AlphaBetaCore

PAKISTAN STRATEGY 2026

From The Ridge Line

BEST STARTUP

Top-50 Financial Services Company, Best Startup Asia 2021

START UP

Top-29 Financial Services Company, Startup Pill UK 2022

CFA Society Pakistan

Best Corporate Finance House of the Year 2024 (Runner Up)

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Advisory I Strategy I Insights

Karachi | Dubai | Riyadh | Kuwait | Washington DC

Securities & Futures Advisors | Consultant to the Issue | Notified Research Entity

Contents

Executive Summary

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Area	Narrative
Key Global Economic Themes	▪ AI Productivity Surge: Rapid AI adoption boosting productivity and profit margins, favoring tech exporters' margins ▪ Commodities Bifurcation: Commodity prices to diverge. staples remain volatile while industrial capex-driven ▪ Near-Shore Manufacturing: Near-shoring lifts regional manufacturing and construction demand ▪ Selective EM Re-rating: Flows concentrating into EMs that deliver credible stabilization amid near-shoring
Pakistan Macro-Economic Outlook	▪ Gradual stabilization in economic conditions driven by IMF-backed fiscal reforms, improved external buffers, and debt sustainability. ▪ GDP growth forecast at 3.5% for FY26, 4% in FY27; inflation projected to stabilize to single digits (7.1%). ▪ Political stability, consistent policy and implementation of structural reforms are critical for inclusive and sustained recovery.
Sectoral Highlights	▪ **Consumer Sector**: Easing inflation and credit reviving autos while textiles and FMCG steady. ▪ **Energy**: Circular-debt repayment and tariff clarity de-risk power; refiners weak. ▪ **Financial Sector**: Deposit growth and rate easing; privatization to fuel flows. ▪ **Technology**: Record IT export boom plus IPO/M&A/VC exits driving re-rating. ▪ **Industrials & Infrastructure**: Capex and housing lifting cement and suppliers; REITs remain a growth segment.
Investment Landscape	▪ Positive momentum for equities with capital shifting from fixed income due to easing interest rates. ▪ Credit outlook positive with continued momentum in risky assets. ▪ Foreign investment flows towards project financing critical to sustain momentum.
Risks and Challenges	▪ Dependence on external factors like oil prices, global trade policies, and geopolitical conflicts. ▪ Structural reforms must continue to avoid boom and bust cycle, driven by import inflation and currency volatility.
Policy and Governance	▪ Policy has been ineffective in austerity measures and structural reforms. The 2026 roadmap is directionally sound, however, implementation remains key risk to sustain IMF program and boost investor confidence. ▪ Upcoming reforms focus on long-term structural areas, including energy sector, privatization, and trade liberalization.

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Global Outlook

- AI Productivity Surge
- The Commodities Bifurcation
- Near-Shore Manufacturing
- Higher-for-Longer Income Tilt
- Selective EM-Rerating

2025 Global Recap

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Positives VS Negatives

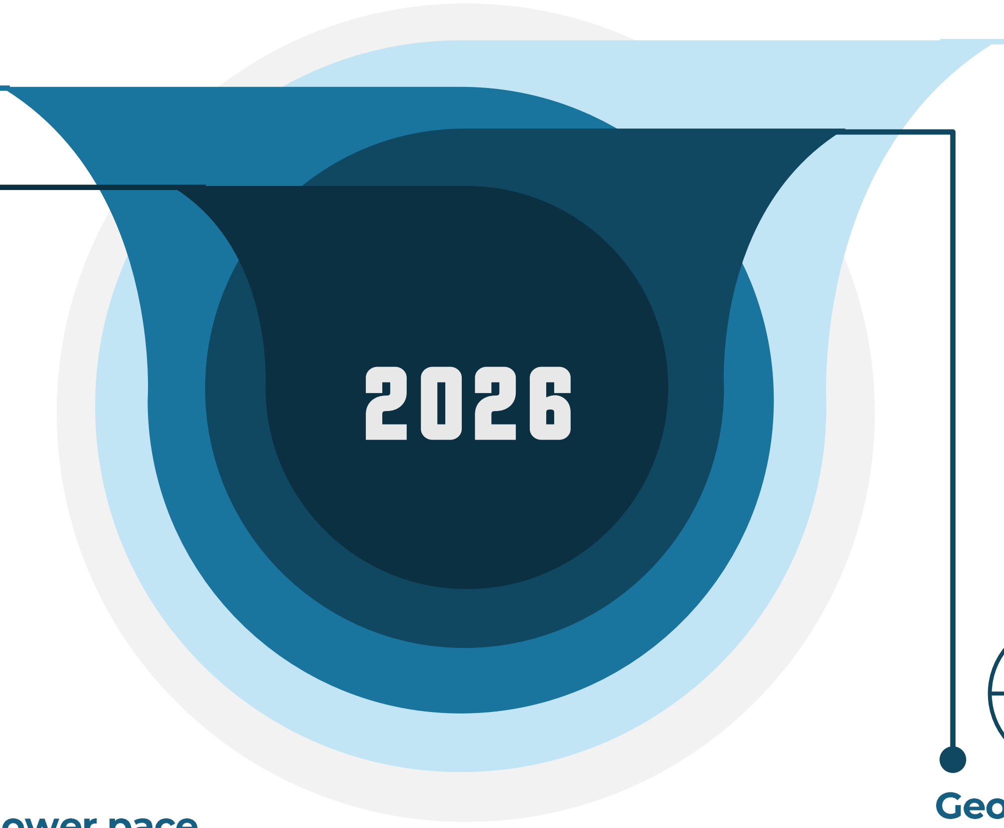
Positives

- Global economic resilience defied doomsday forecasts despite shocks with 2.8% growth YoY
- US-China trade tensions de-escalated following initial spike, tariffs rolled back from prohibitively high levels
- Global disinflation continued with headline inflation falling toward central bank targets
- AI investment boom drove significant capex, especially in the US (approx. a third of US GDP growth in 1H2025
- Oil markets recorded their steepest annual fall in 2025 since the Covid pandemic, with brent crude falling nearly 20% YoY

Negatives

- Geopolitical tensions persists in multiple regions, with ongoing conflicts accelerating geopolitical fragmentation
- US's century-high tariff increase raised effective rates (16.8% vs 2.4%), driving trade policy uncertainty to record highs weighing heavily on business confidence and investment
- Broad-based growth deceleration across all major economies with particularly severe weakness in investment and manufacturing amid elevated uncertainty.
- Mounting debt crisis across developing economies, while 60% of low-income countries are either in or at high risk of debt distress
- Oil glut remains a key concern while geo-political risks weigh down

Key Factors Shaping 2026



Growth expected to remain modest

Global growth is expected to reach 2.4% in 2026 as economies adjust to elevated tariff environments and policy uncertainty gradually moderates from 2025’s record highs.

