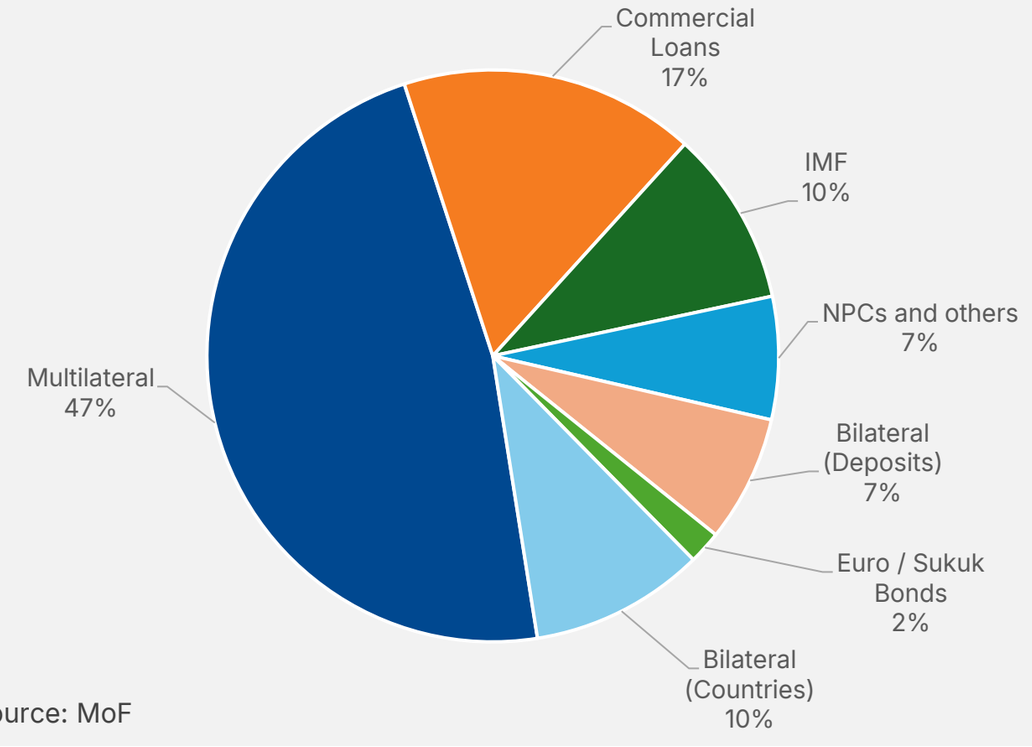

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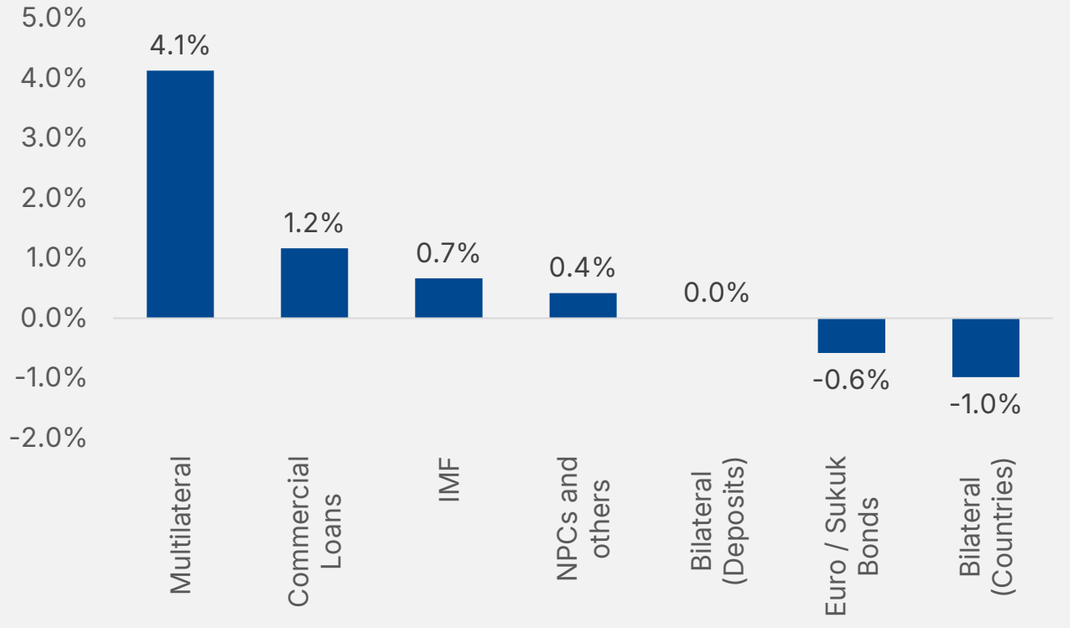


Source: MoF

A Longer Runway for Bonds

Structural developments in Pakistan's export base – particularly in mining – are reshaping the medium-term outlook for the bond market. With benign inflation, currency stability, and improved debt management in place, the easing cycle – just as consensus was beginning to adjust – now looks set to run deeper into 2026, giving fixed income a far more constructive runway than markets had priced.

The Making of a New Credit Narrative – Bears Beware!

Beyond cyclical considerations, the medium-term bond-market outlook is increasingly being shaped by structural developments that strengthen the quality of Pakistan's macro anchor. As discussed earlier in the Economy section, the gradual emergence of new export and investment engines – most notably in mining—marks a potentially important inflection point in the country's external-account trajectory over the coming decade. Flagship projects such as Reko Diq underscore this shift toward a more diversified and durable export base. Whilst their full impact lies beyond the immediate horizon of 2026, the direction of travel is already shaping how investors frame the sovereign's long-term credit profile. A broader export base improves the capacity to accumulate reserves, enhances fiscal space, and reduces vulnerability to commodity-price cycles. For the bond market, this translates into a more credible medium-term path for both external sustainability and public-finance resilience.

When the Easing Story Finds Its Scale

Taken together, these elements set the stage for a new phase in fixed income. The cycle is no longer about debating whether easing will occur; it is about calibrating its depth and duration. Inflation has surprised on the downside, the currency regime has been re-engineered around reserve strength, global monetary conditions remain supportive, and domestic debt management is being anchored to transparency and market development. The December cut forced a change in consensus. The months ahead are likely to force a deeper one. For investors, the challenge will be to look beyond the residual caution of the past year and position for a cycle that is only just gathering pace. In that sense, 2026 is not the end of the easing story. It is the year in which it finally acquires scale.

05

Equities:

Momentum over Memory

Pakistan’s equity cycle is no longer defined by valuation mean reversion but by liquidity-driven momentum. Anchoring to past multiples risks underexposure as the market transitions into a higher range. Demand remains subdued, yet liquidity continues to lift multiples. With policy credibility improving and rates falling, the cycle is broadening rather than peaking.

Equities: A cycle running ahead of its audience

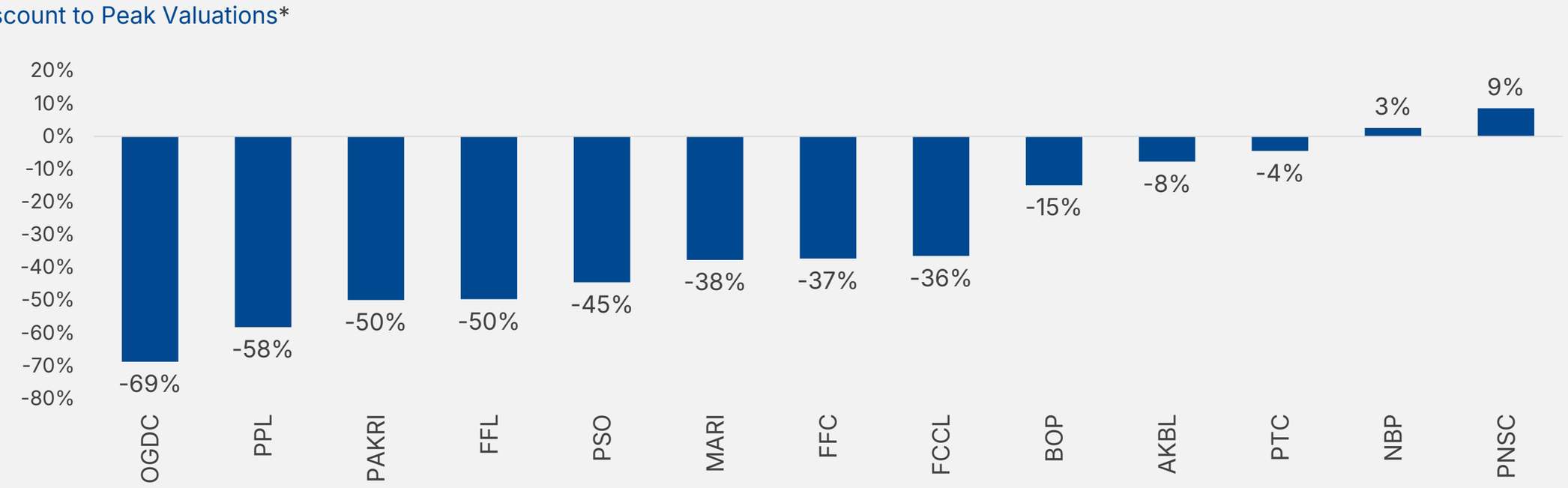
As Pakistan's equity market enters 2026, a defining risk for investors is not valuation excess, but valuation anchoring. The dominant narrative remains tethered to past peak multiples, creating a behavioral ceiling that risks leaving portfolios underexposed to the next leg of the cycle.

Historical valuation matrices, by construction, converge toward backward-looking fair-value ranges and, as a result, have pulled sell-side targets toward a narrow, consensus-driven band. The market is no longer "cheap" on those historical screens, and that is precisely why most published targets cluster tightly around similar levels. Yet this framing misses the more important signal. Simply put, momentum-based targets are materially higher.

The market is now approaching the psychological 200,000 threshold we framed last year as an entirely plausible milestone rather than an outlier; the real question for 2026 is not whether that level holds, but how far beyond it the cycle can extend. Anchoring to old peaks risks missing the upside in a regime defined not by mean reversion but by transition. The cost of conservatism is not protection; it is opportunity foregone.

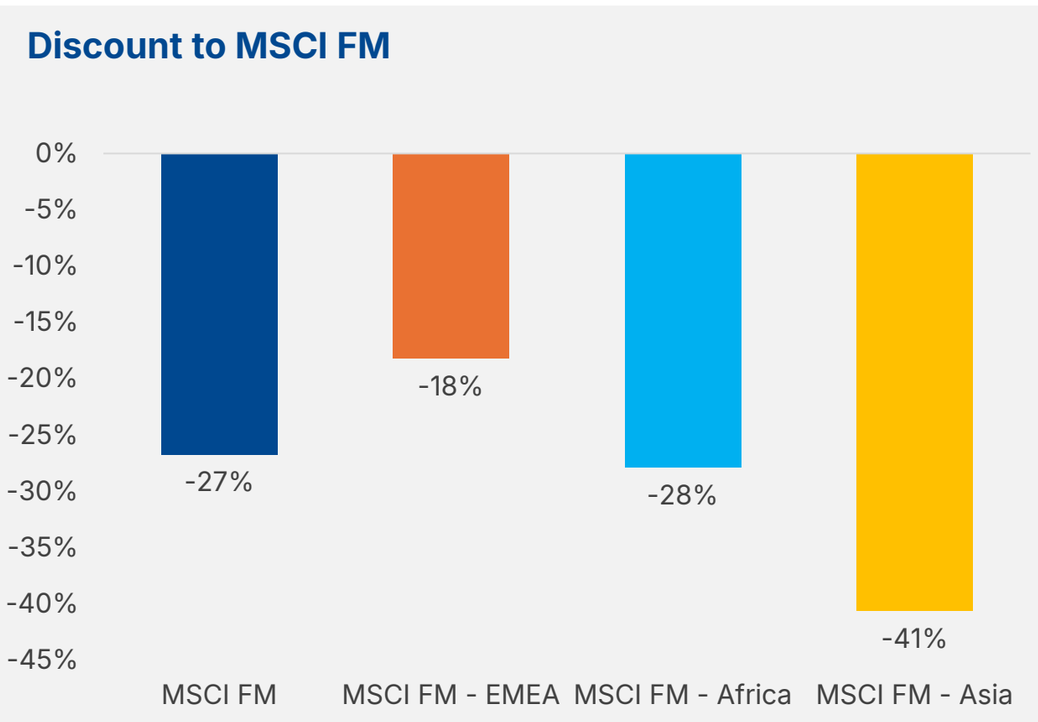
Valuation Perspective

PSX: Stock Valuations
Discount to Peak Valuations*



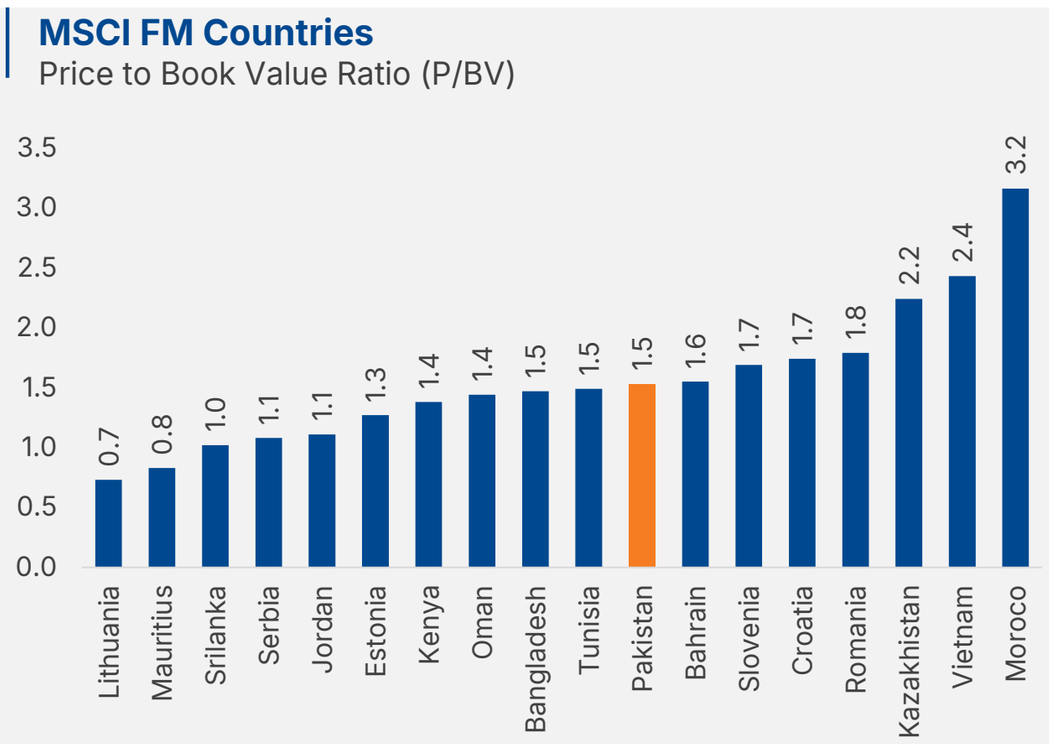
Source: JSIL Research
** Current discount to peak price-to-book multiple*

