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# PAKISTAN CAPITAL MARKET: 2025 REVIEW & 2026 OUTLOOK

Stabilized Pakistan Markets, Reforms Fuelled  
PSX Rally, Funds Led, Foreigners Sold, And  
Energy May Lead 2026!

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# EXECUTIVE SUMMARY

Following the stabilization trend observed during 2023 and 2024, calendar year 2025 marked a further phase of consolidation for Pakistan's capital markets after a prolonged period of macroeconomic stress and heightened volatility. Improved macroeconomic discipline under the IMF-supported program, enhanced liquidity management amid excess system liquidity, and continued policy engagement contributed to a gradual restoration of investor confidence and market functionality.

The equity market performance during 2025 reflected improving sentiment with selective participation. Mutual funds and retail investors emerged as the primary drivers of the equity rally, while foreign investors remained net sellers amid reallocations toward developed and other emerging markets. Corporate earnings resilience and improving dividend yields underpinned market confidence rather than speculative positioning.

Currency stability over the past two years—supported by exchange rate reforms, improved external account management, and measures discouraging informal trade—also played a meaningful role in strengthening equity market performance. As risk-free rates trended downward, relative asset allocation dynamics increasingly favored equities, prompting accumulation by mutual funds, insurance companies, and corporates.

Looking ahead to 2026, market behavior is expected to remain fundamentally driven, with emphasis on earnings sustainability, dividend visibility, reform execution, and sector-specific policy developments rather than index-level projections.



# RECENT KEY DEALS AND REFORMS IN PAKISTAN



Pia Privatization: 75% stake sold to Arif Habib Consortium

**PKR 135 BILLION**

Nishat Group acquires Rafhan Maize



**TBA**

Maple Leaf Cement acquires significant control of Pioneer



**PKR 76 BILLION**

AirPak Investment Ltd Acquires Lotte Chemical Corporation



**PKR 18 BILLION**

International Holding Company acquires First Women's Bank Ltd.



First Women Bank Ltd.



**PKR 4 BILLION**

CCL Holding acquires Mitchell's Fruit Farm Ltd.



**PKR 2 BILLION**

Engro Corp acquires Deodar (wholly owned subsidiary of Jazz)



**PKR 158 BILLION**

Wafi Energy Holding Ltd. acquires Shell Pakistan



**PKR 23 BILLION**

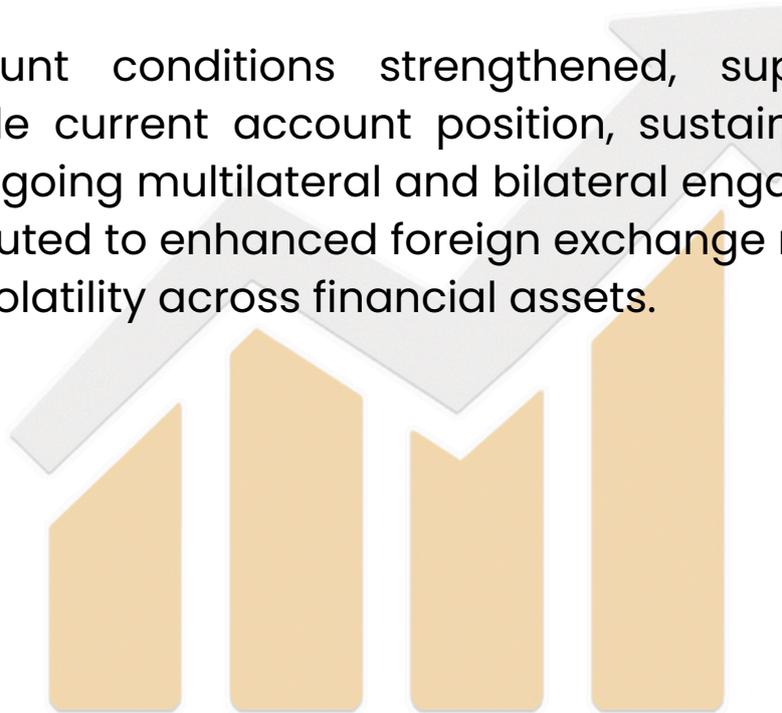
# ECONOMIC OUTLOOK



# 2025: ECONOMY, MARKETS, WINNERS

Macroeconomic indicators during 2025 showed measurable improvement compared to prior stress periods. Inflation moderated despite weather-related disruptions, including floods, reflecting tighter fiscal coordination and prudent monetary management. The central bank maintained a policy stance focused on anchoring inflation expectations, with the policy rate approaching single-digit levels by year-end.

External account conditions strengthened, supported by a relatively stable current account position, sustained remittance inflows, and ongoing multilateral and bilateral engagement. These factors contributed to enhanced foreign exchange market stability and reduced volatility across financial assets.