Oil glut remains a key concern

Oil markets face significant oversupply in 2026, with production set to outpace demand by threefold, pushing Brent crude to average $58-66/barrel as OPEC+ implements voluntary cuts to stabilize prices.

Easing cycle to continue, but at a slower pace

As inflation moderates toward central bank targets, the easing cycle is expected to continue but at a slower, more measured pace in 2026. Fed is expected to cut rates by another 50bps while ECB will likely hold rates steady at 2.15%. Overall, the monetary policy is expected to remain supportive

Geopolitical uncertainty to persist

Ongoing regional conflicts in the Middle East and Ukraine, emerging conflicts like Greenland, Venezuela and Iran, show limited prospects for near-term resolution, while US-China strategic competition intensifies particularly in technology, AI, semiconductors and race for minerals.

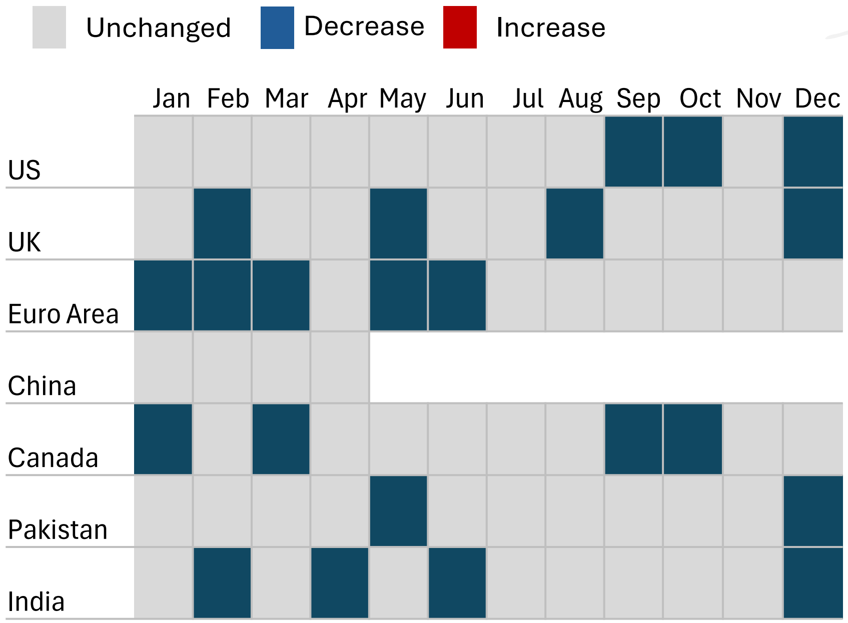
The World Ahead: Still On the Side of Caution

2025 was all about shifting policies, 2026 is set to witness the economic impact unfold.

Outlook
Cautious

- In line with our expectations, 2025 marked a year of heightened uncertainty as new governments elected in 2024 implemented sweeping policy changes, which disrupted the flow of capital, borrowing patterns, and reshaped the course of economic outcomes.
- A key catalyst that we witnessed were the trade tariffs implemented by the United States, which significantly impacted the global supply-chains for most of the 2025.
- As we move into 2026, we expect uncertainty to gradually moderate as economies adjust to these policy shifts, though risk remains elevated, especially geopolitical risk, which we believe will remain the dominant theme in 2026.

Policy rate decisions for selected regions - 2025



GDP growth forecast for selected regions - 2026

Global	3.10%
US	2.10%
UK	1.30%
Euro Area	1.10%
APAC	4.10%
China	4.20%
Emerging Markets & Developed Economies	4.00%

Source: IMF, Central banks

From the Desk: Global Investment Banks & Asset Managers

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Investment Banks

Growth
Modest-above-trend global growth while US to lead, China manufacturing supports activity while Europe is patchy

Inflation
Headline disinflation continues; core inflation remains sticky in many DMs with downside risk from commodity shocks.

Interest Rates
Gradual, cautious easing in 2026. Central banks to cut slowly as core inflation falls. Tactical positioning around cuts advised.

Key Themes
Quality cyclicals, tech/AI leaders, selective EM opportunities and tactical commodity plays

Asset Managers

Growth
Constructive but uneven growth, favor structural winners (AI, digitization, near-shoring) over broad cyclicals

Inflation
Disinflation trend expected however, core stickiness warrants allocation to real assets and inflation-resilient exposures.

Interest Rates
Expect slow easing, keep modest duration and hedge for sticky real rates; use credit/private debt to pick up yield.

Key Themes
AI/cloud, ICT exports, infrastructure/renewables, private markets and selective EMs with reform momentum

Consensus

Global growth to be moderate as AI spending drives the economy, while inflation to stay elevated keeping central banks cautious, leading investors to favor international equities and alternatives over traditional portfolios

Market Outlook – Cautiously Positive

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Asset Class	Investment Banks	Asset Managers	Outlook
Equities	▪ Favors developed-market tech/AI and pockets of EM (India) ▪ Cautious on broad EM beta	▪ Focus on long-term growth themes (AI, clean energy, infrastructure) ▪ Prefer quality and thematic exposures ▪ Selectively overweight developed markets	Positive with tilt to quality growth (AI/exporters) with selective cyclicals in reforming markets
Fixed Income	▪ Shorter-duration preferred in developed markets ▪ Cautious on EM debt given FX/geopolitics	▪ Selective credit and infrastructure debt ▪ Focus on duration management as central banks ease later in 2026	Modest-duration base with selective credit. Focus on investment-grade & opportunistic EM credit
Oil	▪ Material spare-supply/inventory overhang expected ▪ Oil forecast between $55-$60/bbl	▪ Cautious/neutral on oil, treating it as supply-sensitive hedge ▪ Oil forecast between $55-$65/bbl	Range-bound $55-$65 on supply surplus, with episodic spikes from geopolitical shocks
Gold	▪ Tactical safe-haven ▪ Forecast range $4,000-$5,000/oz	▪ Structural hedge with continued upside ▪ Forecast range $3,500-$5,500/oz	Strategic insurance and tactical buys into risk spikes or sustained real-rate weakness
Other Commodities	▪ Base metal supported by energy transition ▪ Industrial commodities sensitive to China demand	▪ Tilt to critical minerals and renewables supply chain exposure ▪ Tactical allocations to copper/lithium	Bifurcated outlook. Industrial metals supported by capex/transition demand energy & food remain tactical and event-driven
Currencies	▪ USD: range-bound to modestly weaker as Fed eases ▪ EM: trade EM FX idiosyncratically around policy/commodity moves	▪ USD: modestly weaker into 2026 ▪ EM: select reformers (INR, IDR, MYR, BRL) with focus on high real yields	USD range-bound while selectively positive for reforming EM FX where fundamentals improve
Real Assets	▪ Positive on infrastructure / energy transition real assets ▪ Focus on REIT issuance, and tradeable real-asset opportunities	▪ Increase allocations to infrastructure, renewables, and REITs ▪ Focus on private market opportunities	Favored. Focus on infrastructure, renewables and core real-estate