Discount to MSCI FM



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

MSCI FM Countries
Price to Book Value Ratio (P/BV)



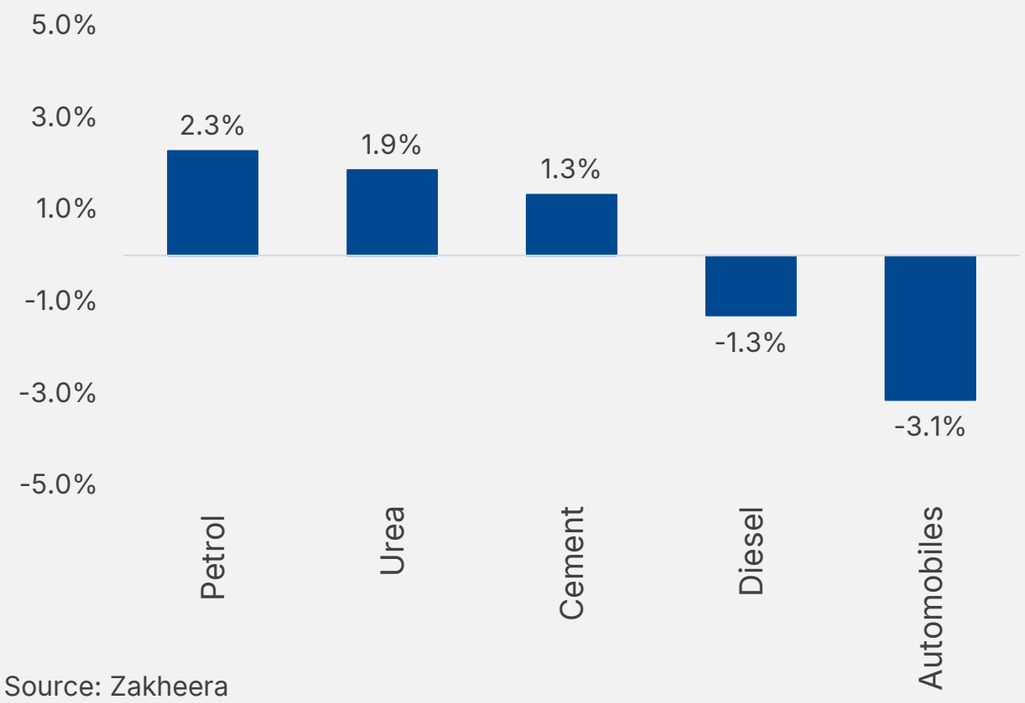
Source: MSCI

The Engine is still cold

The prevailing bias assumes that the recent rally has already discounted the cycle. Yet this assumption is difficult to reconcile with the state of the real economy. A glance at the most basic demand indicators tells a very different story. Across autos, cement, fertilizers, fuels, and other bellwether sectors, volumes remain strikingly anemic. Over the past decade, none of these indicators has achieved a compound annual growth rate of even 2.5%. Current volumes sit well below their respective peaks, with the situation in autos, despite all the attention, remaining the most acute.

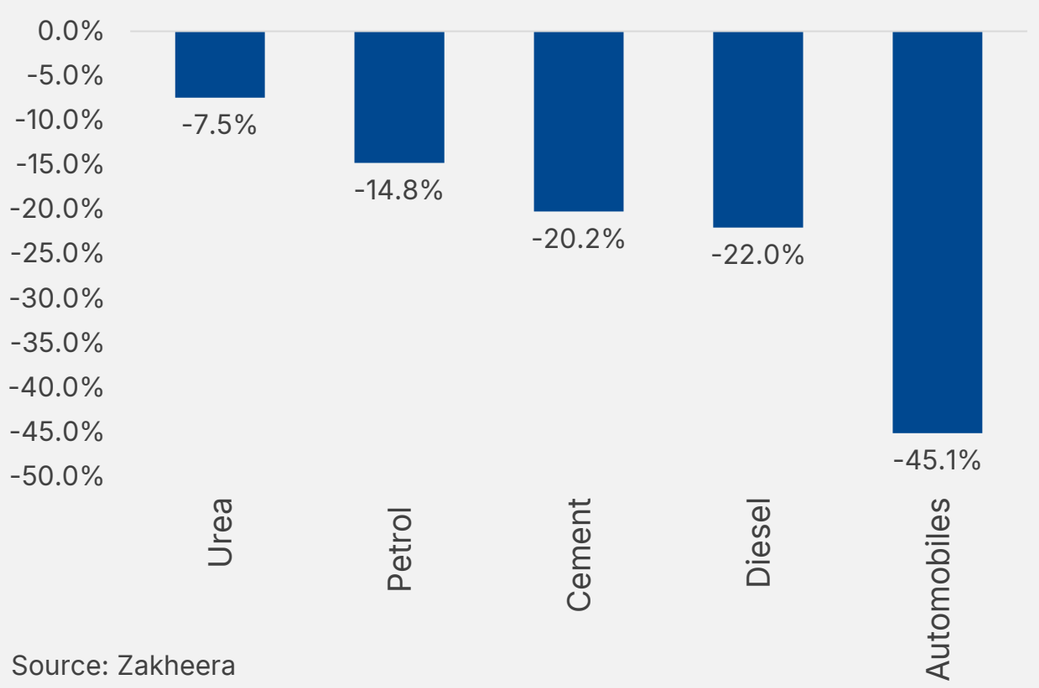
In other words, the market has advanced to its current level without the support of a broad-based recovery in physical demand. If the argument is that this is as good as it gets, the logical response would be to sell into strength. The risk in that strategy, however, is asymmetry. If the market has reached these levels with such subdued demand, then even a modest revival in real-economy momentum could unlock a far more powerful upside. The rally, in that sense, has not yet been validated by growth; it has merely been enabled by conditions. That distinction matters.

Real Economy Demand Indicators
10-Yr CAGR



Source: Zakheera

Real Economy Demand Indicators
Change from Peak Volumes

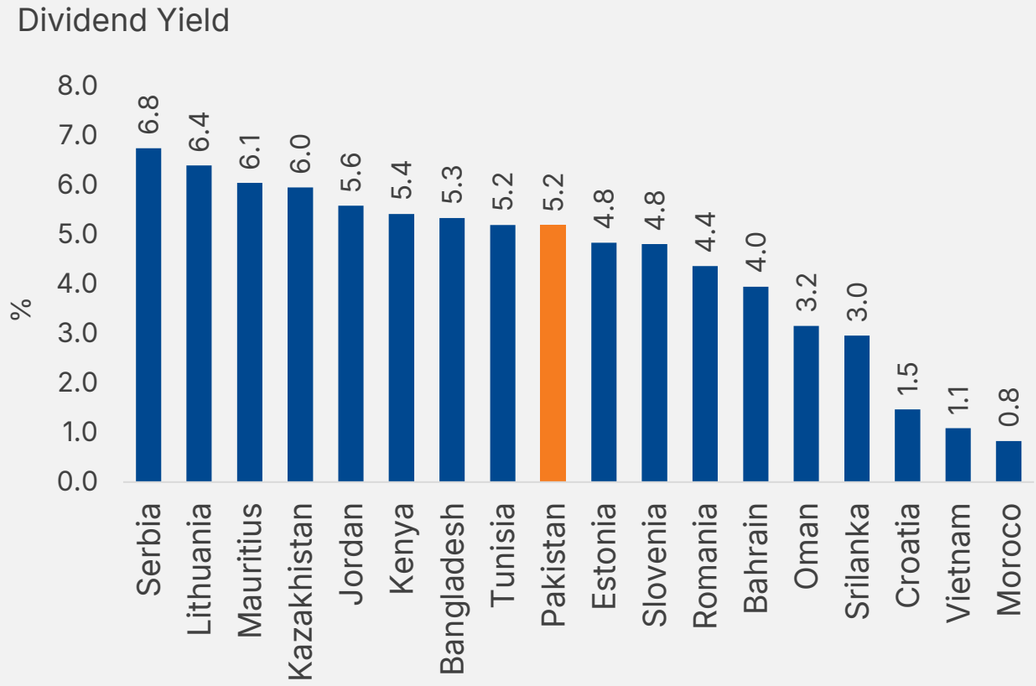


Source: Zakheera

Momentum Has a Sponsor: Liquidity

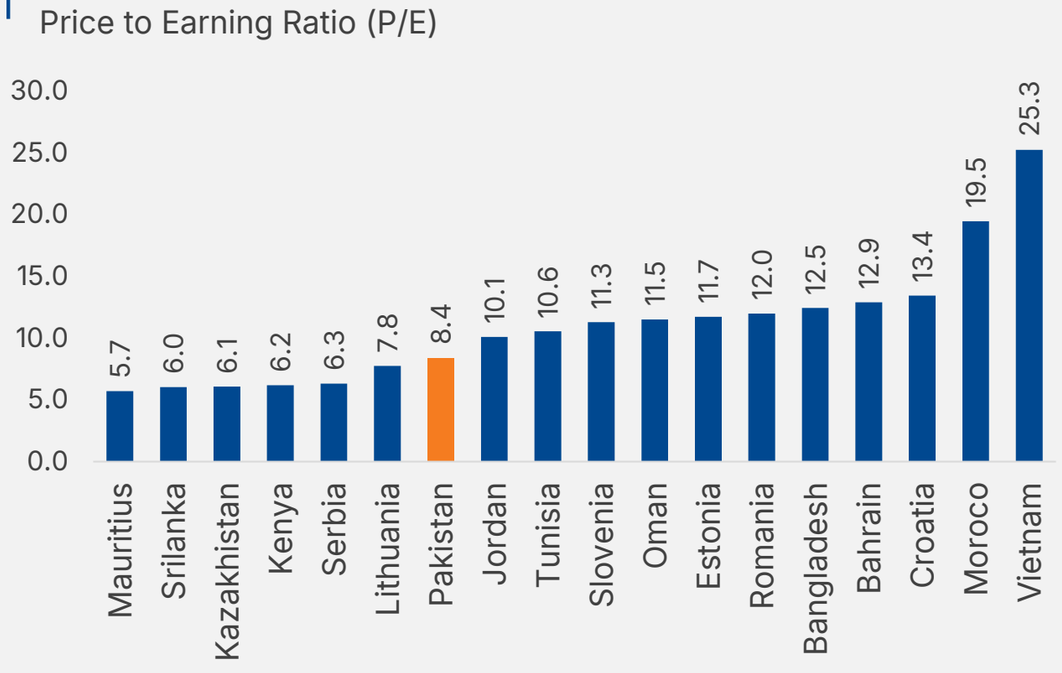
The single most important driver of the cycle is liquidity. Pakistan continues to sit on a pool of spare domestic liquidity, bolstered by one of the highest dividend yields among emerging and frontier markets. It is liquidity that pushes the 'P' in the PE ratio higher. We deliberately avoid calling this a re-rating. This is momentum!