# FISCAL AND REFORM LANDSCAPE

Fiscal reforms in 2025 strengthened revenue mobilization, reduced borrowing reliance, and delivered a primary surplus, reinforcing macroeconomic credibility. Landmark privatizations and strategic M&A deals showcased reform execution and boosted investor confidence.



# FISCAL PROGRESS AND REFORM MOMENTUM

Fiscal indicators showed remarkable improvement in 2025, driven by higher tax revenues, better documentation, and reduced reliance on commercial bank borrowing. A primary fiscal surplus reinforced market confidence and highlighted the effectiveness of fiscal consolidation measures. Key reform initiatives continued to shape the economic landscape, including:

- Energy sector restructuring to improve efficiency and investment
- SOE rationalization, accelerating privatization and mergers
- Tax administration reforms enhancing revenue mobilization

Execution quality and continuity of reforms remained the key to sustaining macroeconomic and market stability.



# LANDMARK PRIVATIZATIONS & TRANSACTION



# LANDMARK PRIVATIZATIONS AND M&A TRANSACTIONS

2025 witnessed major corporate milestones that reshaped Pakistan's investment landscape:

- **PIA Privatization Success**, A historic step, reflecting strong government commitment to efficiency, financial discipline, and international investor confidence.
- **Strategic Mergers and Acquisitions**, Notable corporate combinations included:
  - **Nishat and Rafhan merger**, creating a more robust consumer and food sector leader
  - **Maple Leaf and Pioneer consolidation**, enhancing scale and market reach
  - **Asia Pak Investment acquisition by Lotte Pakistan**, demonstrating cross-border confidence in domestic growth
  - **International Holding Company acquisition of First Women Bank**, strengthening financial inclusion and gender-focused banking initiatives.

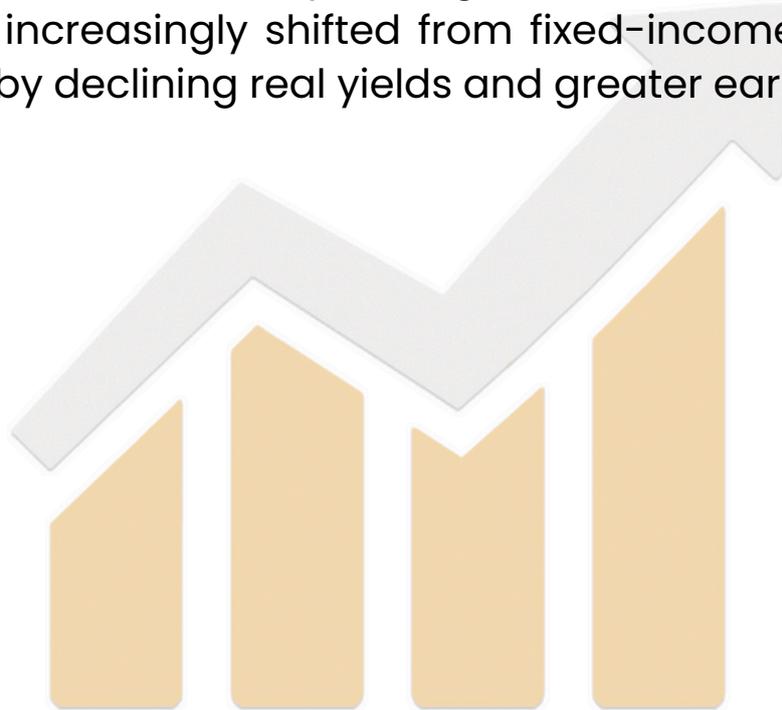
These transactions signal enhanced corporate governance, market confidence, and strategic investment flows, setting the stage for a dynamic 2026.



# EQUITY MARKET REVIEW - 2025

The KSE-100 Index demonstrated selective strength during 2025, supported by improving investor sentiment and declining risk-free rates. Equity valuations, while recovering, continued to trade at discounts to historical and regional peer averages for much of the year.

Liquidity conditions improved, although market participation remained concentrated in fundamentally strong and dividend-yielding stocks. Retail investors increasingly shifted from fixed-income instruments to equities, driven by declining real yields and greater earnings visibility.



## TOP PERFORMING SECTORS AND STOCKS OF 2025

The year 2025 witnessed strong performance across several key sectors, driven by a mix of structural growth, policy support, and early signs of cyclical recovery. Top-performing sectors included banking, energy (upstream and downstream), technology exports, and cyclical industries such as cement and autos. Correspondingly, leading stocks reflected sectorial strength, with HBL, MCB, and UBL in banking; PSO, PPL, and OGDC in energy; DGKC, LUCK, and FCCL in cement; Systems Limited and NetSol Technologies in technology exports; and Fauji Fertilizer Company (FFC) and Engro Fertilizer in the fertilizer sector.