Key Global Investment Themes for 2026

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Theme	Rationale	Focus on
1. The AI Productivity Surge: From Infrastructure to Enterprise	AI remains the dominant thematic force in 2026. Heavy tech capex and broad pilot deployments are now turning AI from infrastructure spending into durable, revenue-generating enterprise products. 2026 is the year monetization and productivity gains (not just build-out) will drive value across industries.	▪ Semiconductors and AI infrastructure ▪ Cloud computing and data centers ▪ Enterprise software and automation ▪ Utilities and power generation ▪ Sector-specific AI applications.
2. Energy Transition: Commodity Markets Bifurcation	Energy markets are splitting into two distinct opportunity sets. Traditional oil price dynamics is creating fiscal room for energy-exporting economies. Simultaneously, green metals face supply constraints despite surging demand from electrification and EV adoption globally. China's dominance in critical mineral processing (80% of rare earths, 60% of lithium) is forcing Western nations and emerging economies to develop alternative supply chains regardless of cost. Agricultural commodities face supply tightness heading into 2026-27 harvest seasons due to low producer margins and climate pressures.	▪ Copper and battery metals for electrification ▪ Alternative rare-earth sources outside China ▪ Renewable energy infrastructure ▪ Agricultural commodities as volatility hedges
3. The Near-Shore Manufacturing Race is a Long-Term Game	Elevated geopolitical friction and industrial-policy incentives are converting temporary supply-chain moves into durable regional production footprints and national strategic programs. This structural reordering favors regional manufacturing ecosystems and alternative input/processing sources, creating decade-long infrastructure and manufacturing buildouts in these regions. Critical minerals competition is also intensifying as nations seek supply diversification, creating premium opportunities in alternative sources outside dominant suppliers.	▪ Manufacturing hubs (Mexico, India, Vietnam/SE Asia) ▪ Regional semiconductor & advanced-manufacturing fabs ▪ Critical-minerals diversification and processing ▪ Regional logistics & industrial corridors ▪ Sovereign strategic industries.
4. Higher-for-Longer Income Tilt	Central banks are on different tracks across major jurisdictions, creating persistent yield and currency dispersion. Geographic positioning in rates and currencies matters as much as duration or credit quality for the first time in over a decade.	▪ Currency positioning (USD/EUR/JPY & EM corridors) ▪ Regional duration/curve strategies ▪ Carry and cross-currency plays ▪ Sovereign/quasi-sovereign bond selection ▪ Gold as hedge
5. Selective EM Re-rating	Developed-market concentration plus EM reform and re-shoring will create selective country/sector upside rather than uniform EM beta.	▪ India (Infrastructure, domestic demand) ▪ Selected China export/tech pockets ▪ SE Asia manufacturing beneficiaries ▪ Commodity-exposed EMs with fiscal/FX resilience

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Pakistan Outlook

- A Fragile Foundation
- From Firefighting to Growth Recovery
- Structural Vulnerabilities Unaddressed
- The 2026 Agenda Directionally Sound

2025 Roundup – Positives Outweigh

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POSITIVES

8 global entities entered Pakistani market in 2025

Trump sets Pakistan's tariffs at 19%, 2nd lowest in South Asia after Afghanistan

The IMF completed the 2nd EFF review with a primary surplus of 1.3% of GDP while reserves crossed $15.8bn

Economy shows signs of stabilization (historic low inflation, FX reserve improves, import cover improved to 2.6 months, LSM up 6% FYTD, interest rate slashes by 1,150 bps

Pakistan-Saudi Arabia Strategic Mutual Defense agreement signed

PIA's landmark privatization of PKR 135bn is the first major SOE disposal in two

Pakistan's credit rating upgraded by Moody's (Caa1), Fitch (B-), and S&P (B-)

KSE-100 reached an all-time high delivering 51% returns YoY with P/E multiple of 8.0x

135K new investors in 1.5 years

Remittances hit a record $38.3 bn in FY25, up 27% YoY

NEGATIVES

Key IMF benchmark (tax target) not achieved

India-Pakistan war disrupted regional stability, triggering trade suspension and Indus Water Treaty freeze

Afghanistan border closure halts $2-$3bn in annual trade

MNC exits continued, P&G left after 34 years following Shell, Microsoft, Uber, Pfizer, and others in previous years

Monsoon flooding causes severe agriculture losses (6.9 Mn people, 2.2 Mn acres of cropland)

2026 - A Fragile Foundation for Growth

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2025 demonstrated Pakistan's capacity for macroeconomic stabilization. 2026 will test whether stabilization can translate into sustainable growth.

Outlook
Cautious

- Pakistan's macroeconomic stabilization through 2025 has set the foundation for cautious optimism in 2026.
- IMF-backed financing and prior debt adjustments have materially reduced immediate funding stress and restored limited policy space.
- As we enter 2026, this stability allows for a measured pickup in economic activity. We expect GDP to moderate to 3.5% in FY26, underpinned by declining interest rate and a notable rebound in LSM, recovery in services sector, and a gradual improvement in agriculture after a subdued FY25.
- However, we are of the view that the outlook for CY26-27 critically depends on continued reforms as we expect temporary uptick in inflation in 1HCY26 before stabilizing in 2HCY26, and renewed pressure on current account.
- Successful implementation of key reforms such as energy reforms, privatization reforms, and SOE reforms is also critical to anchor for investor confidence and long-term growth.

		FY23A	FY24A	FY25A	FY26F	FY27F
Output						
GDP Growth	%	-0.2%	2.6%	3.0%	3.5%	4.0%
Agri Growth	%	2.2%	6.4%	1.5%	2.0%	2.9%
Industry Growth	%	-3.9%	-1.2%	5.3%	4.6%	4.2%
Services Growth	%	0.0%	2.3%	3.0%	3.8%	4.4%
Monetary						
CPI (Headline)	%	29.2%	23.4%	4.5%	7.1%	6.2%
CPI (Core)	%	16.1%	16.2%	8.5%	7.6%	7.8%
Policy Rate	%	22.0%	20.5%	11.0%	10.5%	10.0%
External						
CAD	USD bn	(3.3)	(2.1)	1.9	(1.4)	(1.9)
CAD	% GDP	-1.0%	-0.6%	0.5%	-0.3%	-0.4%
Export	USD bn	27.9	31.0	32.3	35.6	42.7
Import	USD bn	52.7	53.2	59.1	70.9	85.1
Remittances	USD bn	27.3	30.3	38.3	44.0	52.9
SBP Reserves	USD bn	4.4	9.4	14.5	17.8	20.9
PKR/USD	Avg	248	282	279	285	300
Fiscal						
Tax	% GDP	9.3%	9.6%	10.3%	11.1%	11.2%
Fiscal Deficit	% GDP	-7.8%	-6.9%	-5.4%	-4.5%	-4.7%
Debt	% GDP	75%	68%	71%	70%	69%

