TRESMARK

PRIVATE FAMILY OFFICE — ZURICH

HOW A ZURICH FAMILY OFFICE WOULD VIEW PAKISTAN TODAY

Investment Committee Memorandum

To:	Chief Executive Officer
From:	Chief Investment Officer
Subject:	Has Pakistan Genuinely Turned the Corner?

EXECUTIVE SUMMARY

Twelve months ago, if you had asked whether we should allocate fresh capital to Pakistan, the answer would almost certainly have been no. Today, that decision is far less straightforward.

Has Pakistan genuinely become investable again, or have financial markets simply priced the recovery too quickly?

The purpose of this memorandum is to determine whether today's fundamentals justify fresh capital allocation.

QUESTION 1 — HAS PAKISTAN BECOME FINANCIALLY STRONGER?

Indicator	FY25/26 / 30 Jun 26	FY24/25 / 30 Jun 25	5-Yr Avg.	Assessment
GDP Growth (%)	3.7%	3.2%	3.1%	Above Trend
Inflation (FY Avg.)	7.03%	4.61%	15.33%	Well Below Historical Avg.
SBP Policy Rate	11.50%	20.50%	15.04%	Moderately Restrictive
Fiscal Deficit (% GDP)	~3.9% (FY26)	~5.2%	~6.4%	Improving
Current Account	Surplus (~0.5% GDP)	Near Balance	Deficit	Strong Improvement
SBP FX Reserves	US$18.4bn	US$14.5bn	US$11.3bn	Highest in Several Years
Government Debt (% GDP)	~69–70%	~70–71%	~73%	Gradually Improving
USD/PKR	277.9	283.8	253.5 (FY Avg.)	Stable
KSE-100 Index	~185,000	~123,000	82,400 (FY Avg.)	Record High
Sovereign Rating (S&P)	B / Stable	B- / Stable	B- (Neg./Stable)	Improved

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The financial picture has undoubtedly improved. Inflation has moderated, foreign exchange reserves have strengthened, the current account has returned to surplus, sovereign ratings have improved and domestic financial markets have rallied sharply.

For the first time in several years, the investment case is no longer about survival, but opportunity.

The data therefore answers the first question with reasonable conviction. Pakistan is financially stronger today than it was twelve months ago.

VERDICT

YES

QUESTION 2 — IS PAKISTAN OUTPERFORMING COMPARABLE ECONOMIES?

Markets allocate capital relatively, not absolutely.

Comparable Position as of June 2026

Indicator	Pakistan	India	Bangladesh	Sri Lanka	Egypt
Inflation (FY26 Avg.)	7.03%	4.6%	9.0%	4.2%	16.8%
Policy Rate (30 Jun 26)	11.50%	5.50%	10.00%	8.75%	19.00%
Fiscal Deficit (% GDP)	3.9%	4.4%	4.3%	6.7%	7.4%
Current Account (% GDP)	+0.5%	-1.0%	-1.1%	+1.3%	-5.6%
Government Debt (% GDP)	70%	82%	38%	108%	92%
5Y CDS (1Y Δ)	↓234 bps	↑3 bps	N/A	N/A	↓159 bps
Currency vs USD (1Y)	+2.1%	-1.5%	-2.8%	+6.3%	-16.0%
S&P Rating	B / Stable	BBB- / Stable	B+ / Stable	CCC+ / Positive	B / Stable

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Relative to its peers, Pakistan has delivered one of the largest improvements in macro stability over the past twelve months. While India remains a structurally stronger economy, few frontier markets have improved their external position, sovereign risk profile and financial stability as rapidly.

VERDICT

We view Pakistan as an increasingly attractive frontier market, provided it can sustain the reform momentum that has driven the recovery to date.

QUESTION 3 — DO FINANCIAL MARKETS BELIEVE THE STORY?

Markets reveal conviction.

Key Market Signals

- Pakistan's 5-year Eurobond has rallied from around 89 cents on the Dollar a year ago to above par (101), signalling a sharp improvement in sovereign credit sentiment.
- Recent sovereign issuances, including Eurobonds and Panda Bonds, have been comfortably oversubscribed, reflecting improving international investor appetite.
- The KSE-100 Index has climbed to near all-time highs, reflecting improving corporate earnings, abundant domestic liquidity and renewed investor confidence in Pakistan's macroeconomic outlook.
- Pakistan's 5-year CDS has compressed to around 380bps, one of the strongest improvements among comparable frontier markets.