# BANKING

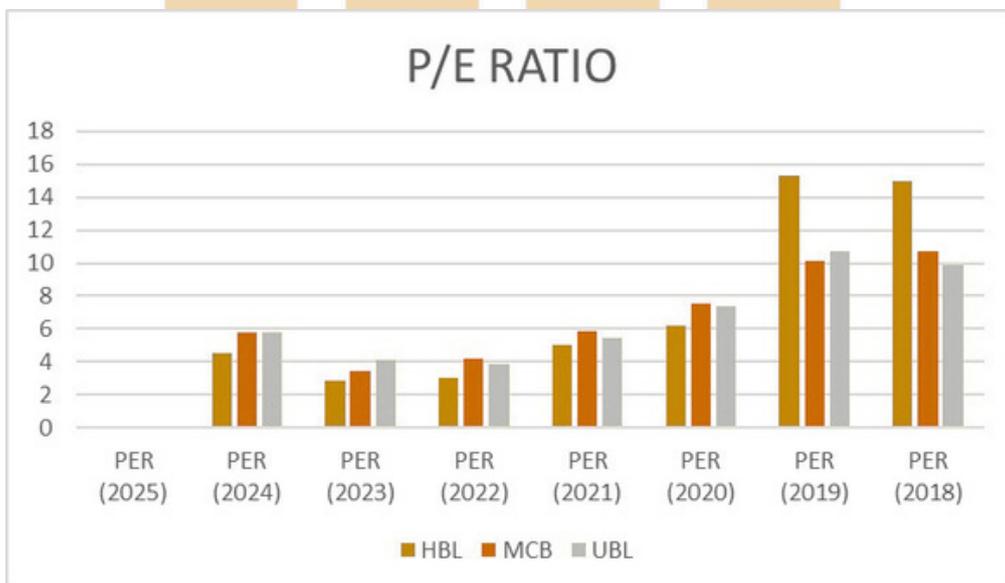
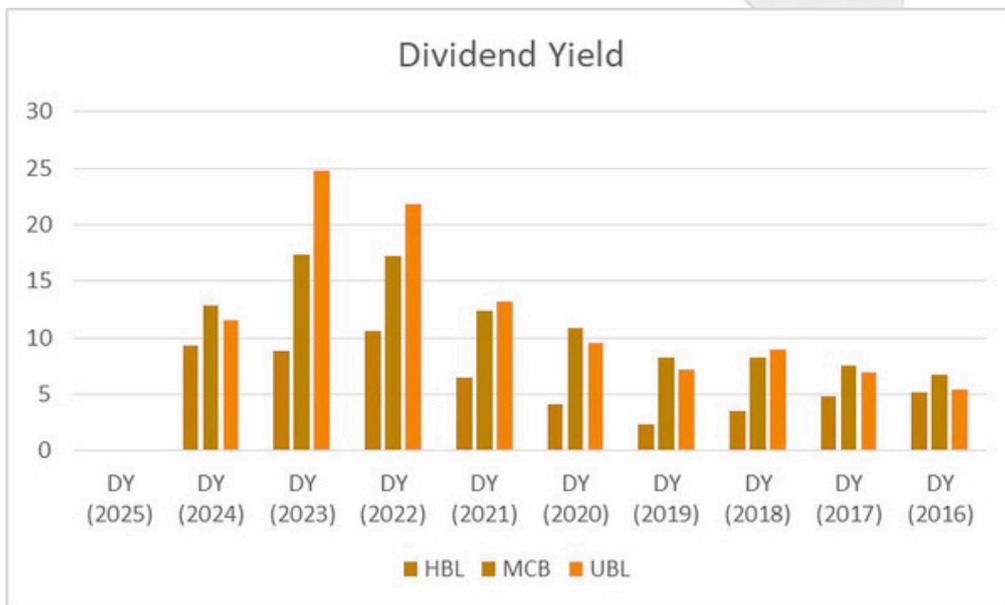


Source: PSX / Capital Stakes



# BANKING

The banking sector demonstrated resilience even amid a declining policy rate environment. Strong capital buffers, disciplined balance sheets, and consistent dividend payouts positioned banks as leading dividend-yield plays, supporting overall sector performance despite margin normalization. HBL, MCB, and UBL were the standout performers, maintaining investor confidence and stability in the sector.