Source: MoF, PBS, SBP, AB Core Research

Policy Shifting from Stabilization to Growth Recovery…

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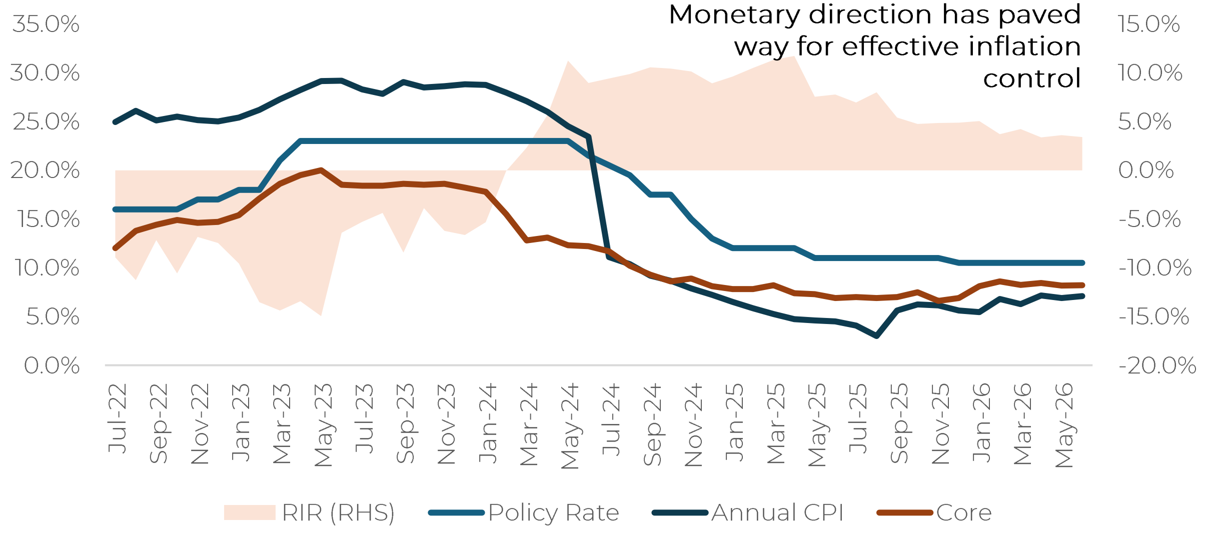
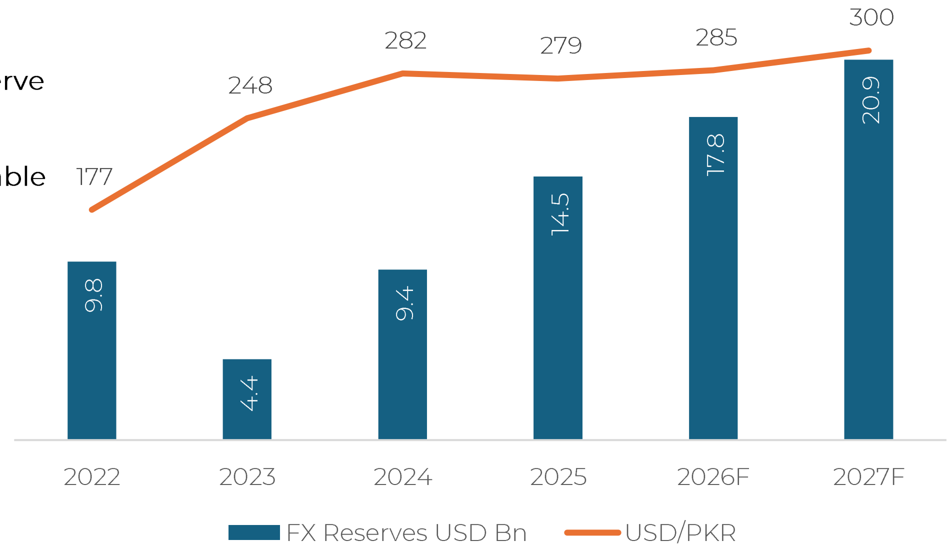
- In 2025, Pakistan's policy approach was defined by stabilization. Tight monetary policy and aggressive fiscal tightening aimed at restoring macroeconomic stability and preserving reserves.
- Government policy remained defensive and survival-oriented, with non-essential spending deferred and reform largely confined to IMF-mandated benchmarks. Investor sentiment stayed cautious, with market participants focused on short-term liquidity conditions and external funding visibility.
- As we move into 2026, the government is cautiously shifting gears from firefighting to normalization. With inflation stabilizing and reserves rebuilt, monetary easing continues.
- Fiscal discipline is still a priority, however, there is a gradual reintroduction of development spending, subject to revenue performance.
- The policy narrative now leans toward medium-term reforms including a more assertive privatization agenda, on-going energy sector adjustments following substantial circular debt reduction, and governance improvements across SOEs.
- Yet, execution risk remains high given ambitious timelines and past delivery gaps. While immediate risk premia have narrowed, investor confidence in sustainable growth hinges on whether policy announcements translate into tangible progress on the ground.

Source: PBS, SBP, AB Core Research





…Yet, Structural Vulnerabilities Remain Largely Unaddressed

Areas	Not Adequately Addressed				Addressed	
Inflation					◆	Inflation collapsed to multi-year low. Risk of resurgence is low under current stance
External Stability				◆		Buffers rebuilt, PKR stable, CAD pressure possible in near-term
Fiscal Slippage			◆			Primary surplus achieved; however, weak revenue keeps risk moderate
Circular Debt			◆			Stock reduced by 33% through tariff baseline and better enforcement, but the risk remains as sector fundamentals are not fully fixed. Slippage in payment discipline is possible
Revenue Mobilization	◆					Efforts at broadening the tax base have produced only incremental gains. High vulnerability to revenue shocks persists.
Privatization / SOE Reforms			◆			Major step with PIACL privatization completed FWBL sold to UAE three DISCOs near finalization, however, the broader pipeline is still slow, and overall delivery remains below targets
Private Investments			◆			Investment sentiment is improving on stabilization, but private investment levels are still subdued (Inv-to-GDP 14% in FY25). A broader recovery is contingent on sustained confidence and reforms.
Institutional Governance	◆					Weak institutional capacity, fragmented macro-fiscal planning, and execution remain key constraints on reform traction and policy delivery
Climate Risk		◆				Initial climate adaptation and resilience policies have begun; however, the economy remains highly exposed to natural disasters and climate shocks, with slow progress on risk transfer

Source: AB Core Research

Key Structural and Policy Reforms

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Privatization

- PIACL privatization completed after 19 years
- FWBL sold to UAE
- 3 DISCOs (IESCO, GEPCO, FESCO) near finalization

Fiscal & Debt Management

- Tax-to-GDP improved to 10.33% vs 8.8% in FY24
- Debt-to-GDP at 70% (vs 75% in FY23)
- PKR 2.6trn early payoffs, PKR 900bn interest savings
- Panda bond issuance underway

