

Market Reaction to Geo-politics jolts... A Threat or an Opportunity

A severe conflict has broken out in the Middle East, following the US-Israel coordinated attacks on Iran since 28 February, which culminated in the killing of many in the top leadership of Iran, including its Supreme Leader. Iran has retaliated with missile attacks on Israel and US bases across the region, engulfing many countries in the GCC.

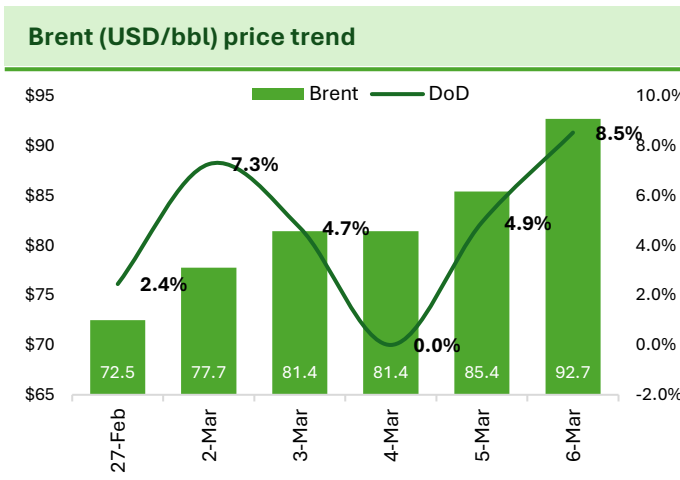
Critically for global markets and supply chains, Iran has also blocked the Strait of Hormuz, which accounts for nearly 20% of global oil trade. Oil prices have since overshot to their highest level since 2022, with Brent rising to about USD93/bbl (6 Mar 2026), from USD61/bbl at the start of 2026. Pakistan will likely have its oil shipments diverted through the Red Sea, albeit with higher freight and insurance costs.

In reaction to the event, the Pakistan Equity market has corrected 17.5% from its recent peak levels (reached on 26 Jan 2026), and the market multiples have de-rated to around 7.0x from a high of 8.5x. Therefore, an early resolution of the conflict can spark a sharp rebound rally in the Equity market. We advise investors to take opportunity of any dips and increase allocation to Equity mutual funds of Lucky Investments.

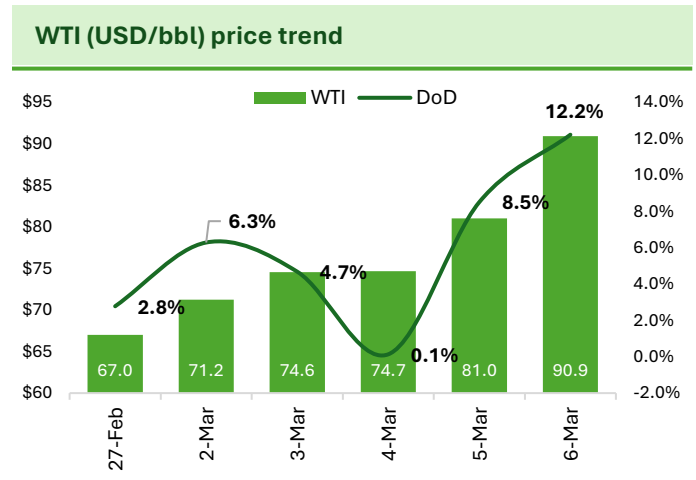
US and Israeli objectives	Iran's response	Possible scenarios
<p>Regime change in Iran.</p> <p>Destroy Iran's nuclear and military capabilities.</p> <p>To ensure Iran is no longer perceived as a threat by other countries in the Middle East.</p> <p>From Israel's perspective, to ensure Iran no longer poses a challenge to its regional and territorial ambitions.</p>	<p>Attack on US bases across the Middle East.</p> <p>Partial (2-3 weeks) or complete closure of the Strait of Hormuz disrupting of oil supply and other shipments out of the region.</p> <p>Target the Energy infrastructure across the region, as elevated oil and gas prices will be a deterrent for the US and will give Iran stronger bargaining power.</p>	<p>1. Large war losses for Iran and significant disruption in global energy supplies and prices will force both Iran and the US to resume negotiations. (High likelihood)</p> <p>2. Existing political regime remains in place, though weakened, and the war drags on for several weeks until a ceasefire is reached. (Medium likelihood)</p> <p>3. Regime collapse and civil war in Iran. (Low likelihood)</p>