MSCI FM Countries
Dividend Yield



Source: MSCI

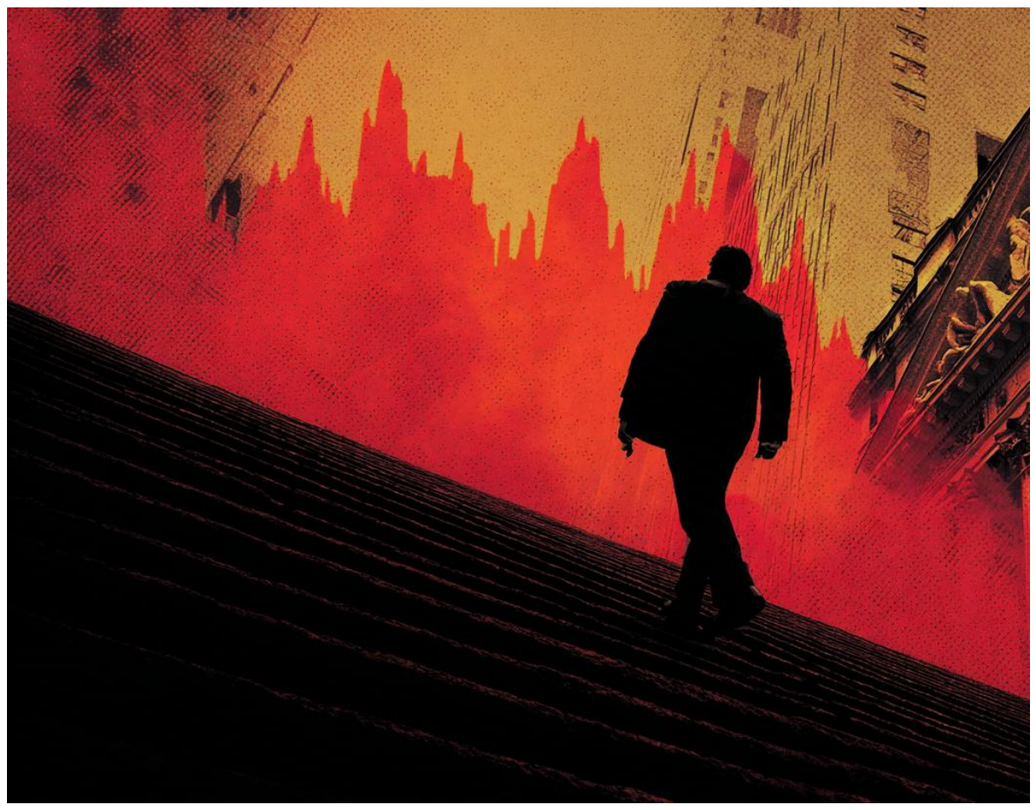
MSCI FM Countries
Price to Earning Ratio (P/E)



Source: MSCI

The 250K Base Case

In 2026, as in 2025, liquidity remains the primary enabling force. Earnings growth and dividend yield, on their own, are insufficient to explain the speed and persistence of the market's advance. In such an environment, it is hardly surprising that IPO pipelines are beginning to re-emerge. Against this backdrop, a KSE-100 level in the vicinity of 250K should be viewed as a plausible base case rather than an aggressive stretch. Absent a truly major dislocation, it is difficult to identify a force that can decisively arrest it in 2026.

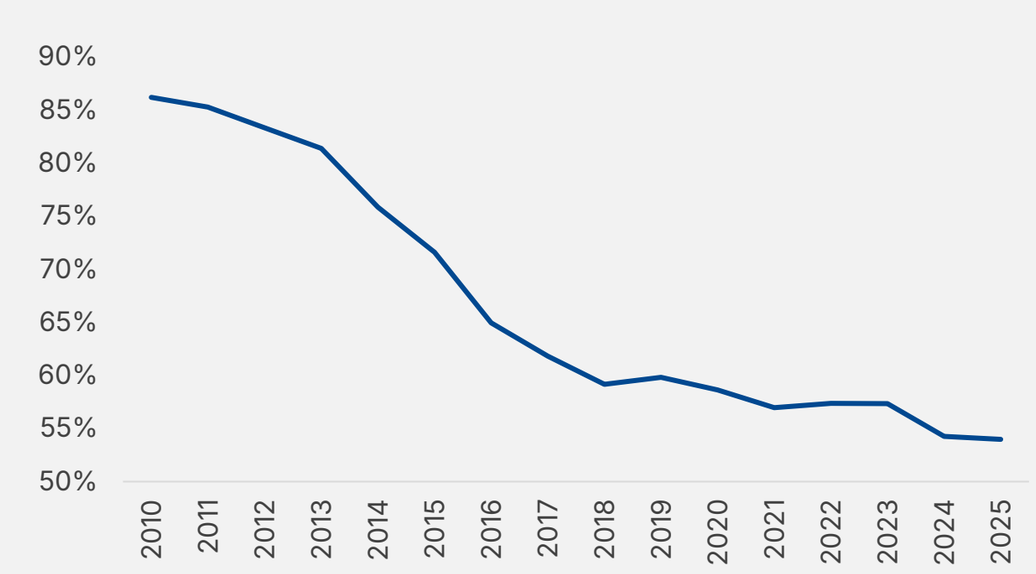


Liquidity Needs Footfall

A useful confirmation signal to watch is the free-float turnover ratio—average daily traded value relative to free-float market capitalization. As sentiment continues to improve, even a modest pickup in this metric would provide the final piece of the puzzle, paving the way for a further expansion in trading depth and participation.

KSE-30 as % of KSE-All Share - Traded Value

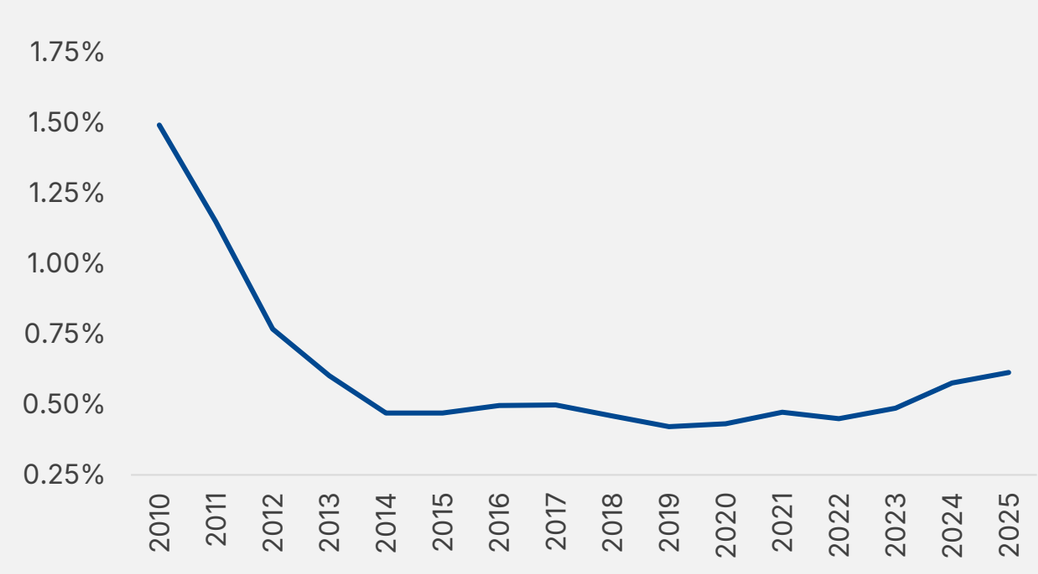
5-Yr Rolling Avg.



Source: Bloomberg

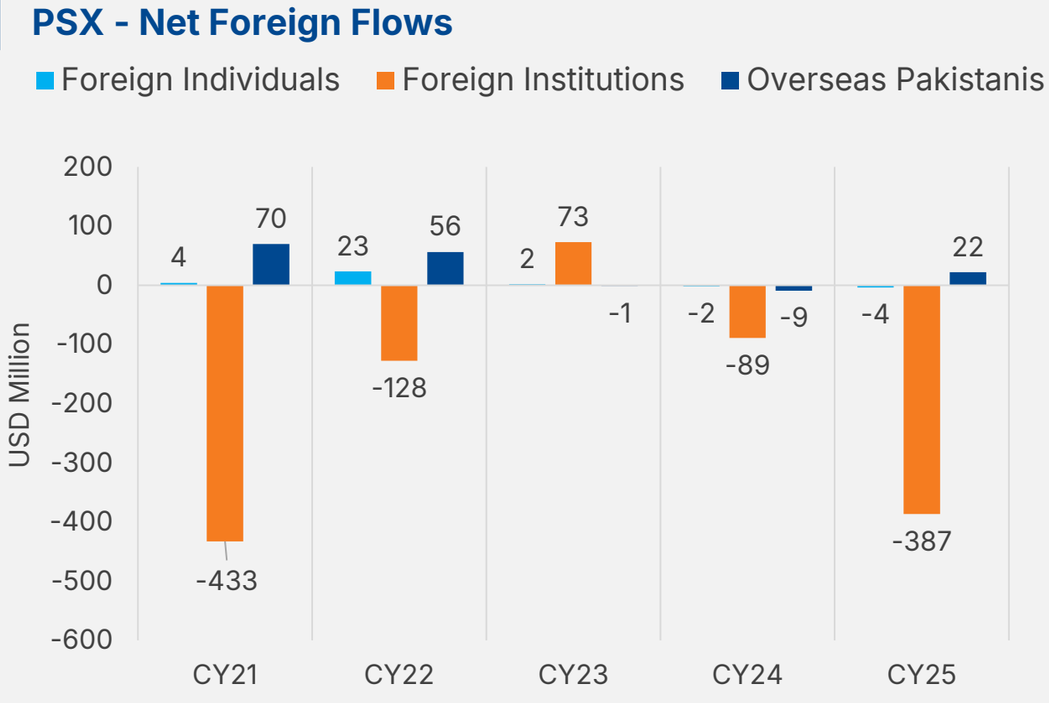
KSE All Share - Traded Value to FF Market Cap Ratio

5-Yr Rolling Avg.



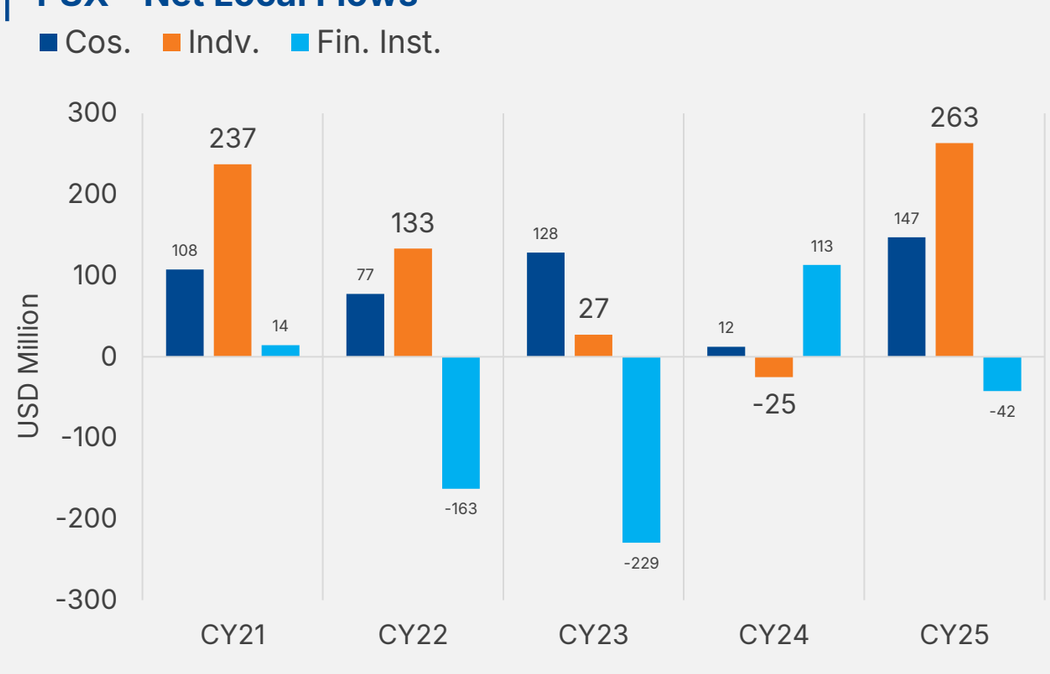
Source: Bloomberg

PSX - Net Foreign Flows



Source: NCCPL

PSX - Net Local Flows



Source: NCCPL

Privatization: A Slow Absorption

One caveat bears monitoring. If privatization is genuinely pursued as a priority, it will act as a gradual drain on system liquidity. But this will unfold over time, not abruptly. Indeed, the very success of a privatization drive will depend on the presence of this liquidity. Unless the process itself slips back into hibernation, its impact will be evolutionary rather than disruptive.

The Architecture of 2026: Interlocking Triggers

Against this backdrop, the case for 2026 rests on a series of interlocking triggers that together form the scaffolding of the next phase of the cycle.

1

Macro Anchors

First and foremost, a stable and credible external account is a necessary condition for the rally to express its full vigor. We enter the year with that condition broadly in place. Exchange-rate stability, a contained current-account position, and the continued support of remittance inflows provide the macro anchor that equity markets require.

2

Monetary Policy Tailwind

Second, the domestic rate cycle remains powerful. Disinflation has created space for further easing, with policy direction compressing risk-free rates and mechanically raising equity attractiveness.

3

Restoration of Policy Coherence

Third, the restoration of policy coherence and institutional follow-through has re-anchored expectations. The market is no longer trading on hope alone; it is trading on a framework of macro repair that, while incomplete, is at least directionally intact.