Energy Reforms

- CD stock reduced 33% to PKR 1.7trn
- Renegotiations on tariff reduction with IPPs/GPPs
- Electricity price cut for industries & households

Policy Frameworks

- New Wheat Policy finalized, Sugar sector liberalized
- EV Policy, Tariff Policy, Digital Policy, AI Policy launched
- Pakistan Virtual Asset Authority formed, MOUs with Binance, World Liberty Finance

Source: MoF, News Flow, AB Core Research

The 2026 Agenda Directionally Sound, Implementation Key Risk

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Policy Domain	Direction	Commentary	Implication
Monetary	Pro-growth	Policy tightening in 2025 was effective in anchoring inflation and rebuilding reserves. For 2026, SBP has signaled cautious easing. Further cuts depend on core inflation and FX stability. Policy intent is to keep real rates positive, with easing only as fundamentals allow.	We expect measured easing to unlock credit and support LSM recovery. With the policy rate averaging 10.5% in FY26, LSM should rebound 5%, and real GDP is projected to grow 3.5%. Inflation to stay anchored around 7%, with a gradual, investment-led recovery.
Fiscal	Consolidation	Fiscal policy in 2025 met surplus targets and contained the deficit. For 2026, the government is keeping consolidation as its anchor as 2nd fiscal surplus is achieved in 1HFY26. New tax and subsidy reforms are in play, while infrastructure and social spending are targeted but tightly managed to IMF criteria. Any fiscal slippage will prompt immediate correction to protect external flows.	Fiscal deficit should hold near 4.5% of GDP. Development spending should rise modestly, causing investment-to-GDP to edge up, however, discipline stays paramount.
External	Consolidation	2025 saw reserves jump to $14.5bn (2.5 months imports), and the current account posted a rare surplus, thanks to import compression and remittances. For 2026, PKR remains market-driven, with interventions only for disorderly markets. Exports and FDI are focus areas.	We expect SBP FX reserves to end FY26 above $17.8bn. Currency stability should persist in the near-term, though CAD is projected to widen to -0.3% of GDP ($1.9bn) as imports recover. External balances hinge on trade and capital flow momentum.
Structural Reforms	Consolidation	Reform momentum improved in late 2025, especially with PIACL and FWBL privatization and initial steps on DISCOs and energy pricing. For 2026, government are pushing forward on SOE reforms, energy sector rationalization, and privatization, recognizing that visible progress is crucial for IMF flows and investor sentiment.	We believe that the govt's SOE privatization targets for 2026 are ambitious. However, with PIACL and FWBL completed, If momentum holds on DISCOs and other entities, we expect further IMF disbursements, FDI, and investment-to-GDP to gradually rise. Delays or reform fatigue would quickly increase risk premia and stall sectoral investment.

The 2026 Agenda Directionally Sound, Implementation Key Risk

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Policy Domain	Direction	Commentary	Implication
Energy / Circular Debt	Adjustment and reform	Government has shifted from crisis containment to sector reform. CD flows stopped to PKR 1.7trn (stock reduced 33% through tariff baseline and better enforcement). Tariff cost recovery improving while affordability cost recovery underway and pushing 3 DISCO privatizations. 2026 policy is reformist, aiming to halt debt growth and shift the sector toward viability and investment.	If reforms persist, CD stock should plateau, reliability should improve, and fiscal drag will lessen. Any reversal could rapidly reignite sector and budget pressures.
Debt Management	Prudent management	Debt policy in 2025 stabilized overall debt ratios through surplus delivery and risk avoidance. In 2026, the government commits to no new FX guarantees, channels SBP windfalls to debt reduction, and keeps rollover risk low by securing official/multilateral funding and anchoring fiscal discipline.	We expect total public debt to decline slightly to 69.8% of GDP. Rollover risk remains manageable, as long as market access and prudent policy are sustained.
Trade Policy & Investment Incentives	Liberalization	SEZ/industrial zone incentives are being phased out by 2035, trade is being liberalized (including for used cars), and digital reforms are underway to deregulate tax and investment administration. All aimed at creating a level playing field for FDI and private capital.	We expect the investment climate to gradually improve, with increased export competitiveness and FDI inflows over the medium term, supporting a structural rise in investment-to-GDP and export diversification.
Agriculture & Commodity Markets	Liberalization	Commodities markets are being liberalized and deregulated under IMF Benchmarks. Notably, a new Wheat Policy is being finalized to modernize market framework, remove price controls, and safeguard food security. Similarly, the sugar sector is moving towards full liberalization, with an end to price controls and export/import restrictions.	More flexible and market-based agri/commodity pricing should reduce food price volatility, support rural incomes, and improve food security outcomes, while reducing fiscal pressures from inefficient subsidies.

The government's 2026 policy framework is directionally appropriate, i.e., consolidation on macro fronts paired with structural reform ambitions. However, execution capacity remains constrained. We assume moderate delivery in 2026, sufficient to maintain stability but falling short of transformational change. The key risk to our outlook is not policy direction but implementation. Reform fatigue or execution slippage could quickly reverse 2025's stabilization gains."

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Asset Allocation

- Sharp Equity Re-Rating in 2025
- Equity Inflows to Continue
- Financials Performed the Most in 2025