The conflict wreaks havoc for global energy prices

In only the first week of the war, global oil prices have risen by c.30%, from USD72/bbl to almost USD93/bbl by 6 March 2026. Oil prices have jumped not only because of a large geopolitical risk premium (which was already around USD8-10/bbl before the war began), but also due to disruption in shipments through the Strait of Hormuz (which supplies 20-25% of global oil). In addition, crack spreads on diesel and petrol prices are abnormally large over USD30/bbl—again due to global supply shortage of these fuels (crack spread is the difference between the product price and crude oil price). For this reason, the Gov’t of Pakistan raised domestic diesel and petrol prices by PKR55.0/liter to PKR325 and PKR335 per liter, respectively, on 6 March 2026.



Source: Lucky Research



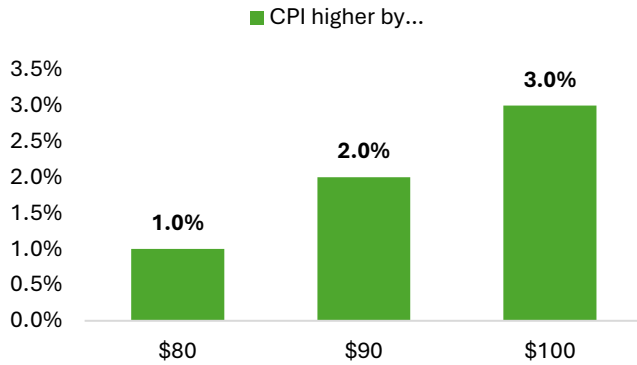
Source: Lucky Research

Global LNG prices have risen sharply as well, as Qatar has declared force majeure and halted gas liquefaction, which will take at least two weeks to restart.

For Pakistan, a prolonged period of high energy prices (Brent above USD80/bbl) spells rising domestic inflation, pressure on the current account, and possibly some PKR-USD depreciation. Before the conflict, our base case for CPI over FY26e was 6.5%, assuming average oil prices of USD70/bbl, while we expected a CA deficit of USD2.0bn for FY26e.

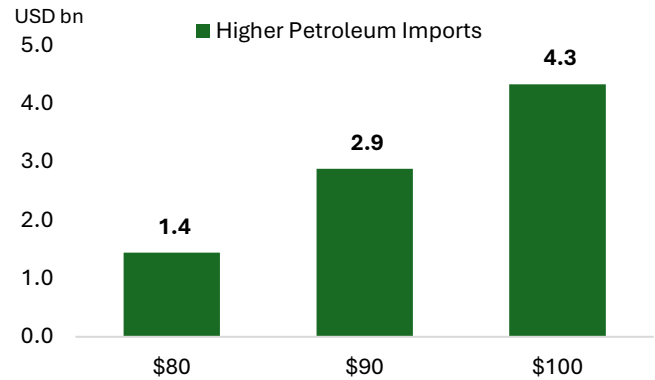
Every USD10/bbl increase in global oil prices will raise average inflation in Pakistan by 100-120bps (8MFY26 CPI: 5.5%)—including direct impact on domestic petrol prices and indirect impact on transport services and power/gas tariffs. And every USD10/bbl increase in oil prices will increase the CA deficit by ~USD120mn per month or by c.USD1.4bn per annum (CAD in 7MFY26: USD1.1bn).

Increase in Average CPI (%) from our base-case



Source: Lucky Research

Increase in Annual Petroleum imports (USD bn)



Source: Lucky Research

Before the war began, the global oil market was beset by an oversupply situation—with the OPEC+ looking to increase supply (or roll back supply cuts from prior years), while the US trade tariffs threatened to undermine global economic recovery. By Oct 2025, the IMF forecasted global GDP growth of 3.3% for 2026 and 3.2% for 2027.

One likely scenario is that the war drags on for a few weeks. Eventually, both Iran and the US will be forced to return to negotiations, because of large war losses in Iran and significant disruption in global energy prices (reflation and recession fears among Western economies). There will thus be high international pressure on both sides to reach a ceasefire. Note that the Trump administration is also constrained by rising public disapproval for the war and the upcoming midterm elections by November 2026.

We present below the impact on Pakistan’s average inflation (annual) and CA deficit if the conflict drags on for two or more weeks. The longer the conflict extends, the longer the closure of the Strait of Hormuz and thus the greater the impact on global oil prices. If the conflict extends beyond 3-4 weeks, then Brent oil prices are likely to average USD100-120/bbl during the conflict period, in our view.