4

Reform Momentum

Fourth, what is being framed as reform momentum, however uneven and still largely IMF-anchored, has begun to shape the medium-term opportunity set. Trade and tariff rationalization, energy-sector restructuring, and a tentative reactivation of the privatization agenda signal an attempt to move from firefighting toward re-engineering, even if conviction on execution remains untested. These are not overnight catalysts, but they are regime-defining variables.

5

Broadening Confidence

Fifth, confidence is slowly broadening. The return of risk appetite is visible not only in secondary-market flows but also in the revival of primary issuance, private capital formation, and early-stage deal activity. Taken together, these elements create a feedback loop in which liquidity, policy credibility, and sentiment reinforce one another. In such a setting, the market does not require spectacular earnings surprises to move higher; it requires only continuity.

The Heavyweights to Remain in the Lead

Sectorally, the leadership of the next phase will remain anchored in the heavyweights. These sectors offer a combination of cash-flow durability, operating leverage to cyclical recovery, and defensive income profiles that position them to capture the upside of a broadening cycle.

Energy and Fertilizers

In upstream oil and gas, the theme is cash-flow durability and capital discipline. Balance sheets have been repaired, dividend capacity remains robust, and the sector continues to offer a defensive income profile in a volatile global energy landscape.

Fertilizers sit at the intersection of agriculture recovery and policy normalization. With input costs stabilizing and demand poised to respond to any improvement in farm economics, the sector offers operating leverage to a cyclical upturn, layered onto a historically strong dividend base.

Cements, Banks and the Transmission Mechanism

Cement is the purest proxy for normalization of domestic demand. Volumes remain well below peak, but capacity rationalization and pricing discipline have improved the industry's resilience. Any revival in construction and infrastructure spending would translate quickly into earnings momentum.

Banks, meanwhile, remain the transmission mechanism of the cycle. As rates fall, balance-sheet repricing, credit normalization, and a recovery in private-sector borrowing will reshape profitability profiles. Asset quality has stabilized, capital buffers are strong, and the sector is positioned to capture the upside of a re-leveraging economy.

> The defining feature of the 2026 equity outlook is not excess, but transition: with dormant demand, abundant liquidity, and a more coherent macro framework, the balance of risks is skewed not toward overheating but toward underexposure. The test of scale will be conviction – looking beyond historical templates, recognizing momentum, and staying invested as the cycle broadens.

06

Alternatives:

Capital Comes of Age

Alternatives are shifting from cyclical recovery toward institutionalization. Real estate is entering a phase of operational normalization, income discipline, and asset-level selectivity. Private capital is transitioning into a more structured, regionally-anchored ecosystem built on governance, capital efficiency, and regional integration. The next cycle rewards execution, not exuberance.

Real Estate: A Market That Now Checks Its Math

Market Fundamentals & Capital Flows

Pakistan's real estate market is expected to enter a phase of operational normalization and valuation discipline in 2026, as the macro, monetary, regulatory, and transaction improvements seen in 2025 become the baseline rather than the catalyst. Capital allocation is therefore shifting toward income sustainability, tax efficiency, and execution quality, with market behaviour increasingly governed by cash-flow stability, balance-sheet strength, and asset-level fundamentals.

Institutional capital, which selectively re-entered the market in 2025 with over PKR 60 billion deployed across commercial real estate, is expected to assume a more structurally anchored role in 2026, particularly in Karachi and Islamabad, where pricing transparency and liquidity are stronger. Deployment is likely to remain selective, favoring stabilized assets, professional management, and vehicles offering governance and tax clarity. Investor interest is also expanding into specialized real estate, including data centers, where visibility into demand, regulatory alignment, and USD-linked income structures are increasingly relevant. Transaction volumes are expected to stabilize rather than accelerate, reflecting a market focused on pricing accuracy and income durability over velocity.

The New Tax Reality & A Constrained Residential Cycle

From a policy perspective, 2026 is expected to operate within a consolidated taxation and enforcement framework rather than a reform-driven one. The valuation-aligned, compliance-differentiated property-tax regime established through successive Finance Acts is likely to persist, implying continued transaction-stage friction rather than fresh tax shocks and reinforcing a bias toward holding and income extraction over short-term churn.

The residential sector is expected to remain structurally constrained. High borrowing costs, limited household savings, and elevated construction input prices are likely to cap upside, particularly in Tier-1 cities. Developers are expected to recalibrate product sizing, phasing, and capital structures, with defensively positioned assets anchored in credible affordability and end-user alignment outperforming. While the National Housing Policy rightly prioritizes affordability, the absence of income-based benchmarks limits its near-term impact on transactions.

Sectoral Performance Across Real Estate Asset Classes

Office Market

Office market fundamentals strengthened in 2025, with national occupancy reaching ~93% on sustained absorption across Karachi, Lahore, and Islamabad. Grade-A assets continue to outperform on limited supply. Leasing is now driven by occupier experience and operational performance, not just location and specifications.

Retail Sector

The retail sector enters 2026 with improving leasing fundamentals but widening asset-level differentiation. National occupancy rose to ~90% in 2025, with rents growing across Tier-1 cities. Performance is now center-specific, driven by footfall, conversion, tenant mix, F&B, entertainment, parking, and active management, while Grade-B formats face rising pressure from new supply.

Hotel Sector

The hotel sector enters 2026 with strengthening fundamentals, supported by rising occupancy, sustained ADR growth, and constrained supply across Karachi, Lahore, and Islamabad. Demand is driven by air connectivity, corporate travel, and events, with performance increasingly shaped by brand strength, service quality, F&B, and meeting infrastructure.

Emerging Asset Class: Data Centers

Data centers are emerging as a structurally attractive alternative real estate and infrastructure asset class, offering USD-linked yields of ~7%. A 60-MW demand gap and limited Tier-III capacity underpin growth. Demand is accelerating on digitalization, data localization, and regulation, positioning data centers for rising institutional interest by 2026.

Infrastructure: From Plans to Pavement

Infrastructure execution, not announcement, will be the key differentiator. Projects such as the M-6 Motorway, CPEC Phase II SEZs, and airport-linked upgrades will shape land-use transition and feasibility, but near-term pricing windfalls are unlikely. The market will reward assets anchored to demand corridors, utilities, and governance capacity.

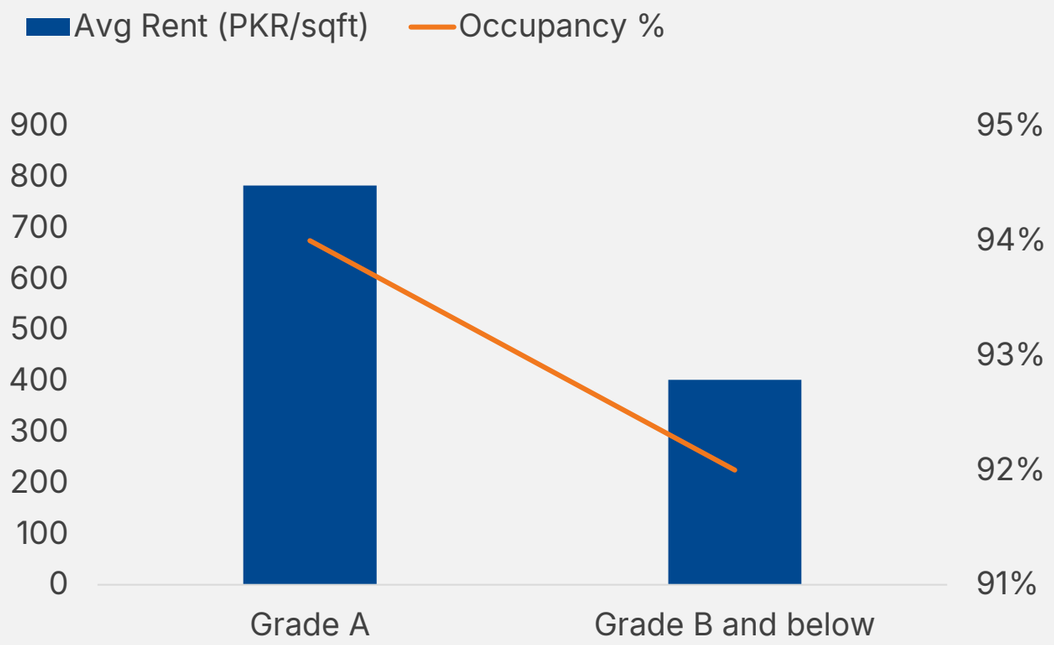
Capitalization Rate Reset

Capitalization rates are expected to stabilize in 2026, driven by financing conditions, income growth, and liquidity rather than broad repricing. After the 2024–25 adjustment, cap rates are likely to flatten as markets absorb higher capital costs and gain clarity on the pace of easing. Direction will track yields, debt costs, NOI growth, risk premia, liquidity, and institutional depth.

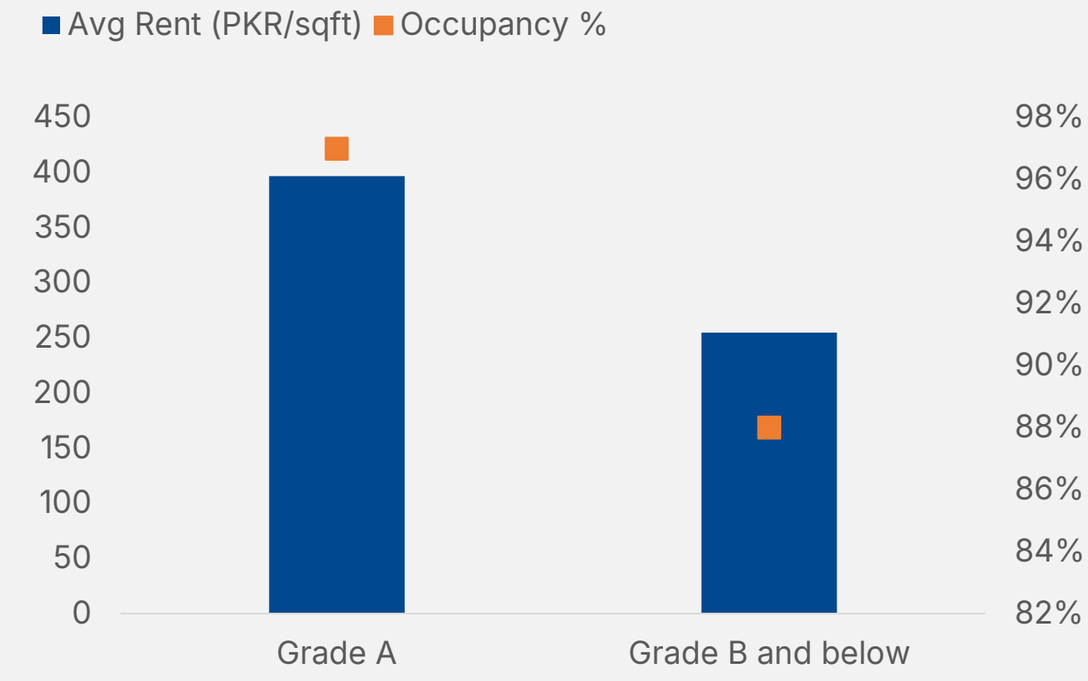
In 2026, real estate becomes more selective, rewarding income durability, execution discipline, and asset-level performance across all segments.

Sectoral Performance Across Real Estate Asset Classes

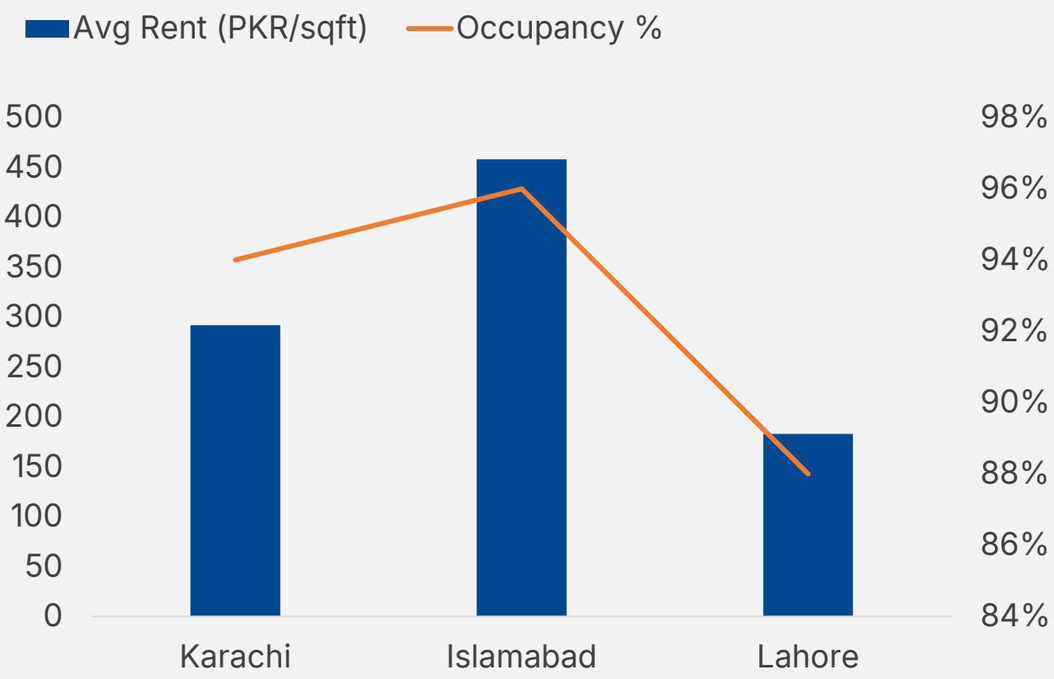
Pakistan Retail Market (Tier 1 Cities) - Rent vs Occupancy by Grade