- The Rupee has remained remarkably stable despite periods of heightened geopolitical uncertainty. With SBP reserves at multi-year highs and relatively low levels of short-term SCRA inflows, the risk of sudden capital outflows appears considerably lower than in previous cycles.
- Roshan Digital Account inflows continue to reach record levels, providing another indication of growing confidence from overseas Pakistanis.
- The domestic bond market is now trading below the SBP policy rate, signalling that investors are increasingly pricing the beginning of an easing cycle.

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> *Financial markets are largely validating Pakistan's macroeconomic recovery. Sovereign credit risk has fallen, funding access has improved and the currency remains well anchored. The one notable exception is the domestic bond market, where we believe investors may have become somewhat aggressive in pricing the pace of future monetary easing.*

> **VERDICT**
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> Markets believe the recovery, although the domestic rates market appears to be pricing a more aggressive easing cycle than fundamentals currently justify.

QUESTION 4 — WHAT COULD GO WRONG?

External Risks

- **Federal Reserve –** A higher-for-longer interest rate environment could delay SBP easing and keep global financial conditions tighter for longer.
- **Other Central Banks –** If other major central banks remain restrictive, Pakistan's scope for monetary easing may remain limited.
- **Middle East Conflict –** A renewed escalation could push oil prices higher, widen the current account deficit and reignite inflationary pressures.

Domestic Risks

- **Fiscal Discipline –** Maintaining fiscal consolidation remains essential to preserving macroeconomic stability and investor confidence.
- **Continuity of the IMF Programme –** Continued adherence to IMF commitments will be critical for maintaining policy credibility, external financing and market confidence.
- **Political Uncertainty –** Political instability or policy reversals could delay reforms, weaken investor sentiment and slow the recovery.
- **Structural Reforms –** The next phase of the recovery depends on improving productivity, broadening the tax base, reforming state-owned enterprises and attracting private investment.

- **Export Competitiveness –** Long-term external sustainability ultimately requires stronger export growth rather than continued reliance on remittances.

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> *The nature of Pakistan's risks has changed. A year ago, the primary concern was financial stability. Today, the bigger challenge is preserving the hard-won gains through disciplined policymaking and continued reforms, while navigating an increasingly uncertain global environment.*

VERDICT

Pakistan's risks are now more execution-related than crisis-related. Sustaining policy discipline will be the key determinant of the next phase of the recovery.

QUESTION 5 — WHERE DO WE SEE VALUE?

Pakistan Government Bonds

View: Neutral to Bearish

Pakistan's macroeconomic recovery supports lower interest rates over time, but the domestic bond market appears to have priced the easing cycle too aggressively. With limited downside in yields from current levels, the risk-reward is no longer particularly attractive.

Pakistan Eurobonds

View: Positive

Improving sovereign credit quality, tighter CDS spreads and renewed international market access continue to support Pakistan's Eurobonds. While spreads have compressed materially, further upside remains possible if reforms continue and sovereign ratings improve further. We would hedge approximately 50% of the exposure using sovereign CDS at current levels. Even after accounting for the cost of protection, the carry remains attractive.

Pakistan Equities

View: Largely Positive

Improving macroeconomic stability, declining sovereign risk and supportive domestic liquidity continue to underpin the equity market. Although global volatility could lead to periodic corrections, we remain constructive over the medium term, particularly as the mining sector and large infrastructure projects gather momentum. We would recommend a dynamic hedging strategy, with approximately 50% of the exposure hedged through sovereign CDS during the first year, reducing to 25% in each of the following two years as the investment thesis strengthens.

Pakistan Rupee

View: Positive

The Rupee remains well supported by stronger external accounts, higher foreign exchange reserves and prudent central bank management. We expect currency stability to continue, provided external conditions remain broadly supportive. Owing to regulatory restrictions, however, direct exposure to the Rupee remains limited for most international investors.

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Pakistan has moved beyond stabilization and into the investment phase. While opportunities remain across most Pakistani asset classes, returns are likely to become increasingly differentiated. Selectivity will matter more than simply allocating capital.

VERDICT

Overall, we remain largely positive on Pakistan. Our preferred exposures are equities and Eurobonds, while maintaining a neutral to bearish stance on long-duration domestic government bonds until the global interest rate outlook becomes clearer.

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