Change in FY26e CPI (bps) for every USD5.0/bbl increase in oil prices

Change in CPI (bps) FY26e Base case: 6.5%		Number of weeks of elevated oil prices				
		2 weeks	4 weeks	8 weeks	12 weeks	16 weeks
Oil price (\$/bbl) Base case \$70/bbl	\$ 75	2	4	8	13	17
	\$ 80	4	8	17	25	33
	\$ 85	6	13	25	38	50
	\$ 90	8	17	33	50	67
	\$ 95	10	21	42	63	83
	\$ 100	13	25	50	75	100
	\$ 105	15	29	58	88	117
	\$ 110	17	33	67	100	133
	\$ 115	19	37	75	113	150
	\$ 120	21	42	83	125	167

Source: Lucky Research

Change in FY26e CAD (\$mn) for every USD5.0/bbl increase in oil prices

Change in CAD (\$ mn) FY26e Base case: \$3.0bn		Number of weeks of elevated oil prices				
		2 weeks	4 weeks	8 weeks	12 weeks	16 weeks
Oil price (\$/bbl) Base case \$70/bbl	\$ 75	30	60	120	180	241
	\$ 80	60	120	241	361	481
	\$ 85	90	180	361	541	722
	\$ 90	120	241	481	722	962
	\$ 95	150	301	601	902	1,203
	\$ 100	180	361	722	1,082	1,443
	\$ 105	210	421	842	1,263	1,684
	\$ 110	241	481	962	1,443	1,924
	\$ 115	271	541	1,082	1,624	2,165
	\$ 120	301	601	1,203	1,804	2,405

Source: Lucky Research

Note that the impact on CA could be larger than presented above. Export shipments out of Pakistan will be disrupted or will bear higher freight and insurance costs. Key sectors in the GCC such as tourism, hospitality, and logistics will be negatively affected—which will lower remittances sent to Pakistan.

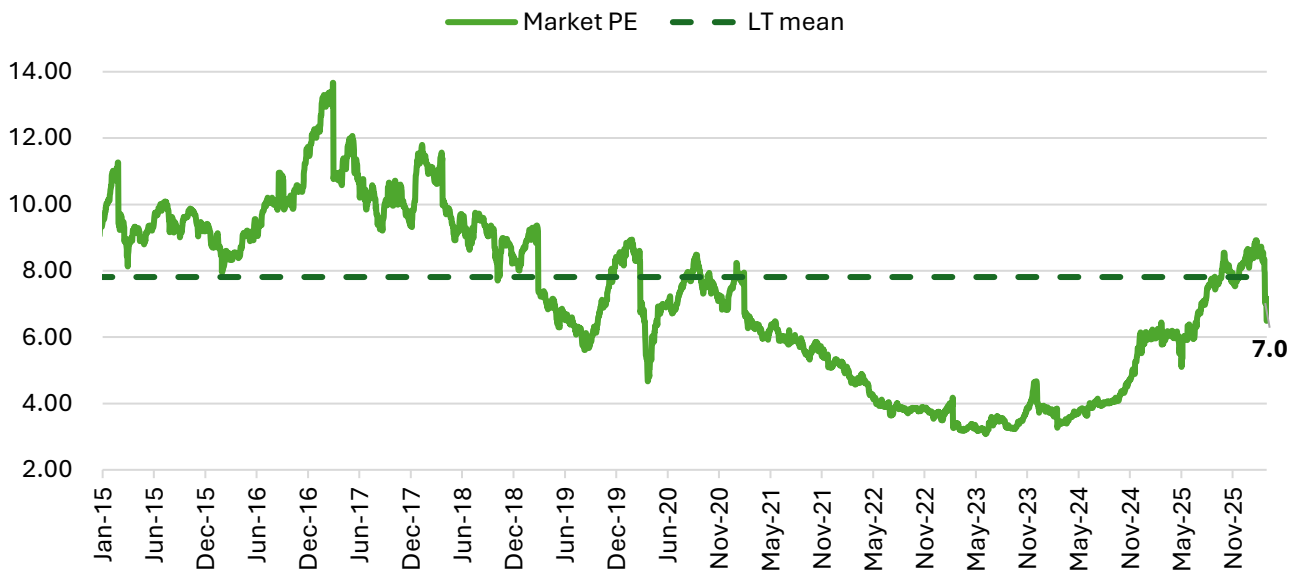
Pakistan Equity market seems to have over-reacted around the event

The Pakistan equity market had delivered a strong performance since July 2025, extending the robust momentum seen over the preceding two years. The rally reflects improving macroeconomic stability, progress on structural reforms, and renewed investor confidence in Pakistan’s economic trajectory.