# ENERGY (UPSTREAM & DOWNSTREAM)

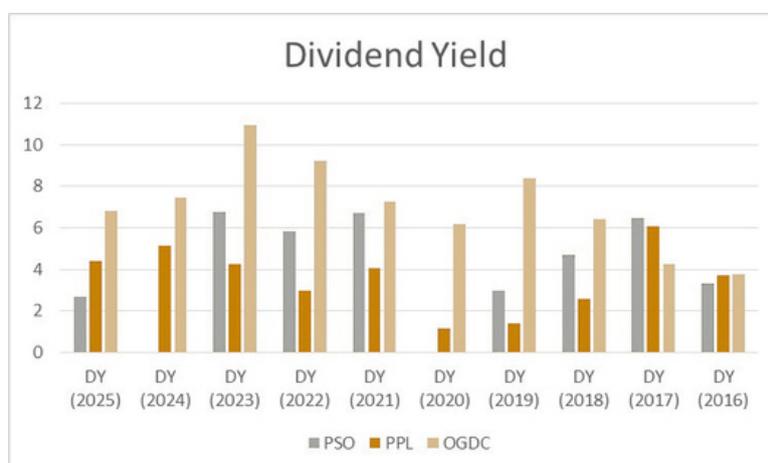
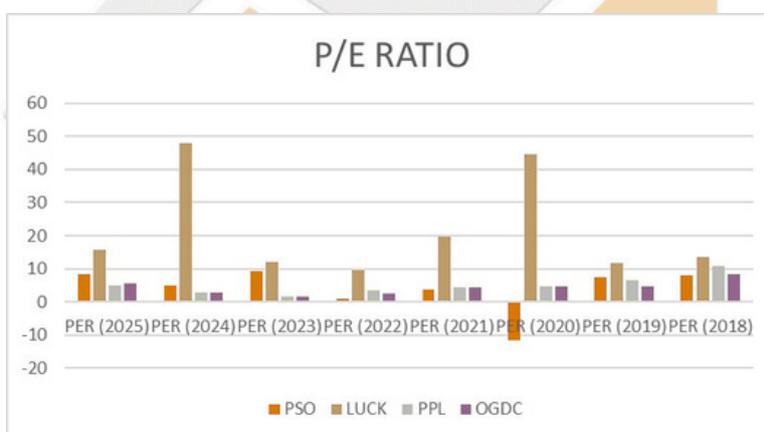


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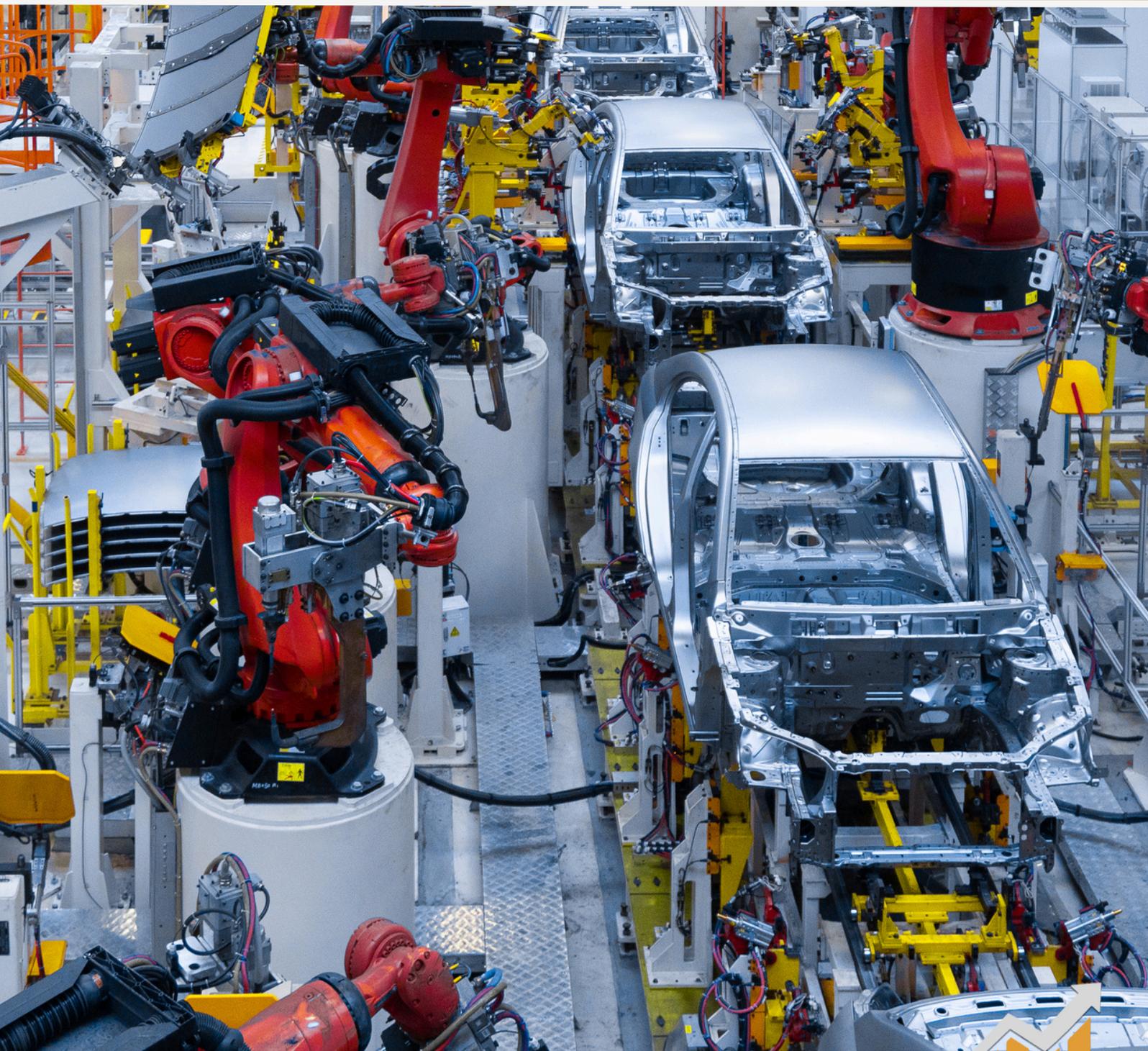
# ENERGY (UPSTREAM, DOWNSTREAM, AND REFINING)