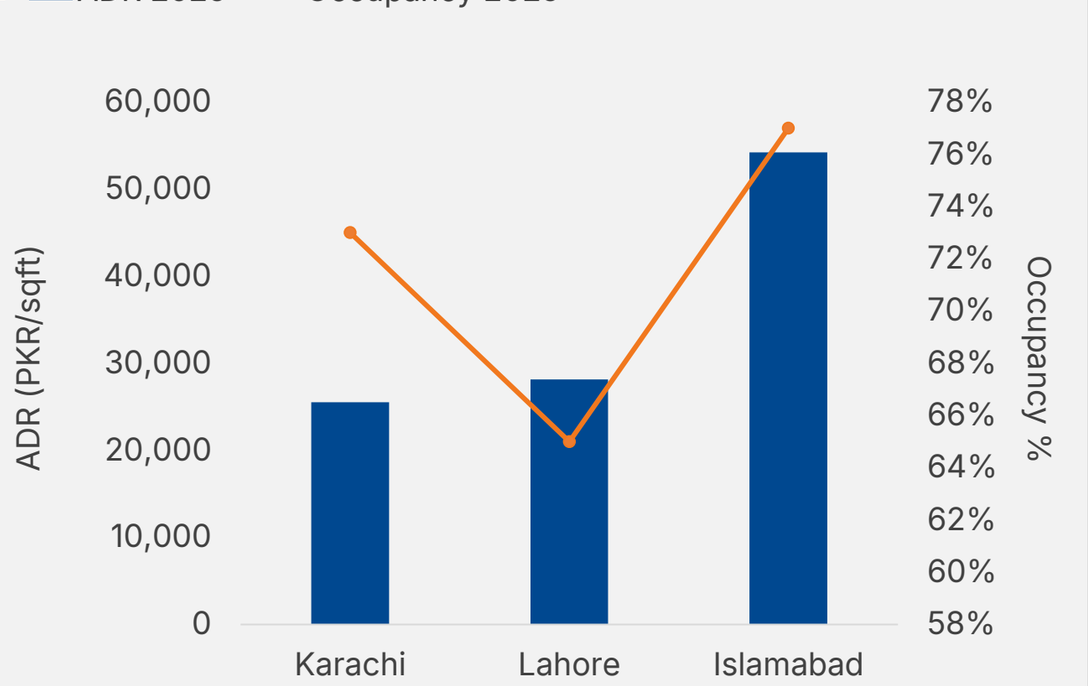
Office Market for Tier 1 Cities – Grade wise Rent vs Occupancy 2025



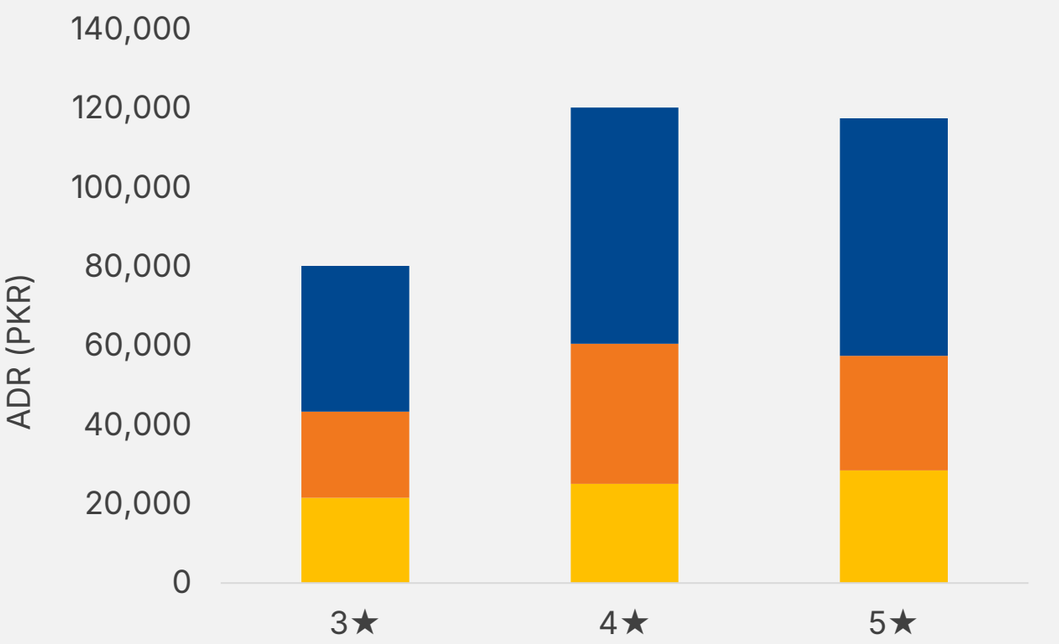
City wise Comparison - Rent vs Occupancy for Offices in 2025



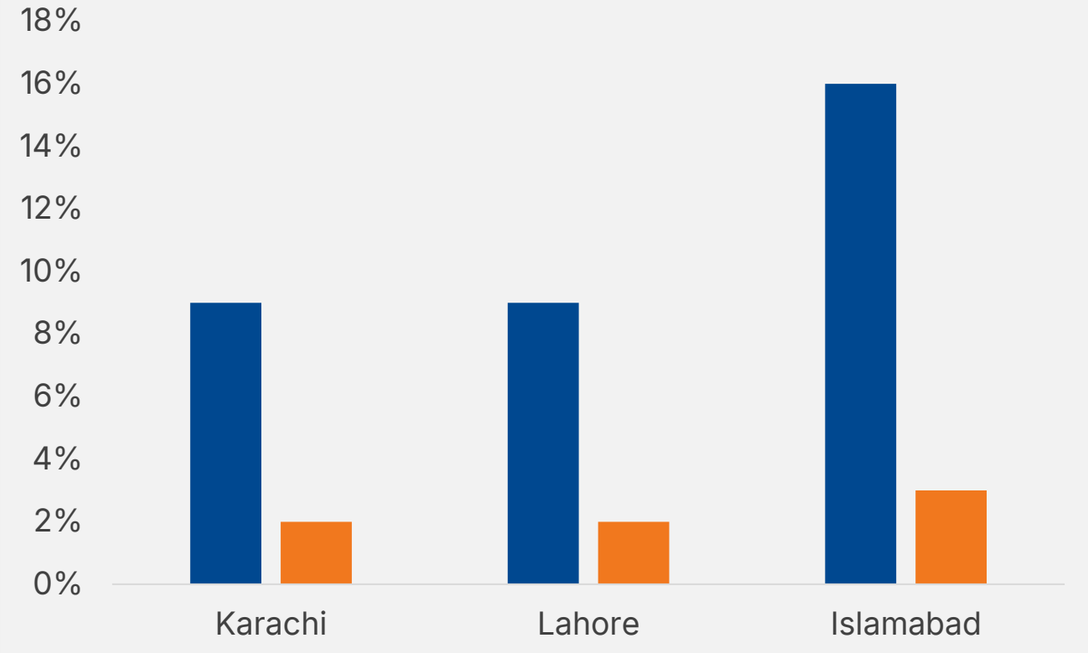
ADR vs Occupancy Comparison by Tier 1 Cities 2025



City Wide ADR by Hotel Rating 2025



ADR Growth vs Occupancy Growth by City 2025



Source: JSIL Research

Venture Capital & Private Equity: The Long Road from Pitch Decks to Platforms

Past the Sandbox

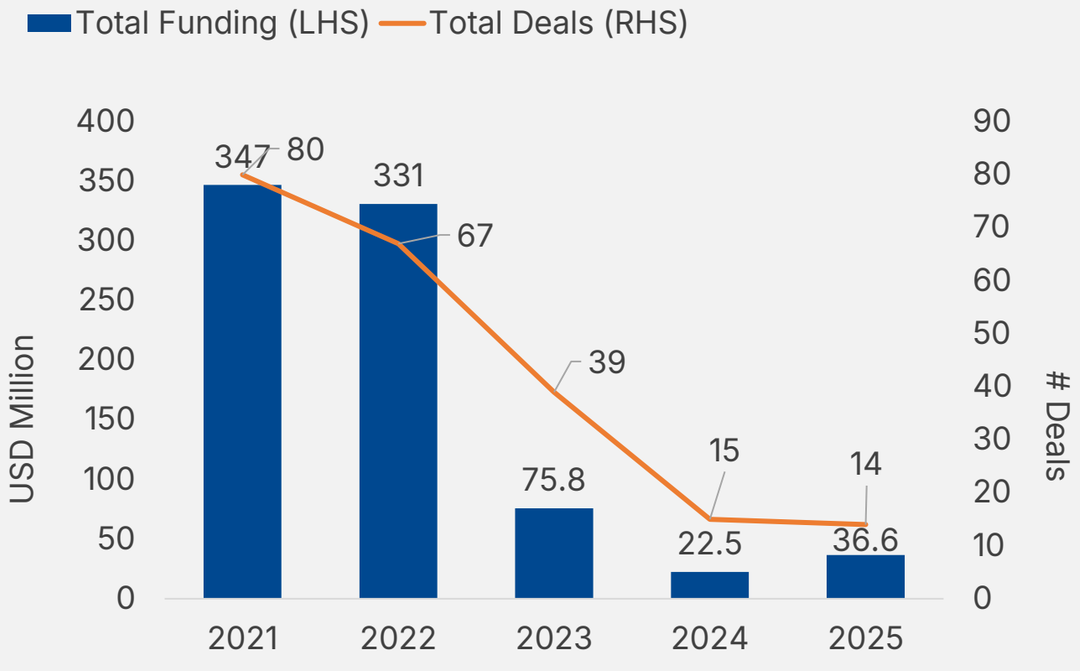
Pakistan's venture capital and private equity ecosystem enters 2026 at a pivotal point in its cycle, transitioning from experimentation towards institutionalization after a decade of ecosystem formation alongside the expansion of mobile internet, digital payments, and financial inclusion. What began as a fragmented, angel-led market evolved rapidly during the global liquidity cycle of 2020–2021, when annual startup funding surged from roughly $30–$50 million to approx. $350 million, driven by global venture funds, GCC family offices, and regional growth investors. This was followed by a deep reset during 2022–2024 amid global monetary tightening and domestic macro instability, with funding falling to $76 million in 2023 and approximately $23 million in 2024. By 2025, early stabilization signals had emerged, positioning the market to enter 2026 for a more disciplined, infrastructure-backed and regionally integrated growth phase aligned with global investment standards and emerging-market capital cycles.

Capital with a Seatbelt

Pakistan’s investor base has diversified across global venture firms, GCC capital, development finance institutions, and domestic family offices, with the launch of Pakistan-focused venture funds marking a key milestone. GCC investors – especially from Saudi Arabia, the UAE, and Qatar – now dominate growth-stage funding, while domestic family offices remain active at the angel and LP levels, though limited exits continue to constrain risk appetite.

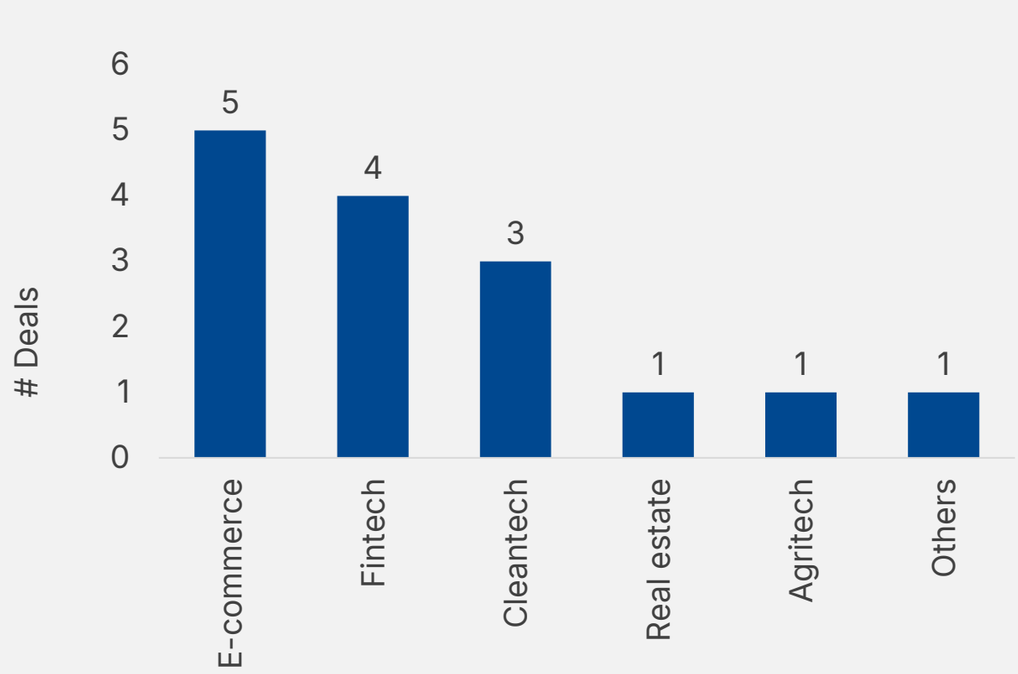
Capital structures are evolving as investor sophistication rises. While venture capital still dominates early-stage funding, growth capital remains scarce and venture debt underdeveloped. Hybrid structures combining equity, debt, and convertibles are gaining traction – four of six disclosed deals in Q3 2025 were hybrid – reflecting a shift toward downside protection, dilution control, and capital efficiency.