Economic Direction Favors Equities

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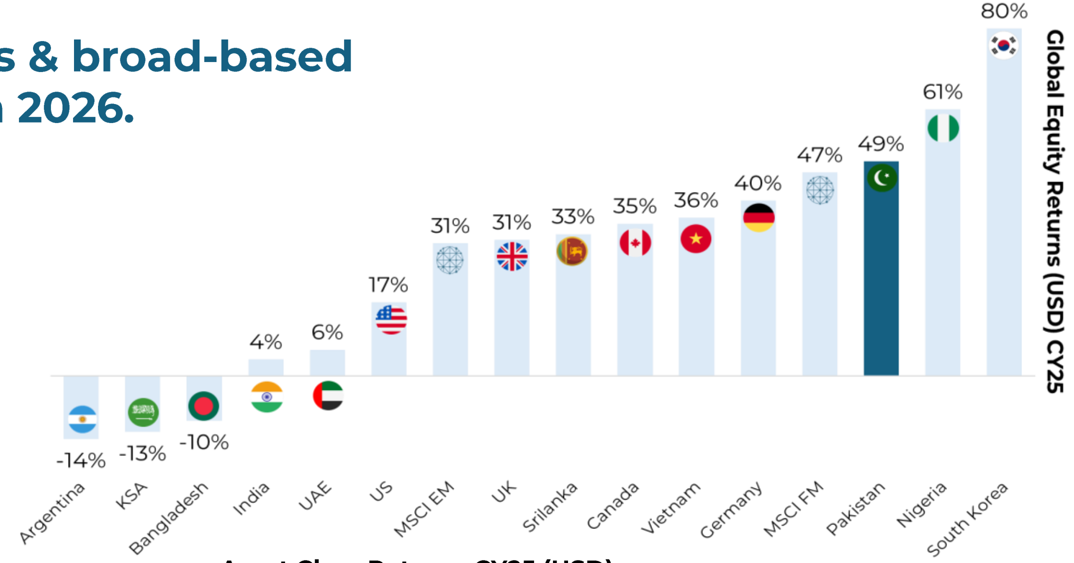
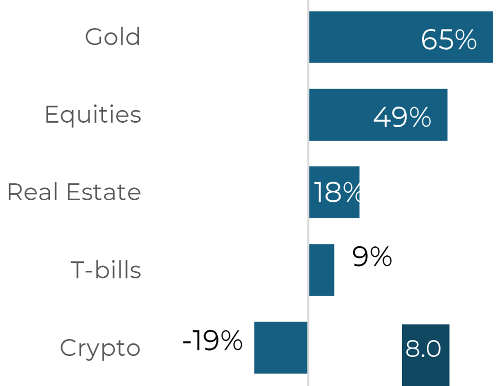
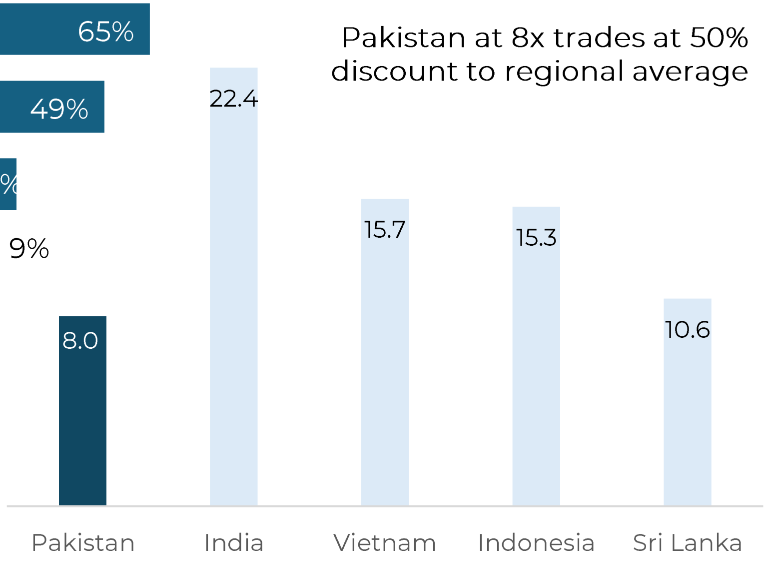
Pakistan's equity market re-rated sharply amid falling rates & broad-based returns in 2025. Further momentum appears sustainable in 2026.

- Pakistan remained one of the top-performing equity markets globally for the second year running, with a cumulative USD return of 133%.
- Gold outperformed all other domestic asset classes with 65% YoY USD return, followed by equities at 49% with significantly better liquidity and accessibility for institutional investors.
- The equity rally was broad-based with cement being the top-performing sector (91%) followed by banks (79%).
- Real estate (18%) and T-bills (9%) also provided stable alternatives while crypto (-19%) underperformed nearly all asset classes, mainly on account of Bitcoin market crash in 4QCY25.
- The KSE-100's P/E expanded to 8x at year-end 2025, trading at a 50% discount to regional peers (16x) as investor confidence improved amid macro stabilization.
- Going forward, we expect the equities to remain attractively valued with further re-rating potential as inflation remains anchored and rate cuts bottom out at 10% by end-2026.



Asset Class Returns CY25 (USD)





Source: Bloomberg, PSX, Mettis, AB Core Research

Equity Inflows to Continue

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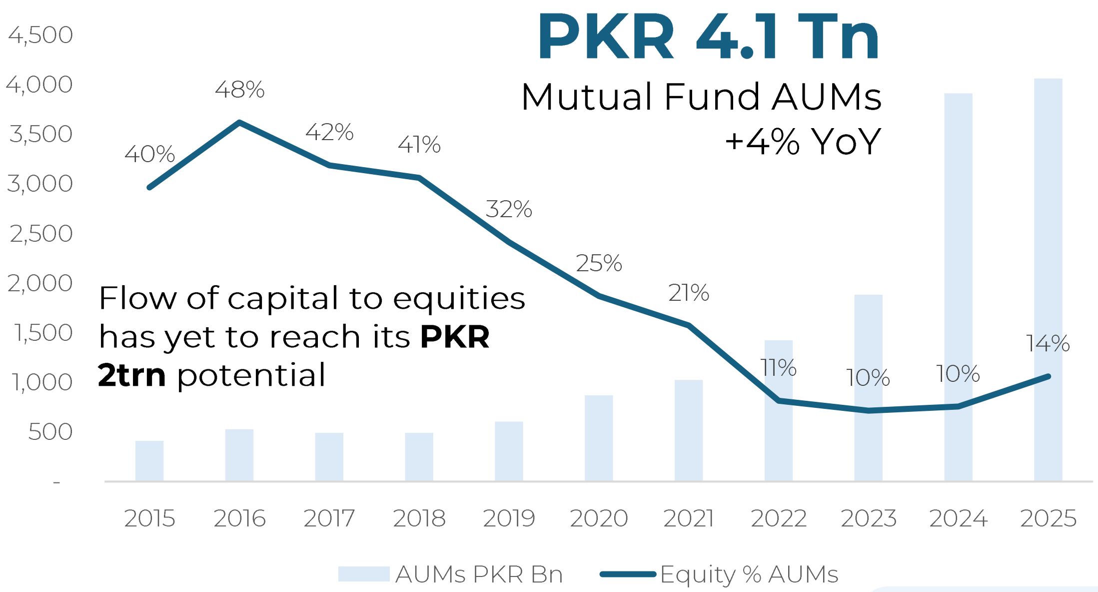
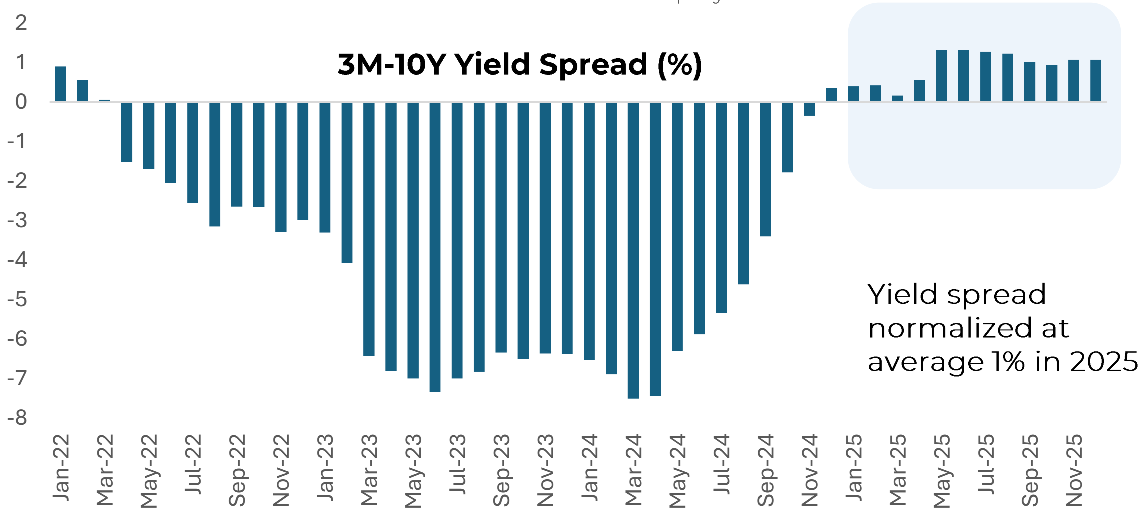
- Mutual fund AUMs grew 4% YoY to PKR 4.1tn in CY25, driven by stable macroeconomic landscape and improved investor confidence.
- Equity allocation rose to 14% of total AUMs in CY25, up from 10% in 2024, marking the first sustained uptick since the high-rate environment compressed equity exposure from 48% in 2017.
- However, equity allocation remains well below pre-crisis levels (40-48% during CY15-18), representing PKR 1.96trn in untapped reallocation potential as portfolios continue rebalancing toward historical norms.
- With policy rates expected to stabilize at 10% by end-2026 and inflation anchored at 6%-7%, the real return differential increasingly favors equities over fixed income, particularly as LSM recovery translates into improved corporate fundamentals, significantly outpacing fixed income's 3.4% real yield.
- The yield spread has also normalized around 1% in CY25, making monetary environment stable and supportive of risky assets, with capital rotation expected to continue through CY26 despite the rate cut cycle bottoming out