Energy remained a key thematic focus heading into 2026. Upstream growth was driven by reported hydrocarbon discoveries and government measures such as the deferment of LNG cargoes to support local exploration and production companies. Policy alignment favoring the Petroleum Policy 2012 framework over the 2009 regime is expected to benefit upstream players such as PPL and OGDC. Downstream operations recovered, with OMC sales boosted by improved consumer earnings and revised margins; PSO led the sector's performance. Refining faced structural challenges due to hydro-skimming configurations; however, completion of isomerization and desulphurization upgrades lays the groundwork for a potential transition toward hydrocracking, contingent on capital availability and policy support.





# AUTO MOBILES



Source: PSX / Capital Stakes



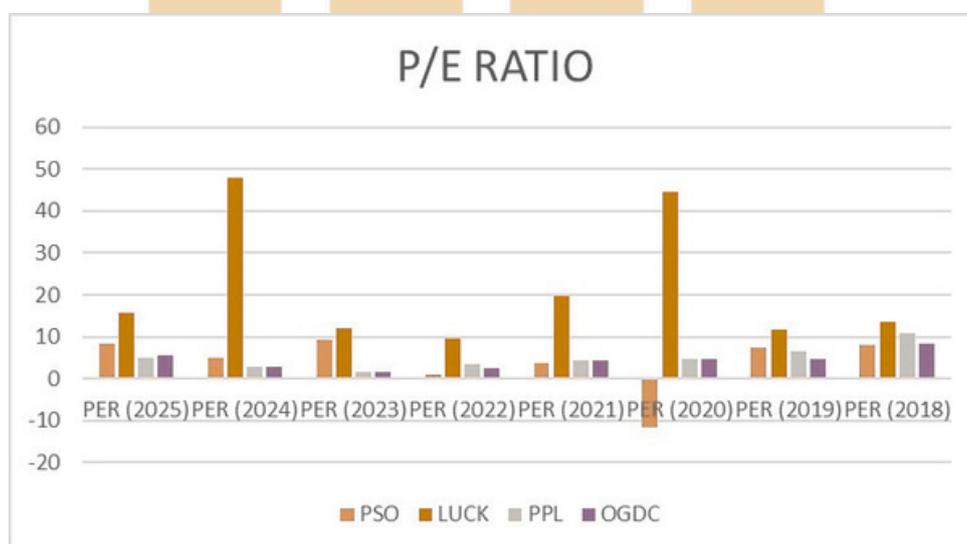
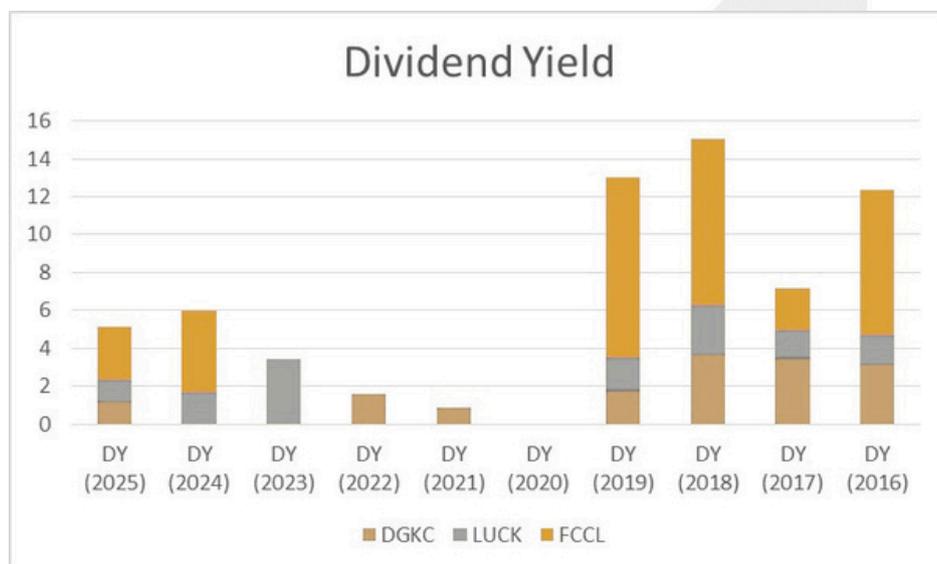
## 1.1 KEY RISKS AND UNCERTAINTIES