Total startup funding in Pakistan



Source: Data Darbar

Sector-wise Deal Count



Source: Data Darbar

The Code Behind the Cash

Fintech & Embedded Finance

Fintech and embedded finance remain the core engine of Pakistan's venture ecosystem. Financial services are widely viewed as Pakistan's most compelling investment opportunity, driven by a large unbanked population, an undocumented economy, a persistent SME credit gap and rapid payments digitisation. Key sub-sectors include payments, SME lending, supply-chain finance, earned-wage access, insurtech and digital banking. Pakistan's instant payments system, Raast, has emerged as foundational infrastructure, enabling real-time settlement, embedded invoicing, reconciliation, digital tax compliance and data-driven credit scoring.

B2B Payments & Healthtech

B2B payments and supply-chain finance represent a second major growth vertical. Haball's landmark $52 million pre-Series A round in 2025 — comprising $5 million in equity led by Zayn VC and $47 million in strategic debt from Meezan Bank — marked the largest startup financing in three years and the first major bank-led debt transaction in Pakistan's venture ecosystem. Healthtech has also emerged as a scalable vertical, with MedIQ raising $6 million in a Series A round led by Rasmal Ventures (Qatar) and Joa Capital (Saudi Arabia).

Digital Assets & AI

AI, Web3, crypto and digital assets represent the next frontier. Pakistan is amongst the world's largest informal crypto markets by user base, and regulatory formalization is now underway through the Pakistan Crypto Council, SBP's sandbox initiatives, and SECP's digital-asset frameworks. Stablecoins, tokenization, blockchain settlement rails and AI-enabled financial services are emerging as medium-term investment themes.

The State Learns Startups

Regulatory reform has become a central pillar of ecosystem development. The SECP and SBP have introduced a formal startup definition in the Companies Act, reporting exemptions for small companies, employee stock-option schemes, the GEM Board for growth listings, regulatory sandboxes, angel and VC fund categories, digital brokerage licenses and tokenization frameworks. Company registration is now possible within hours via SECP digitization. The Pakistan Startup Fund has further strengthened early-stage capital formation through equity-free grants covering 10–30% of VC investments.

Key Insight: Pakistan is entering its institutional VC and PE phase. With established regulations, operational digital infrastructure, and opening regional corridors, the next cycle will focus on fintech innovations, SME digitization, AI financial services, tokenized capital markets, and expansion with GCC countries. Whilst exit depth remains limited, 2026 is shaping up as a proof year in which broader, repeatable mid-market activity will determine whether Pakistan's recovery is structural rather than cyclical. For institutional investors, the opportunity lies in backing disciplined platforms positioned at the intersection of demographics, digitization, financial inclusion and regional capital flows.

Regional Integration & Strategic Outlook

When Venture Finds Its Neighborhood

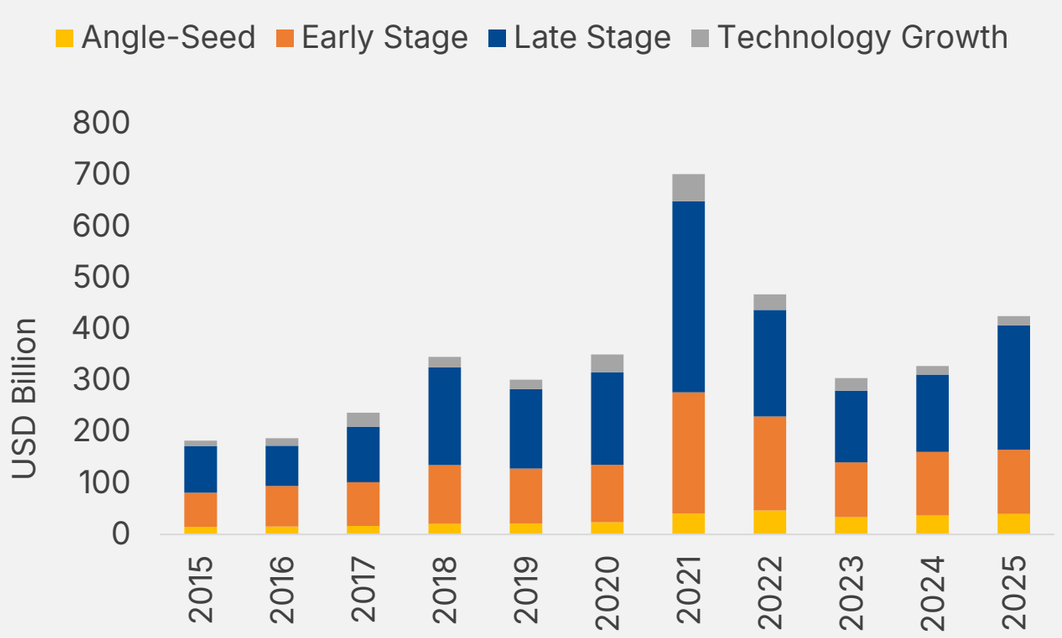
Pakistan is now firmly embedded within a Pakistan–GCC venture corridor. Sarmayacar is launching a Saudi-backed fund, Haball is expanding into Saudi Arabia, and i2i portfolio companies are scaling into the UAE and broader MENA region. Pakistan is increasingly viewed as a low-cost testing laboratory for product-market fit and unit economics, with the GCC serving as the scaling, liquidity and exit market. The Middle Eastern capital is gradually replacing the US and Europe as Pakistan's natural venture partner.

The ecosystem has also undergone a strategic reset at the founder level. Business models have shifted from growth-at-all-costs to unit-economics discipline, capital efficiency and profitability pathways. Founders are increasingly localising playbooks, drawing lessons from Nigeria, Egypt and Southeast Asia rather than Silicon Valley. Venture investors now prioritise governance, scalability, clean financial records and IPO readiness.

The Global Tailwind

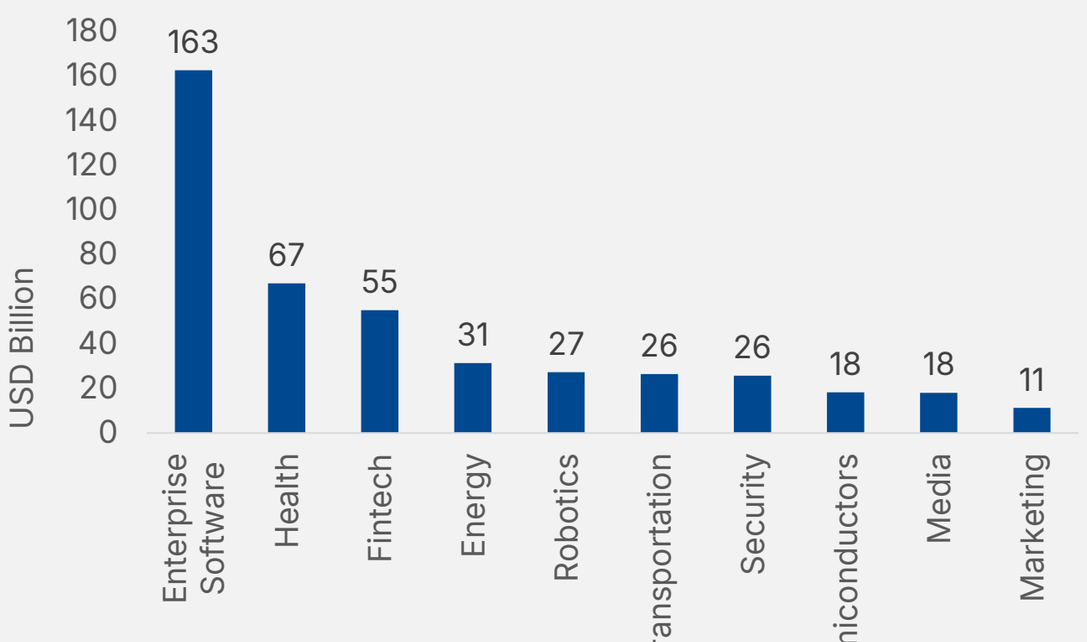
In the global context, Pakistan's private capital cycle is unfolding against a renewed expansion in global venture and private markets. According to Crunchbase, global startup funding rebounded strongly in 2025, with approximately $274 billion invested worldwide, marking the third-largest year on record. North American startup funding rose 46% year-on-year, driven largely by the AI boom, whilst global private equity deal value reached approximately $1.5 trillion, reflecting a renewed focus on fewer, higher-quality transactions. Against this backdrop, Pakistan remains a small but increasingly investable frontier market, transitioning from episodic capital inflows to a more durable, institutionally anchored private capital ecosystem.

Global VC amount raised



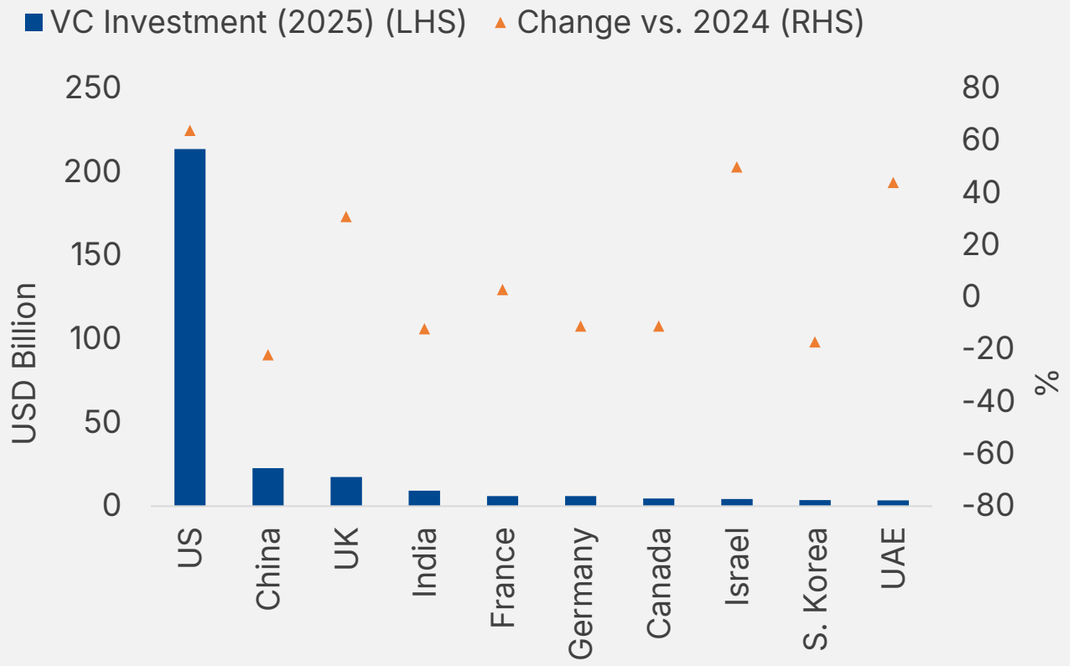
Source: Crunchbase

Global leading industries by VC investment, 2025



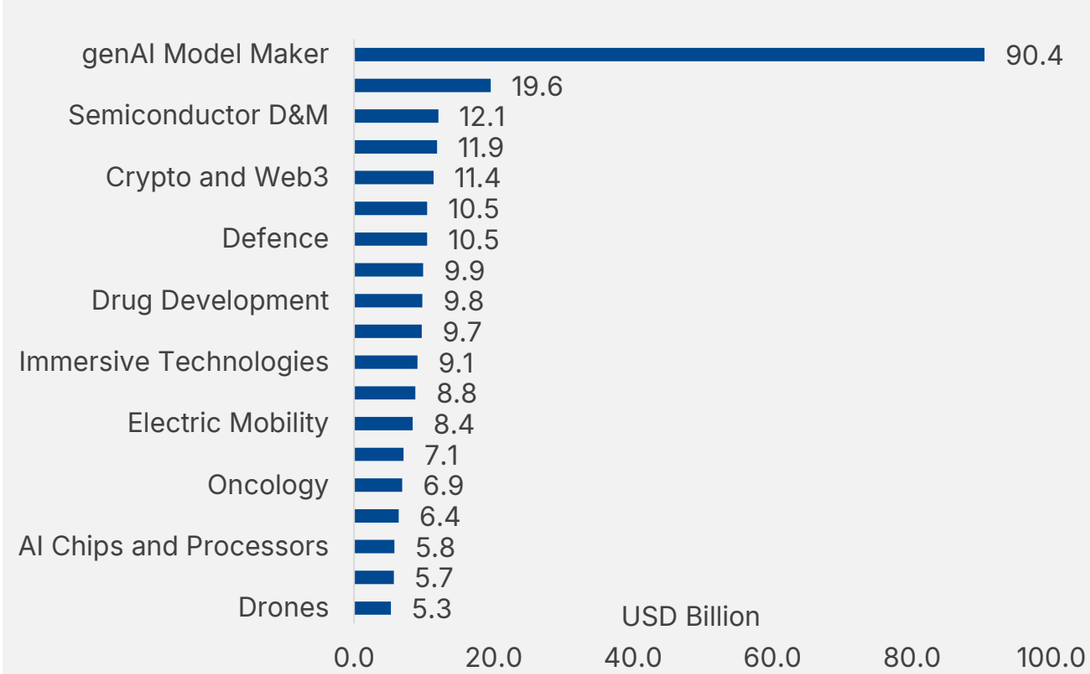
Source: Dealroom.co

Leading countries for VC investment, 2025



Source: Dealroom.co

Global leading tech segments by VC investment, 2025



Source: Dealroom.co

07

Sentiment Survey:

Optimism with a Risk Filter

Investor sentiment is improving, but it remains calibrated — optimistic on direction, cautious on execution. Risk appetite is returning, yet the mindset has shifted from chasing stories to demanding delivery. Markets are rewarding selectivity over speculation, with participants prioritizing discipline, visibility, and risk-managed exposure. In 2026, confidence is rebuilding — but conviction will depend on outcomes, not expectations.

