MARCH 2026

# CIO NEWSLETTER

In 1999, a song was released in which **Baz Lurhman** spoke through an essay written by Mary Schmich called '***Everybody's Free (To Wear Sunscreen)***'. The song starts like this:

*'Ladies and Gentlemen of the class of '99*
*Wear sunscreen*
*If I could offer you only one tip for the future, sunscreen would be it.*
*The long term benefits of sunscreen have been proved by scientists*
*Whereas the rest of my advice has no basis more reliable than my own meandering experience.*
*I will dispense this advice now'*

The song continues onto:

*'Don't worry about the future; or worry, but know that worrying*
*is as effective as trying to solve an algebra equation by chewing Bubble gum'*

Donald Rumsfeld, former US Defense Sec, once argued that: *'There are **known knowns**, things we know that we know; and there are **known unknowns**, things that we know we don't know. But there are also **unknown unknowns**, things we do not know we don't know.'*

My point with the above is that you should worry and take efforts to protect (aka sunscreen), particularly when there are **unknown unknowns lurking**. To help our clients do so, we recently launched the **NCBA Money Market Funds** in **KES** and **USD**, to **complement** our existing local and global fixed income and equity products.

Why would we do this? You see, **fixed income funds** deal with the **longer term known knowns** and **unknown unknowns.** By design, a fixed income fund invests longer term, and often for taking that risk, is rewarded with a higher rate of return – logically lending money for 10 years is a higher risk than 6 months and the interest rate should be higher. We call that **contango or upward sloping**. We have run this product successfully for many years, making it the **largest fixed income fund in the country**.

The **money market fund** does something different. By regulation, it is limited to the length of investments it buys to 2 years. These funds are designed to be almost a **cash equivalent and** being at the shorter end of the yield curve (i.e. investing in shorter dated instruments, like 91-day T Bills), the return (should be) lower than a fixed income fund. They are also **less volatile**. However, as we have seen in recent history, the curve can invert and short-term rates can be much higher than long term rates (this is known as **backwardation**, the opposite of contango), which has since reversed.

This means **an investor really should have both products to benefit from the full yield curve**. Investing long term, but also have the flexibility offered by a money market at the short end. It is also important that since the Kenyan market is regulated towards net asset value aka NAV, that investors also know that **fixed income funds are subject to changes in NAV** – for example as interest rates dropped over the last 2 years, bonds became more valuable (interest rates and bond prices move inversely), and longer dated bonds are more sensitive to interest rates. So, anyone in a fixed income fund would have realized a capital gain as the value of the bonds grew. **Money market funds do not have this capital gain**, by design the NAV does not vary.

Putting this all together, the money market and fixed income funds act as a form of financial 'sunscreen' - helping investors protect against risks, including the unknown unknowns - while also capturing returns from the known aspects of the market.

**MUATHI KILONZO**
**MANAGING DIRECTOR, NCBA INVESTMENT BANK**

**Dear Investor,**

We're excited to share this month's edition of the CIO newsletter with you.

We hope you find the insights valuable as you navigate the evolving investment landscape. As always, we're here to support your wealth creation journey.

## 1. Review of Markets' Performance in February

### 1.1. Equity Markets in February

- Global equities closed with moderate gains, as diverging themes within the regions impacted the performance.
- U.S. equities delivered a mixed but ultimately weaker performance policy risk resurfacing. European equities outperformed the U.S., supported by sector rotation and relative valuation appeal despite rising geopolitical noise.
- In Asia, equities delivered a strong but highly differentiated performance with regional strength masking notable dispersion beneath the surface.
- Emerging market equities delivered a solid performance outperforming developed peers in aggregate despite end of month geopolitical volatility.
- Kenyan equities sustained strong momentum anchored by the start of the earnings season. Attractive dividend plays, combined with efforts to deepen market breadth through new listings, continue to anchor investor confidence.

| Global | | |
|---|---|---|
| **Index** | **Market** | **Feb-26** |
| MSCI ACWI | Global | 1.20% |

| U.S. Market | | |
|---|---|---|
| **Index** | **Market** | **Feb-26** |
| S&P 500 | U.S. | (0.87%) |
| Nasdaq | U.S. | (3.38%) |
| Dow Jones | U.S. | 0.17% |

| Europe | | |
|---|---|---|
| **Index** | **Market** | **Feb-26** |
| STOXX 600 | Europe | 3.74% |
| FTSE 100 | UK | 6.72% |
| DAX | Germany | 3.04% |
| CAC 40 | France | 5.59% |

| Asia | | |
|---|---|---|
| **Index** | **Market** | **Feb-26** |
| CSI 300 | China | 0.09% |
| Hang Seng | Hong Kong | (2.76%) |
| Nikkei 225 | Japan | 10.37% |

| Local | | |
|---|---|---|
| **Index** | **Market** | **Feb-26** |
| NASI | Kenya | 10.61% |
| NSE-25 | Kenya | 11.77% |