Several risks and uncertainties could influence market performance and economic stability in the near term. Global financial and liquidity conditions remain a critical factor, as tightening or volatility in international markets could impact capital flows and investor sentiment. Geopolitical developments and regional instability add further uncertainty, potentially affecting trade, energy supplies, and investor confidence. Exchange rate volatility and external financing risks pose additional challenges, particularly in managing debt obligations and maintaining macroeconomic stability. Domestically, slippage in reform execution could undermine policy objectives and growth prospects, while regulatory and policy uncertainty may affect investment decisions, sectorial performance, and overall market momentum. Collectively, these factors underscore the importance of cautious monitoring and proactive risk management.



# CYCLICAL SECTORS: AUTO AND CEMENT

Cyclical industries showed early signs of recovery, supported by easing financing costs and balance sheet deleveraging. The auto sector benefited from protection under the infant industry framework, while cement dispatches improved due to modest construction activity and expanding export footprints. DGKC, LUCK, and FCCL were standout performers in cement, reflecting a gradual revival of cyclical demand.





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# AGRICULTURE

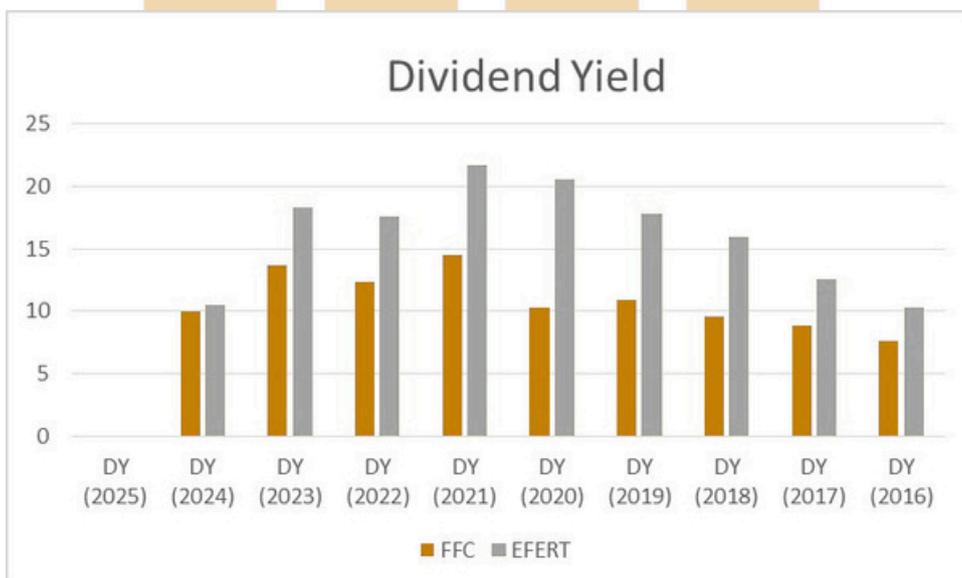
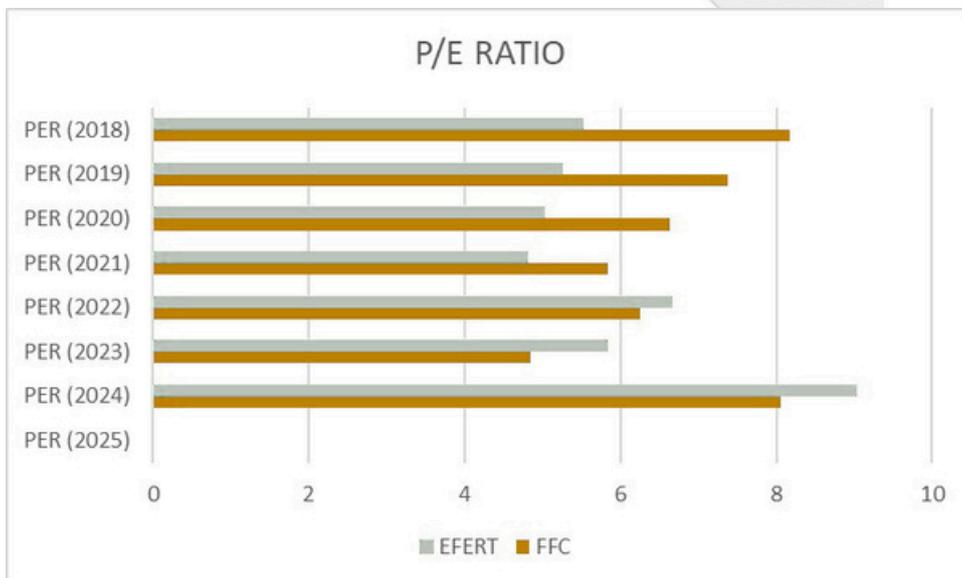