Sentiment Survey (Client & Market Pulse)
A Market Relearning Confidence

Findings from JS Investments' Pakistan Investment Outlook 2026 Sentiment Survey:

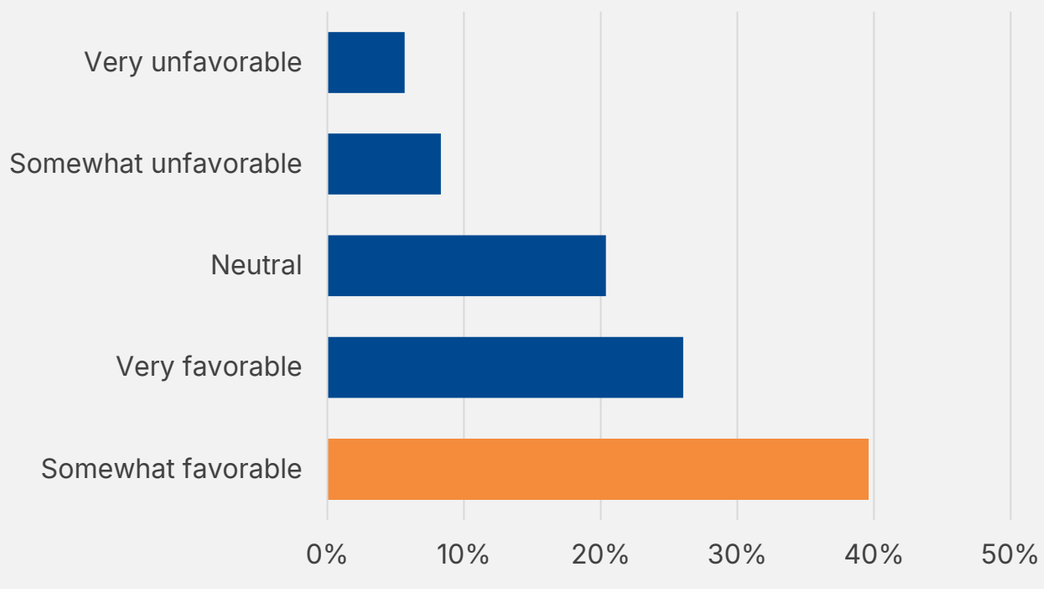
Investor sentiment toward Pakistan heading into 2026 has turned decisively more constructive. A clear majority of respondents now view the investment environment as favourable, reflecting improved macro stability, easing inflationary pressures, and a more predictable monetary backdrop. This marks a notable shift from recent years, where sentiment was dominated by crisis management and downside risk.

However, optimism remains measured rather than exuberant. Investors distinguish between near-term stabilization and longer-term confidence in execution. While macro indicators have improved, conviction remains conditional on policy continuity, institutional credibility, and the ability to translate intent into outcomes.

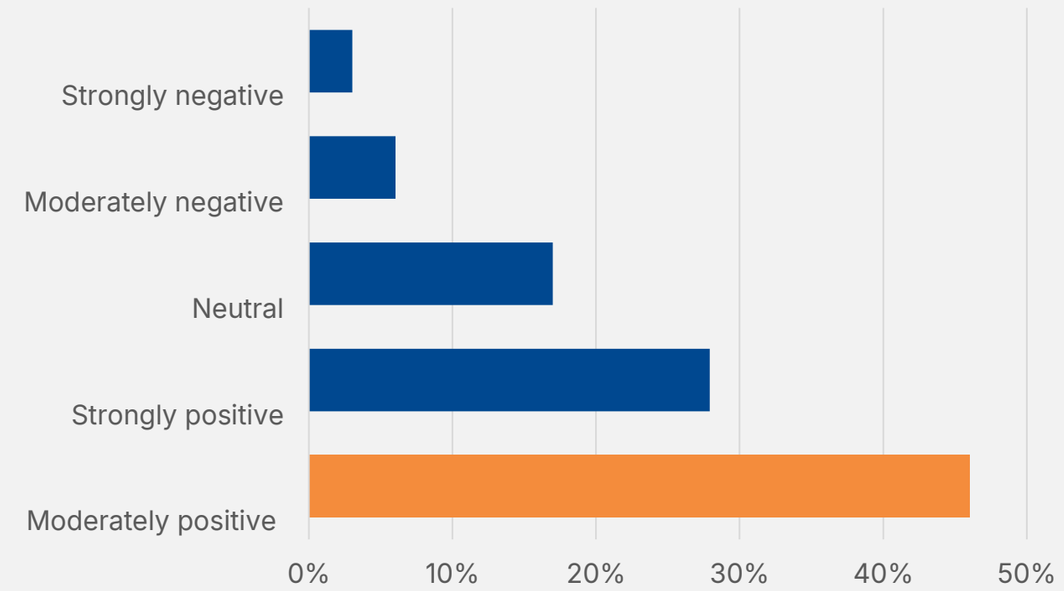
Political uncertainty and policy continuity emerge as the most prominent concerns shaping investor risk perception. Exchange-rate and external financing risks also remain salient, underscoring the view that recent stability, while welcome, is still contingent. Investors are signaling that governance and execution risks now matter more than market mechanics alone.

Pakistan Investment Outlook 2026 | Survey results

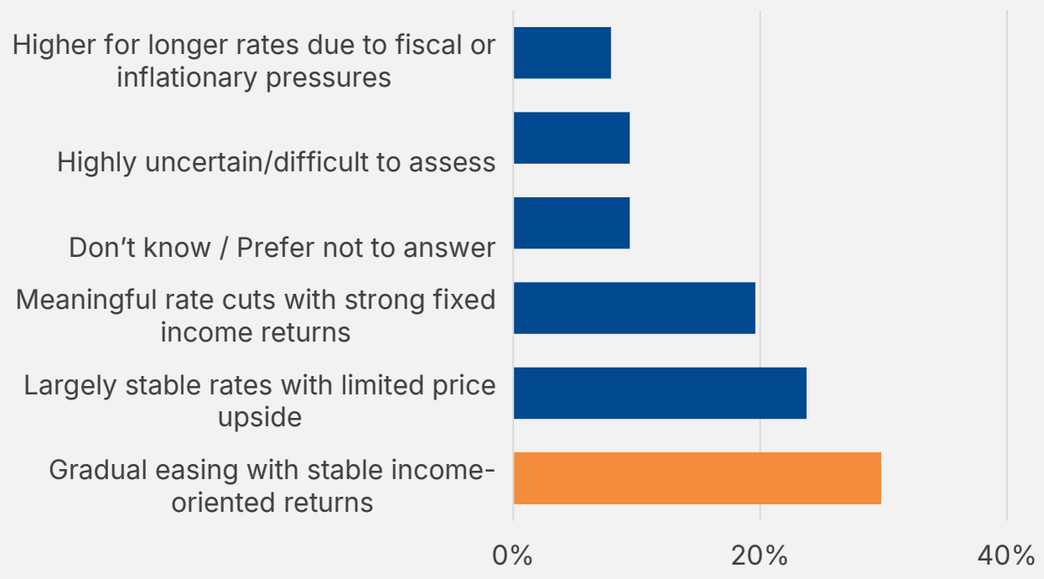
How do you assess the overall investment environment in Pakistan for 2026?



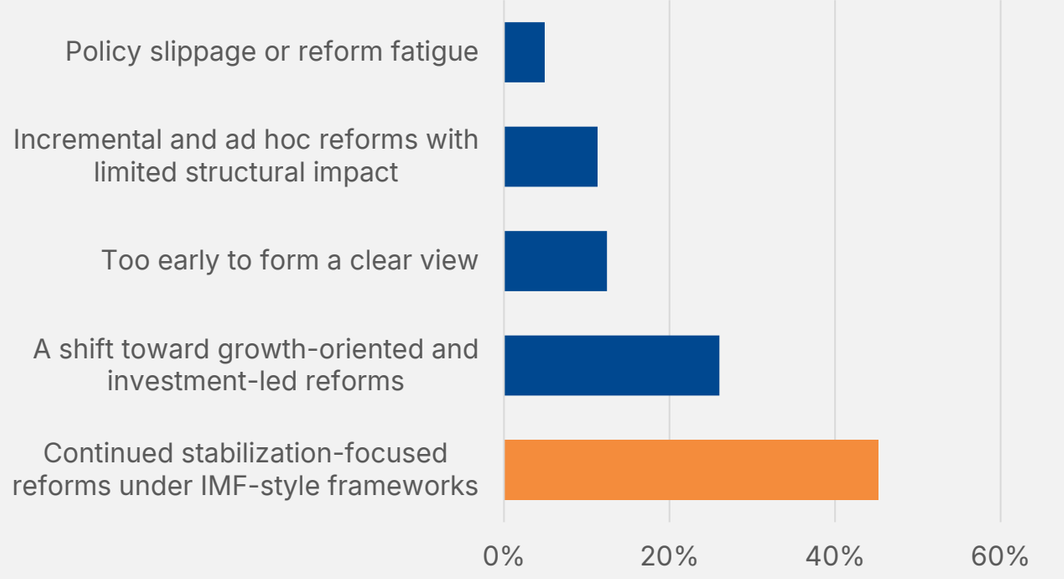
How do you view the outlook for Pakistan’s equity market in 2026?



What is your expectation for interest rates & fixed-income returns in Pakistan during 2026?

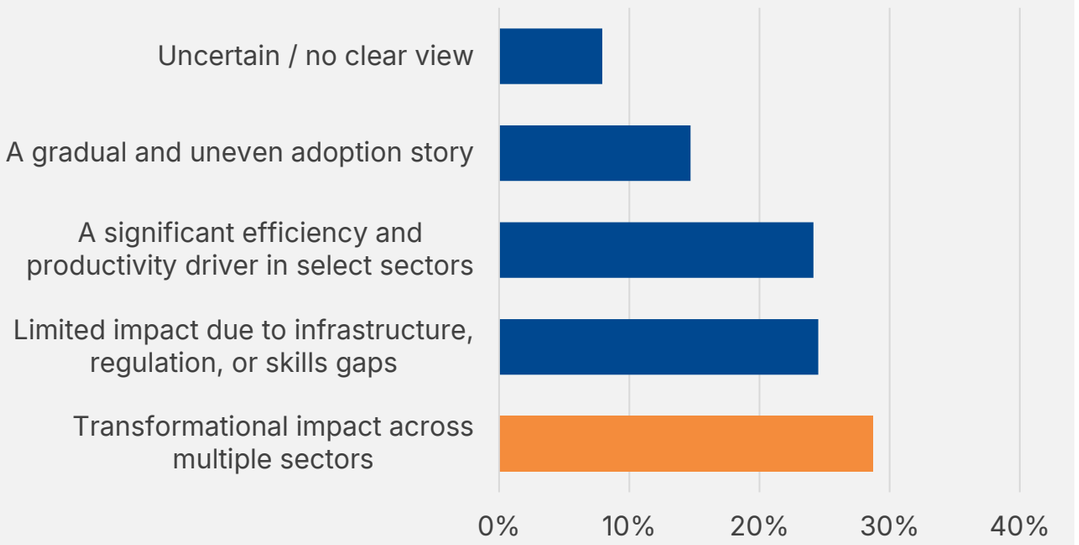


In your view, which direction are economic and structural reforms in Pakistan most likely to take in 2026?