### 1.2. Bond Markets

- The global fixed income landscape shifted from rate-cut expectations to pricing in geo-political risk premiums.
- The next Federal Reserve meetings fall in March and the expectation is a hold on rates. Inflation data released showed contained price pressures, supporting expectations that US interest rates are near their peak. Trade and geopolitical tensions, especially tariffs, caused short-term market volatility, while AI spending and oil prices shocks shall add medium-term inflation pressure.
- The European Central Bank (ECB) and the Bank of England (BoE) held policy rates steady at 2.00% (ECB) and 3.75% (BoE). Market pricing nevertheless suggests that rate relief in the UK may be delayed by inflationary pressures linked to energy shocks, while the ECB appears content to remain on hold amid uneven growth.
- Short-term yields remained elevated reflecting expectations of a Federal Reserve that is reluctant to cut, while longer maturities started to flatten or decline as safe-haven flows materialized.
- U.S. Treasury yields were volatile and directionally mixed through February as markets tugged between safe-haven demand and inflation/geopolitical repricing.
- Stronger economic data and rising geopolitical tensions in the Middle East, pushed 10-year yields above ~4.0%, as markets repriced inflation risks tied to higher energy costs and durable activity.
- Kenya Bonds yield shifts were uneven; mid-tenor bonds softened, while long bonds ticked higher, reflecting the government's strategy to lengthen its maturity profile.
- Yields declined across most maturities, with the most pronounced movements observed in the mid-curve as investor demand remained strong for reopened issues. Investors continue to positively price in government's progress in liability management, as seen from sustained activity during the month's auctions.
- Kenya returned to international market with a buyback of $150Mn and $350Mn of the bonds maturing in 2028 and 2032.
- The government has been proactive in liability management, effectively switching upcoming maturities into longer-dated papers. With limited bond maturities through the end of Q1, the Central bank has a clear window to maintain downward pressure on rates.

## 2. Performance of the NCBA Unit Trust Funds

The funds continue to post competitive returns while ensuring the underlying risks are consistent with the objectives of each fund as outlined below.

### 2.1. NCBA (KES) Fixed Income Fund*

The fund is a KES-denominated collective investment scheme that invests in a diversified portfolio of interest income earning assets, while ensuring low risk on the principal investment and access to funds on demand.

| Performance | Feb-26 | 3M | 6M | 1YR |
|---|---|---|---|---|
| Fund | 0.69% | 2.22% | 3.99% | 10.19% |
| Benchmark | 0.63% | 1.94% | 3.96% | 8.38% |
| Fund Size | KES 41.08 B | | | |

*'* - Benchmark – 91 Day Treasury Bill rate*

The fund returned 0.69% in February, outperforming the benchmark return of 0.63%. Performance was supported by declining yields across the yield curve following the 25-basis point policy rate cut.

The fund has progressively managed duration risks, all while positioned to benefit from falling yields. Looking ahead, we anticipate that yields will remain relatively stable to slightly lower in the near term leading to stable fund returns.

We strategically cut the fund overall duration. Our shift toward shorter-dated securities is deliberate, aimed at protecting the portfolio from further rate volatility.

*With CBK's rate-management stance, we anticipate valuation stability and a more supportive environment for fixed-income performance.*

**Joseph K Thiga**
**Portfolio Manager**
**NCBA Fixed Income Fund**

### 2.2. NCBA (USD) Fixed Income Fund**

The Fund is a USD-denominated collective investment scheme that invests in a diversified portfolio of interest income earning assets, while ensuring low risk on the principal investment and access to funds on demand.

| Performance | Feb-26 | 3M | 6M | 1YR |
|---|---|---|---|---|
| Fund | -0.26% | 1.40% | 3.58% | 7.61% |
| Benchmark | 0.31% | 0.95% | 2.00% | 4.24% |
| Fund Size | USD 49.40 M | | | |

*'* - Benchmark – Secured Overnight Financing Rate*

The fund trailed the benchmark in February, primarily due to volatility in Eurobonds valuation following the government's announcement of the issuance of new Eurobonds. This also placed downward pressure on the valuation of existing bonds, resulting in lower mark-to-market prices across the portfolio.

On a global scale, investors remained attentive to mixed U.S. inflation data and the likelihood that the Federal Reserve will keep rates unchanged soon, with possible cuts projected around mid-2026.

Looking ahead, shifts in global interest rate expectations and geopolitical events may cause market volatility in the Eurobond markets.

Our allocations to offshore fixed-income instruments and structured solutions provided constructive stability, supporting performance relative to the benchmark.