The conflict has introduced a significant external risk for global and regional markets. This development represents a “**Grey Swan**” event that has increased uncertainty and triggered a correction in equities.

The KSE-100 Index has corrected 17.5% from its all-time high level of 191,032pts (reached in 26 Jan 2026). The market correction has improved valuations, making equities relatively attractive again. The forward price-to-earnings (P/E) ratio has declined to around **7.0x**, compared with a recent peak near **8.5x** and a long-term average of around **8.0x**. Any credible signs of a de-escalation or resolution of the conflict could trigger a strong rebound in the Pakistan equity market.

Market Price-to-Earnings multiple (PE) trading below its LT mean level



Source: Lucky Research

Uncertainty around Iran's political outlook

A key uncertainty in the evolving geopolitical situation is whether there will be a significant regime change in Iran, which appears to be an underlying objective for the US and Israel. The potential emergence of a new government with a more conciliatory stance toward negotiations with the US could help stabilize the region.

In addition to Middle East developments, the fast-escalating border tensions between Pakistan and Afghanistan have also contributed to regional uncertainty. While these incidents have so far remained localized, any prolonged escalation could create short-term security concerns and disrupt cross-border trade flows. However, at present the impact on Pakistan's financial markets appears limited.

Domestic policy risks in a worst-case scenario

In a more adverse scenario, heightened geopolitical uncertainty could slow the pace of economic reforms in Pakistan. For example:

- The government may delay progress on resolving the gas circular debt, a key reform in the energy sector.
- Planned incentives for export-oriented industries—such as reductions in power tariffs and import duties on key raw materials—may also be postponed.
- The government may reinstate import restrictions and introduce measures to limit foreign exchange outflows.
- The expected reduction in Super tax may not be realized in the upcoming budget amid ongoing pressures on the external account.

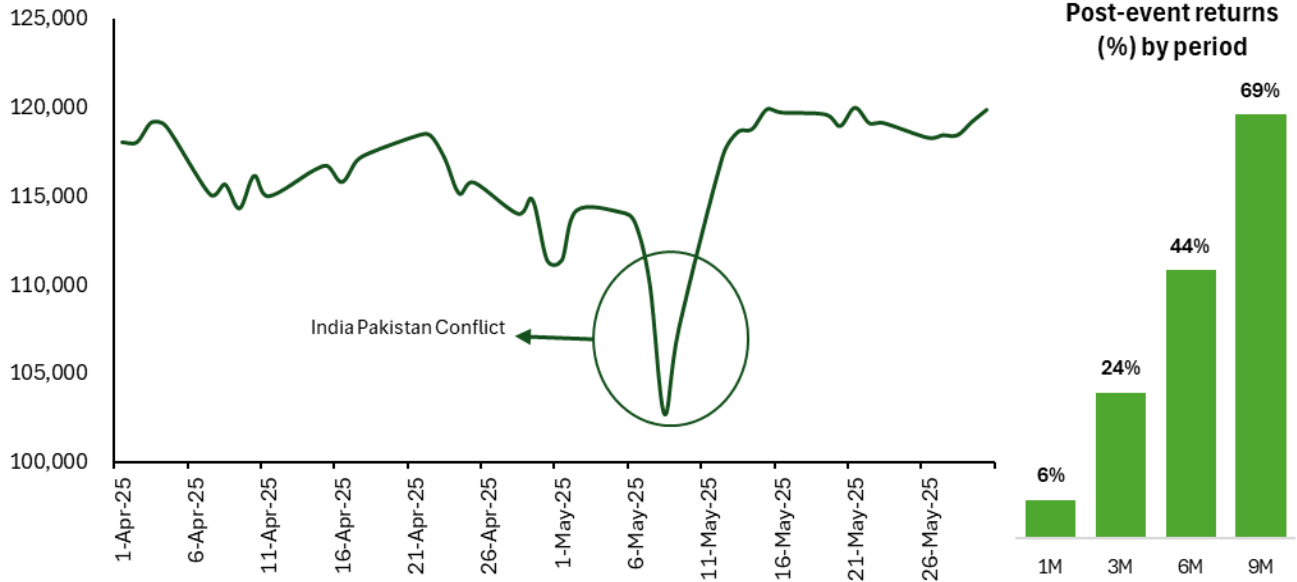
Having said that, Pakistan needs to continue the structural reforms and remain in the IMF program, which has become even more critical now due to geopolitics changes and their impact. We are hence confident that structural reforms will continue, and upcoming Finance Bill will also introduce business-friendly fiscal policies to support the much-needed growth in the economy.