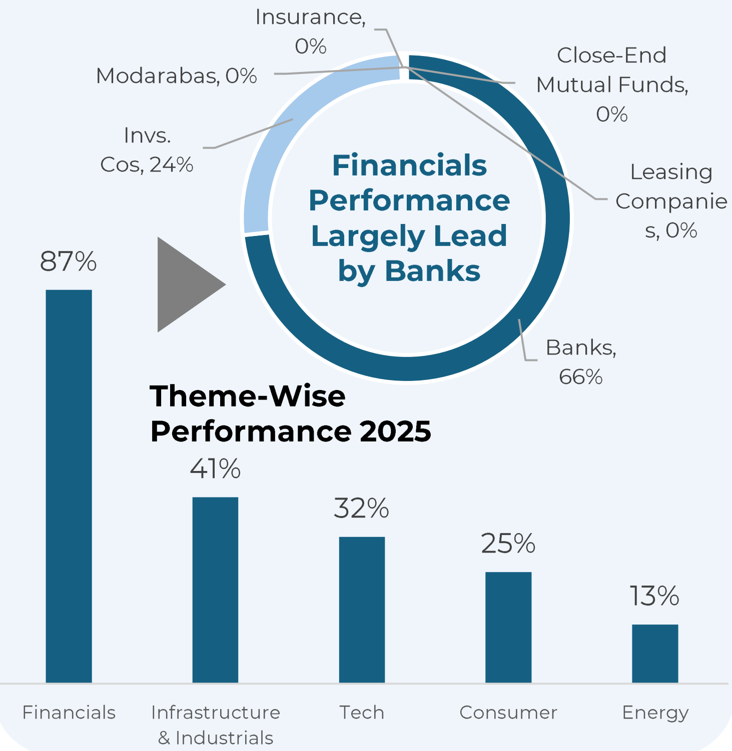


Source: MUFAP, Alpha Beta Core

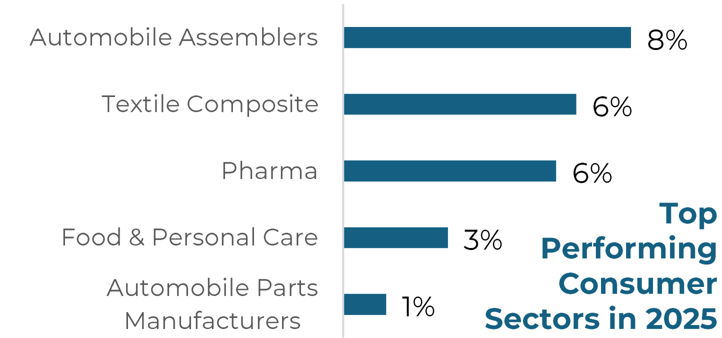
Thematic Performance - 2025

Financial Sector Leads Returns in 2025

Sectors in CY25 posted strong returns as macro risks subsided and investment climate improved. Key beneficiary of this development was Financials, which outperformed the rest of the themes in 2025, mainly driven by lower funding costs, AUMs growth, and bank re-rating.



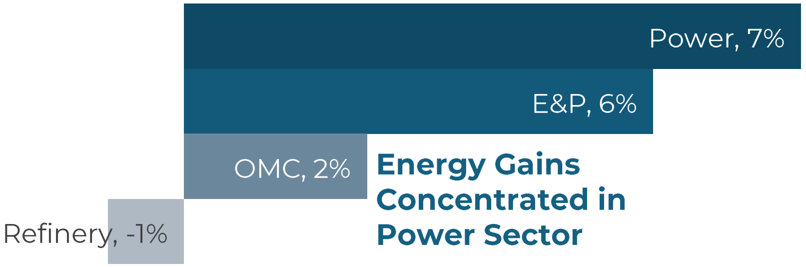
Consumer gains were concentrated in Automobile Assemblers, Textile Composite and Pharma, these three accounted for the bulk of the theme's upside



Infrastructure & Industrials Rally Lead by Cement

2025's Infrastructure & Industrials rally was led by cement with higher dispatches, utilization and firmer pricing from a construction-led recovery while fertilizer delivered steady restocking-driven gains, REITs/property added marginal support from renewed issuance activity, and niche industrials saw modest, deal-driven upside.

Energy performed 13%, mainly driven by circular debt settlement, tariff/FCA and dividend catch-ups in Power sector followed by production recovery and lower commodity pricing in favor of E&Ps while OMCs benefited from margin recovery and volume pickup, specifically in HSD sales.