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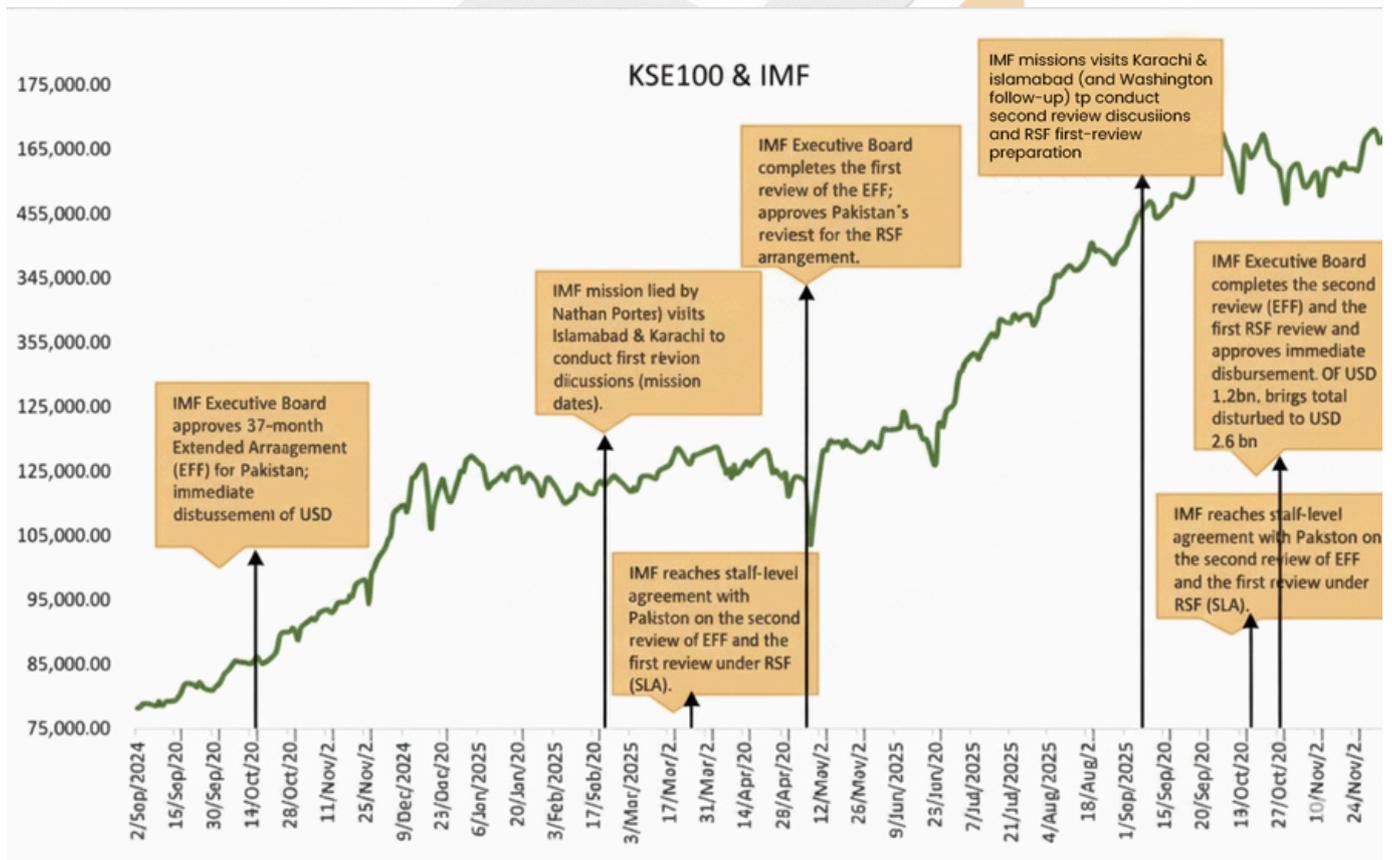
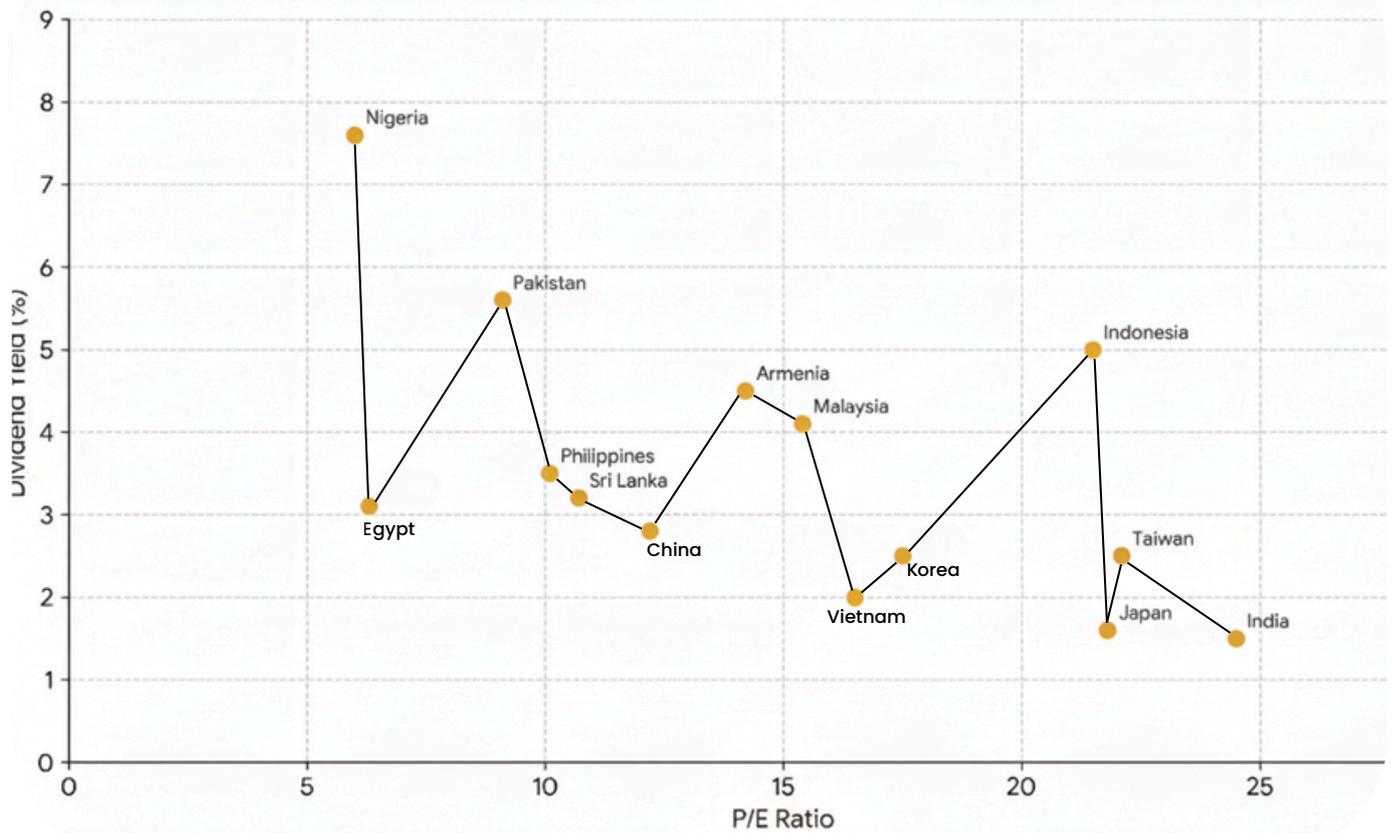


# TEXTILES, TECHNOLOGY, AND FERTILIZER

While textile exports remained subdued, technology exports emerged as a structural growth segment, in line with government objectives of reaching USD 10 billion by 2029. Systems Limited and NetSol Technologies were the top performers in this segment. In the fertilizer sector, potential reopening of urea exports amid domestic surpluses could support higher utilization and earnings, with FFC and Engro Fertilizer leading the sector's performance in 2025.



## Dividend Yield vs P/E





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