Pakistan market proved resilient against past external shocks

Pakistan's Equity market has proved resilient against similar past global events, albeit after a period of elevated volatility. The outset of Covid-19 pandemic in 2020 and the India-Pakistan war in 2025 are good examples of events, which saw significant rebound in Pakistan market after an initial negative overreaction.

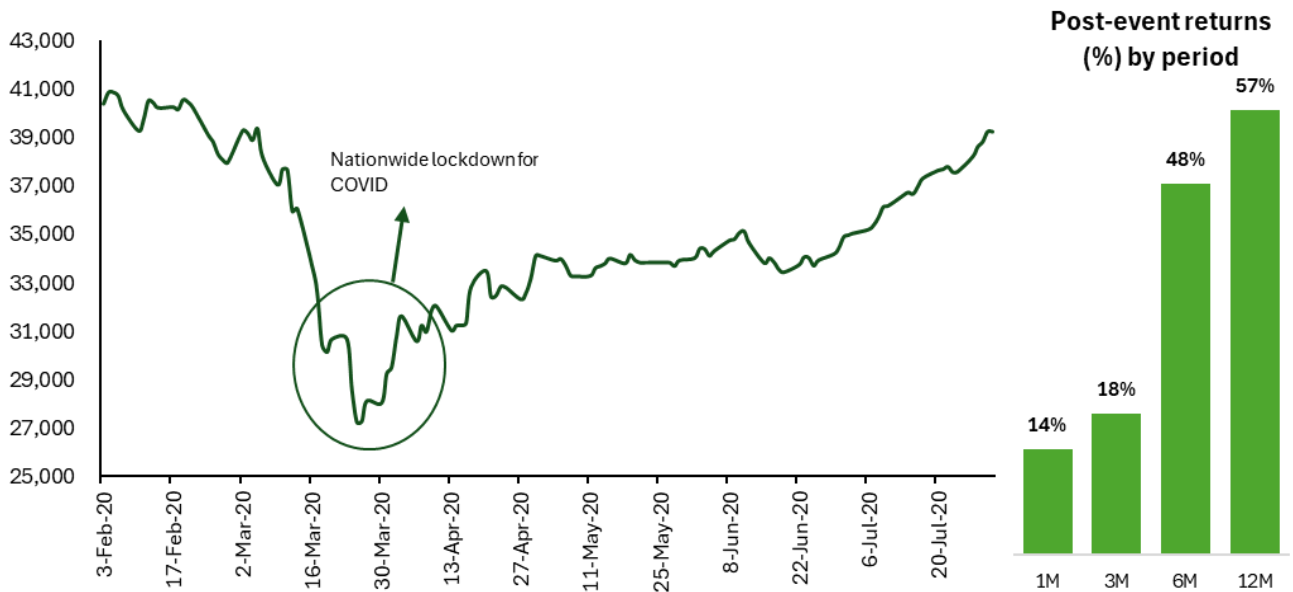


India Pakistan Conflict – April 2025



Source: Lucky Research

COVID-19 Lockdown – February 2020



Source: Lucky Research



Portfolio Strategy

The near-term direction of the equity market will be dictated by the developments of the Middle East conflict and the path of global oil prices. The earliest signs of a reconciliation between Iran and the US, along with a stabilization in global oil prices, will trigger a strong rally in the Pakistan equity market. **In case of an early resolution of the conflict, we expect market to make swift recovery; hence we advise investors to use any weakness as an opportunity to increase allocation to Lucky Islamic Stock Fund. For a sector specific theme, we recommend investing in Lucky Islamic Energy Fund. For your retirement income, Lucky Islamic Pension Fund – equity sub fund offers an ideal product with free of cost takaful coverage.** The KSE-100 index has corrected 17.5% from its recent peak level until 6 Mar 2026, and that alone presents a good upside potential in the near term.

Details about our funds are linked below.

[Lucky Islamic Stock Fund](#)

[Lucky Islamic Energy Fund](#)

[Lucky Islamic Pension Fund](#)



Lucky Investments

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Our Shariah Advisor is Mufti Muhammad Hassaan Kaleem whose registration reference number is (SECP/IFD/SA/002)