Tech performed 32% in CY25 on record IT export growth and multiple expansion, supported by IPO and exit activity. PSX recorded seven IPOs raising USD 15.3 Mn out of which 2 were listed in tech, where both Zarea and Nets Int'l performed 198% and 245% since listing, respectively. Key M&A activity in tech space was PTCL's successful acquisition of Telenor for PKR 108bn (USD 400mn) and Engro's acquisition of Deodar (Jazz) for PKR 156bn (USD 560mn)

25% Total Return in 2025

2 Tech IPOs in 2025

M&A Activity

Telenor	Deodar (Jazz)
Acquisition	Acquisition
By PTCL	By Engro

Returns computed as market-cap weighted performance of each sector in the theme

Thematic Strategy

- Demand Recovery in Consumers
- CD Settlement on the Cards
- Increased Deposits to Drive Financials
- Policy Favors Manufacturing
- Tech Space Lucrative

Our 2025 Thematic View Review

AlphaBetaCore

Theme	2025 Outlook	Key Considerations for 2025	Actual Performance	Thesis Delivery	Comments
Consumer	Positive	▪ Pakistan's consumer play remains strong ▪ New emerging trends in spending with generation change	25%	Partial	Structural theme remains intact, however, faces delay due to unforeseen floods, which elevated inflation quicker than initially anticipated. With headline inflation anchored at 6-7%, food inflation easing, and real wages turning positive in 2026, disposable income recovery should drive volume-led growth. Mass market catch-up potential significant.
Energy	Stable	▪ Major reforms underway ▪ DRE on the rise	13%	Partial	CD stock reduced 33% (from PKR 2.5trn to PKR1.7trn) via PKR 1.225tn refinancing and efficiency gains, however, structural reforms lagged, with zero DISCO privatizations, incremental tariff adjustments, persistent T&D losses at 17.6%. DRE boom benefited distributed solar. Flow issues remain despite stock progress.
Financials	Stable	▪ Capital Gains ▪ Credit expansion ▪ Digital Banking & Payment solutions	87%	Complete	Credit expansion to private sector showed strong recovery in 2025 and reached three year high in FY26TD while ADR reached 38% as LSM picked up. Digitization also materialized with digital transactions accounting for 88% transactions in FY25 compared to 85% in FY24.
Industrials & Infrastructure	Stable	▪ Incremental fiscal space and lower interest rates to provide room for spending ▪ REITs are on the rise	41%	Complete	Key sector performance is largely attributed to cement sector, with rate cuts unlocking cement volume recovery as LSM picked up in 2025
Tech	Positive	▪ IT exports on the rise and new tech companies being registered ▪ Tech startups gaining momentum	32%	Complete	IT exports hit a record high of $3.8bn in FY25, up 18% YoY while FY26TD exports are up 19% compared to SPLY. Export momentum remains sustained while USD 10Bn export target by FY29 provides multi-year upside.

Thematic View for 2026

AlphaBetaCore

Themes	Factors affecting theme	Key sectors	Opportunities
Consumer	▪ Defensive staples ▪ Demand recovery due to credit availability	▪ Food and Personal Goods ▪ Automobile ▪ Pharma	▪ M&A ▪ PE/VC
Energy	▪ Remaining circular debt clearance ▪ Recovery in upstream activity ▪ Privatization of SOEs ▪ Stable demand for POL products, especially with lower global oil prices	▪ Power ▪ E&Ps ▪ OMC	▪ Privatization ▪ M&A ▪ FDI/Investment
Financials	▪ Increased deposits and institutional flows ▪ Credit demand recovery	▪ Bank ▪ Fintech	▪ M&A ▪ Privatization ▪ FDI/Investment
Industrials & Infrastructure	▪ Policy supports reintroduction of public and private capex rollouts ▪ Uptick in manufacturing demand, specially as govt focused on key sectors such as mining & minerals	▪ Cement ▪ Cables & Electricals ▪ REITs	▪ Privatization ▪ REITs ▪ M&A ▪ FDI/Investment
Technology	▪ Export-led growth ▪ Increased market liquidity due to active M&A and IPO activities	▪ IT/Software Exporters ▪ Tech-enablers	▪ IPO ▪ M&A ▪ PE/VC ▪ FDI/Investment

Abbreviations

Abbreviation	Name
ADR	Advance to Deposit ratio
AI	Artificial Intelligence
AUM	Assets Under Management
BB	Branchless Banking
CAD/CAS	Current Account Deficit/Surplus
CAGR	Compound annual growth rate
CD	Circular Debt
CPP	Capacity Purchase Price
DISCO	Distribution Company (Power)
DRE	Distributed Renewable Energy
EM	Emerging Market
EMI	Electronic Money Institute
EPP	Energy Purchase Price
FWBL	First Woman Bank Ltd
GENCO	Generation Company (Power)
IF	Investment Firms
LFI	Leading Financial Institutions
LSM	Large Scale Manufacturing
ME	Middle East
NBFC	Non-Banking Finance Corporation
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission and Dispatch Company
PPA	Power Purchase Agreement
RLNG	Re-gasified Liquefied Natural Gas
RMC	REIT Management Company

Abbreviation	Name
AUM	Asset Under Management
BPO	Business Process Outsourcing
BYD	Build your dreams
CPI	Consumer Price Index
CRM	Customer Relationship Management
DM	Developed Markets
EM	Emerging Markets
ESG	Environmental, Social and Governance
FCA	Fuel Cost Adjustment
FI	Financial Institutions
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GenAI	Generative AI
IPO	Initial Public Offering
IT	Information Technology
NDC	Nationally Determined Contributions
PE	Private Equity
PIACL	Pakistan International Airlines
SE	South-East
SPLY	Same Period Last Year
US	United States of America
USD	United States Dollar
VC	Venture Capital
XaaS	Anything as a services

Key Data Sources

Abbreviation	Name
IMF	International Monetary Fund
WB	World Bank
SBP	State Bank of Pakistan
NEPRA	National Electricity Power Regulatory Authority
MOF	Ministry of Finance
MUFAP	Mutual Funds Association of Pakistan
PBS	Pakistan Bureau of Statistics
SECP	Securities and Exchange Commission of Pakistan
PSX	Pakistan Stock Exchange

Analyst

Malaika Tabassum	malaika@alphabetacore.com

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Alpha Beta Core is an award-winning boutique financial services company with a global reach. We at Alpha Beta Core specialize in advisory solutions in Investment Banking, Corporate Finance, Transaction Advisory, Strategy Consulting, Economic & Thematic Research, Portfolio Advisory and data-driven solutions with a focus on technology.

Corporate & Institutional Advisory Team

Farhan Bashir Khan	Chief Executive Officer	farhan@alphabetacore.com
Shahzaib Hashmi	Director Business Development	shahzaib.hashmi@alphabetacore.com
Saad Khan	SVP – Corporate Finance	saad.khan@alphabetacore.com
Zeeshan Abid	VP – Corporate Finance	zeeshan@alphabetacore.com
Sarwat Khan	VP – Corporate Finance	sarwat@alphabetacore.com
Malaika Tabassum	VP – Research & Analytics	malaika@alphabetacore.com

For Corporate Finance:
advisory@alphabetacore.com

For Research:
research@alphabetacore.com

For Investment Solutions:
invest@alphabetacore.com

United Arab Emirates
Building Techno Hub 1 I Unit G147D | Dubai Silicon Oasis
Dubai Integrated Economic Zones Authority |
Dubai I United Arab Emirates

Pakistan
Building: 7-C/1 | Office: 303-304, 3rd Floor | Main
Khayaban-e-Ittehad | DHA Phase-VII | Karachi | Pakistan