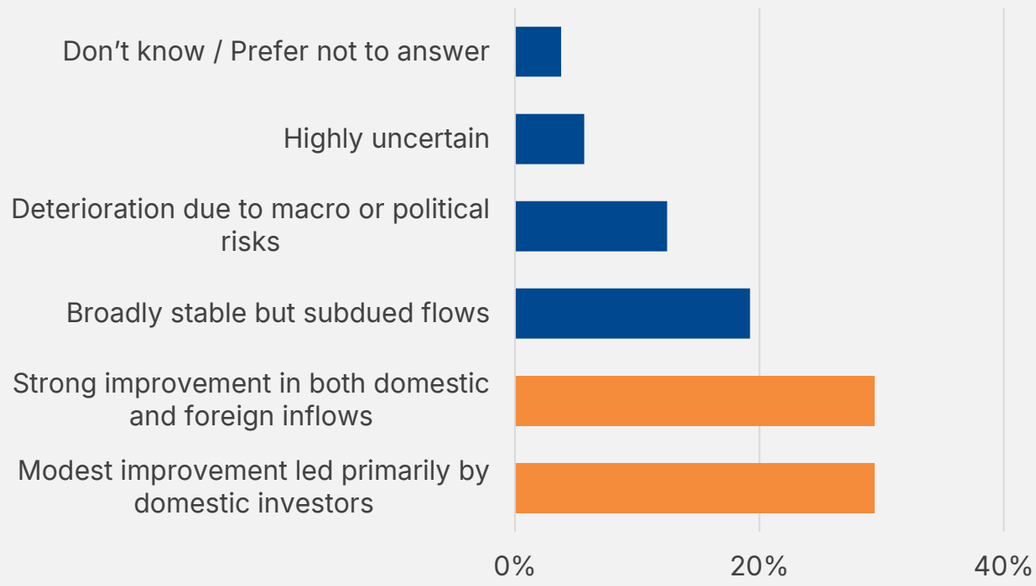


Pakistan Investment Outlook 2026 | Survey results

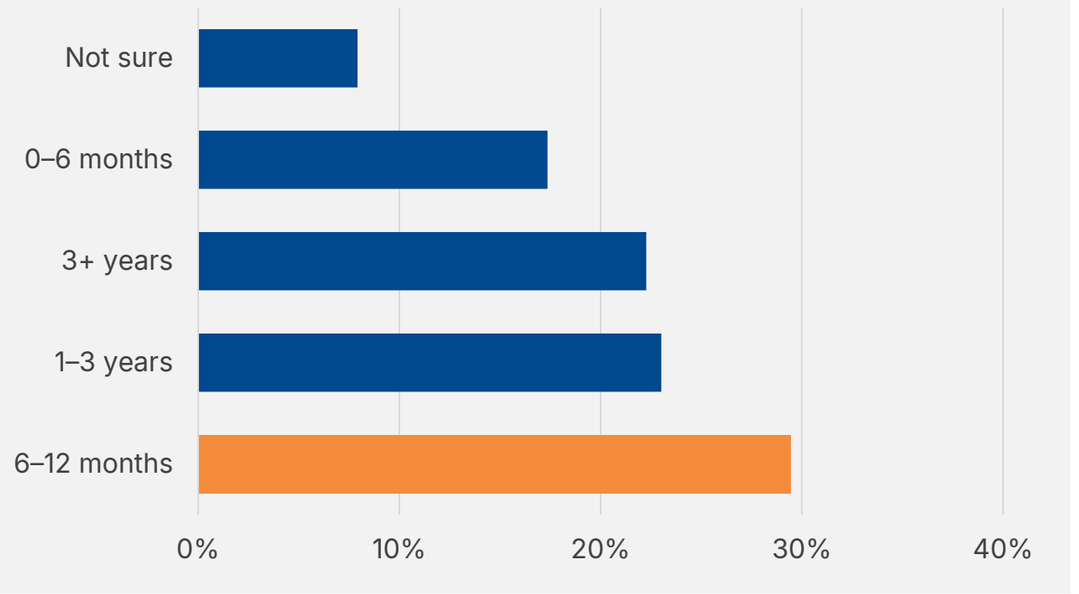
How do you expect technology adoption, including artificial intelligence, to impact businesses & investments in Pakistan over the next 2–3 years?



How do you assess the outlook for investor confidence and capital flows into Pakistan in 2026?



What is the primary time horizon you are using for your 2026 investment decisions?



Key Takeaways: Sentiment Survey 2026

Portfolio Positioning

Listed equities are the most preferred asset class for 2026, supported by expectations of earnings normalisation and a lower interest-rate environment. Fixed income instruments and gold continue to attract meaningful allocation intent, highlighting a continued emphasis on income stability and portfolio protection.

Equity Market Expectations

Equity market expectations remain selective. The dominant view is moderately positive, favouring valuation discipline and sector differentiation rather than broad-based exuberance. This suggests optimism grounded in fundamentals rather than sentiment.

Interest Rate Outlook

Interest-rate expectations are similarly calibrated. Most respondents anticipate gradual easing rather than aggressive cuts, implying stable income returns with limited volatility. This leaves scope for upside surprise should disinflation persist.

Reforms & Capital Flows

On reforms, investors largely expect continued stabilisation rather than transformational growth-oriented change. Capital flow expectations are improving but remain split, reflecting cautious optimism rather than consensus conviction.

Technology, AI & Time Horizons

Technology and AI are viewed as important medium-term enablers, though optimism is tempered by execution constraints. Investment time horizons remain relatively short to medium term, indicating that confidence is rebuilding but not yet fully entrenched.

Taken together, the survey points to a market that has moved beyond crisis but has not yet embraced complacency. Confidence is returning, portfolios are adjusting, and optimism is broadening—but execution remains the decisive variable. 2026 will test whether improving sentiment can scale into sustained capital formation.

Conclusion — The Test of Scale

As 2026 begins, the defining global challenge is not a lack of capital or opportunity, but a widespread erosion of confidence. Across economies, subdued expectations are increasingly shaping behaviour, restraining investment, and reinforcing a preference for caution over ambition. Economic history suggests that turning points are rarely born in moments of comfort. They emerge when conviction is scarce and uncertainty is high. In that sense, the year ahead calls not for naive optimism, but for a more deliberate form of confidence—one grounded in execution, institutional discipline, and the willingness to act despite complexity.

It is within this frame that our central theme, The Test of Scale, must be understood. Pakistan's recent success in building a credible export platform in high-technology defence manufacturing alongside China offers a powerful reference point. If scale, integration, and execution can be achieved in an arena as complex and competitive as aerospace, the question naturally follows: what prevents the same discipline from being applied across the broader economy? The opportunity is not confined to headline sectors alone. It extends to Pakistan's most underleveraged productive frontiers – most notably agriculture, where productivity, value addition, and export integration remain far below potential. This is the real test of 2026: translating demonstrated success into economy-wide scale.

The growth model of the next phase cannot rest solely on monetary easing or fiscal arithmetic. The recent macro repair has created space, but growth must now be earned. What the market is waiting for are clear signals of a paradigm shift in the real economy – toward productivity, competitiveness, and depth. The future will not be shaped by policy intent alone, but by execution. And in that execution lies Pakistan's defining opportunity.

Glossary

ADR (Average Daily Rate) - Average revenue earned per occupied hotel room; a key hospitality performance metric.

Asset Allocation - How you split a portfolio across asset classes (e.g., cash, bonds, equities, gold) to balance return and risk.

Basis Points (bps) - A unit for interest-rate moves: 100 bps = 1.00%.

Bull Flattening - When bond yields fall, but short-term yields fall more than long-term yields, making the yield curve flatter.

CAGR (Compound Annual Growth Rate) - The smoothed annual growth rate of an investment over a period, assuming compounding.

Cap Rate (Capitalization Rate) - Net Operating Income divided by property value; used to assess real-estate valuation and income yield.

CAPE (Cyclically Adjusted P/E) - A valuation metric that compares price to 10-year inflation-adjusted average earnings (often used for market-level analysis).

Core Inflation - Inflation excluding volatile components such as food and energy; used to assess underlying price pressures.

CPEC (China-Pakistan Economic Corridor) - A collection of infrastructure projects throughout Pakistan funded by Chinese investment as part of the Belt and Road Initiative.

CPI (Consumer Price Index) - A measure of inflation based on changes in the prices of a basket of goods and services.

Crowding Out Effect - When government borrowing absorbs savings and bank liquidity, reducing credit available to the private sector and raising costs.

Current Account Deficit - When a country imports more goods/services and transfers more income abroad than it receives, requiring external financing.

Discount / Discounting - Converting future cash flows into today's value using a discount rate.

Disinflation - A decline in the rate of inflation (prices still rise, but more slowly).

Dividend Yield - Annual dividends per share divided by the share price; a measure of cash income from equities.

Duration - A bond's sensitivity to interest-rate changes; higher duration usually means larger price moves when rates change.

DXY (US Dollar Index) - An index of the US dollar against a basket of major currencies.

Earnings - A company's profits; the basis for many valuation measures.

Easing Cycle - A period when a central bank lowers policy rates to support growth and loosen financial conditions.

EPS (Earnings Per Share) - Company profit divided by the number of shares; used to assess profitability and valuation.

Exchange Rate - The price of one currency in terms of another; a key indicator of external stability and competitiveness.

External Balance - A broad view of a country's external position (current account, capital flows, reserves, and FX stability).

External Financing - Funding obtained from foreign sources to meet current-account or fiscal needs, including loans, bonds, and official inflows.

Glossary

Factor - A characteristic that helps explain returns (e.g., value, quality, momentum, low volatility).

Fiscal Consolidation - Reducing the fiscal deficit through higher revenues and/or lower spending to stabilize public debt.

Fixed-Rate - An interest rate that stays constant over the life of the instrument.

Floating-Rate - An interest rate that resets periodically based on a reference rate (e.g., KIBOR/SOFR) plus a spread.

FX (Foreign Exchange) - Currencies and the market where they trade.

FX Reserves - Foreign currency assets held by the central bank to manage exchange-rate volatility and meet external payment obligations.

GDP (Gross Domestic Product) - The total monetary value of all finished goods and services produced within a country's borders in a specific time period.

IMF (International Monetary Fund) - An international organization that provides financial assistance and policy advice to member countries facing economic difficulties.

Index - A benchmark that tracks the performance of a market or segment (e.g., KSE-100, MSCI).

Inflation - The general rise in prices over time, reducing purchasing power.

IPO (Initial Public Offering) - A company's first sale of shares to the public.

Issuance - The sale of new securities (e.g., bonds, sukuk, equity) into the market.

KSE-100 Index - Pakistan's main equity index, tracking 100 large and liquid listed companies.

Leverage - Using borrowed money to increase exposure; can amplify gains and losses.

LSM (Large Scale Manufacturing) - An index measuring the production output of major manufacturing industries, used as a key indicator of industrial activity.

Maturity - The date when a bond/sukuk principal is repaid.

Monetary Policy - Actions by a central bank (e.g., SBP) to influence inflation and growth, mainly through policy rates and liquidity management.

Money Market - Short-term instruments (typically under one year), often used for liquidity and capital preservation.

MSCI - A global index provider; MSCI indices are widely used as international benchmarks.

MTBs (Market Treasury Bills) - Auction-based short-term government securities issued by the State Bank of Pakistan.

Multiple - A valuation ratio (e.g., P/E, EV/EBITDA) comparing price to a financial metric.

NAV (Net Asset Value) - Per-unit value of a fund: (assets minus liabilities) divided by units outstanding.

NOI (Net Operating Income) - Income generated by a property after operating expenses, before financing costs and taxes.

OMO (Open Market Operations) - Central bank operations (buying/selling securities) to manage liquidity and short-term rates.

P/E (Price-to-Earnings) - Share price divided by earnings per share; a common equity valuation metric.

PBV (Price-to-Book) - Share price divided by book value per share; often used for banks and asset-heavy businesses.

PIBs (Pakistan Investment Bonds) - Medium- to long-term government debt instruments used to fund the budget and establish the sovereign yield curve.

Glossary

PKRV (Pakistan Revaluation Rates) - The government bond yield curve published by SBP, used as the benchmark for pricing fixed-income securities.

Policy Rate - The interest rate set by a central bank that influences other interest rates in the economy and serves as a primary monetary policy tool.

Real GDP - Gross Domestic Product adjusted for inflation, reflecting the economy's true growth in output.

Real Interest Rate - An interest rate adjusted for inflation (roughly: nominal rate minus inflation).

Real Yield - The inflation-adjusted yield earned on a bond/sukuk.

REITs (Real Estate Investment Trusts) - Investment vehicles that own and operate income-generating real estate, allowing investors to invest in property portfolios.

Remittances - Funds sent by overseas workers to their home country; a critical and stable source of foreign exchange for Pakistan.

SBP (State Bank of Pakistan) - Pakistan's central bank.

SECP - Securities and Exchange Commission of Pakistan; the capital markets regulator.

SIFC (Special Investment Facilitation Council) - A Pakistani government body established to facilitate and expedite investment projects, particularly in key sectors.

Sovereign - Related to the government (e.g., government bonds/sukuk).

Spread - The difference between two yields/rates (e.g., corporate bond yield minus government yield).

Sukuk - Shariah-compliant certificates that represent an ownership interest in assets/cash flows.

Tariff Rationalization - Simplifying and lowering distortive import duties to reduce input costs and improve competitiveness.

T-Bills (Treasury Bills) - Short-term government securities (up to one-year maturity) issued to manage liquidity and finance the fiscal deficit.

Y/Y (Year-over-Year) - A comparison of a statistic for one period to the same period in the previous year, used to measure growth or change.

About Us

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 324 branches across the country.

JSIL offers a wide range of investment products, including Mutual Funds, Voluntary Pension Schemes, and Separately Managed Accounts (SMAs) to cater to the needs of individual and institutional investors.

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

SECP licenses JSIL to provide "Asset Management", "Investment Advisory", "REIT Management", and "Private Equity and Venture Capital Fund Management" services. In addition, the Company also acts as Pension Fund Manager under the VPS Rule. JSIL is a member of the Mutual Fund Association of Pakistan (MUFAP) and is listed on the Pakistan Stock Exchange Limited.

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