*The fund continues to diversify its holdings to strengthen returns. With USD deposit rates likely to adjust lower, we are actively locking in attractive offshore yields to bolster income and further support bond valuations.*

**David Kiruri**
**Portfolio Manager**
**NCBA Dollar Fixed Income Fund**

NCBA

### 2.3. NCBA (KES) Equity Fund***

The fund is a KES-denominated collective investment scheme that aims to generate total returns by investing in a diversified portfolio of equity securities, providing long-term capital growth through dividends and capital gains.

The fund, an index tracker, classified as a medium-high risk investment, allocates at least 60% of the market value of its assets under management to locally listed equities, equities listed in other regulated exchanges, or unlisted equities.

| Performance | Feb-26 | 3M | 6M | 1YR |
|---|---|---|---|---|
| Fund | 7.30% | 13.93% | 19.38% | 44.13% |
| Benchmark | 7.32% | 14.52% | 21.32% | 40.40% |
| Fund Size | KES 448.01 M | | | |

*'* - Benchmark – 60% NSE 25 and 40% 91-day TBill*

Kenyan equities closed February on a strong note, led by the banking sector index, which delivered a 14.36% month-on-month gain. The NSE 20 Index rose 13.67%, while the broader NASI advanced 10.61%. Market activity remained largely driven by local investors, who accounted for an average of 71% of turnover, with foreign investors remaining net sellers. Increased retail participation, partly supported by Ziidi's trading platform, continued to enhance market liquidity.

From a portfolio perspective, performance closely tracked the benchmark during the month. Underweight positions in select banking and insurance counters were largely offset by strategic over-weight allocations in manufacturing stocks, which generated relative outperformance. The offshore allocation continued to provide stable support to overall returns.

We are proactively positioning the fund to capitalize on dividend opportunities, as demonstrated by BAT, and are closely monitoring upcoming full-year results from banks expected this March. There is heighted retail investor participation, following the KPC IPO and renewed retail appetite for listed stocks.

*We expect continued strong investor participation to support the market, even as some price softening in select large-cap counters emerges with easing profit-taking. We remain flexible in adjusting allocations as opportunities arise amid evolving market conditions and valuation considerations.*

**Kenneth Mugira**
**Portfolio Manager**
**NCBA Equity Fund**

### 2.4. NCBA Global Equity Special Fund****

The Fund is a USD-denominated collective investment scheme that invests in a diversified portfolio of global equity funds and securities, offering investors efficient exposure to global equities and long-term capital growth.

The fund invests in USD-denominated exchange-traded funds and mutual funds with allocation in U.S., Europe, Emerging Markets, China, Asia Pacific and Japan, using strategic allocation and security selection to outperform its benchmark.

| Performance | Feb-26 | 3M | 6M | 1YR |
|---|---|---|---|---|
| Fund | 1.56% | 6.13% | 11.72% | 27.24% |
| Benchmark | 1.20% | 5.14% | 11.06% | 22.46% |
| Fund Size | USD 6.29 M | | | |

*'* - Benchmark - MSCI All Country World Index*

The Fund delivered a return of 1.56% in February, outperforming the benchmark, primarily driven by active regional allocation and positioning.

Emerging markets contributed positively, aided by a weaker U.S. dollar and strong investor inflows into markets with improving macro fundamentals. Asia-Pacific and European markets continued to provide positive regional diversification from the U.S., which experienced political volatility and tech-led friction over the month.

Overall, outperformance reflected ongoing disciplined portfolio construction and effective rotation toward sectors and regions with stronger near-term growth and policy support.

*We continue employing disciplined portfolio construction and effective rotation toward sectors and regions with stronger near-term growth and policy support.*

**Daniel Ndung'u**
**Portfolio Manager**
**NCBA Global Special Funds**

### 2.5. NCBA Global Fixed Income Special Fund*****

The Fund is a USD-denominated collective investment scheme that invests in global fixed-income exchange traded funds and mutual funds sourced from global financial markets to generate sustainable medium-term returns.

The fund invests in benchmark-tracking fixed income funds, using strategic allocation and security selection to outperform its benchmark.

| Performance | Feb-26 | 3M | 6M | 1YR |
|---|---|---|---|---|
| Fund | 0.81% | 2.16% | 3.71% | 9.66% |
| Benchmark | 1.45% | 2.04% | 5.01% | 8.77% |
| Fund Size | USD 14.69 M | | | |

*'* - Benchmark – Blended Benchmark reflecting the investment style.*

The Fund delivered a return of 0.81% in February, underperforming the benchmark, driven by volatility as markets tugged between safe-haven demand and geopolitical repricing.

Performance was supported by strong contributions from Global Government Bonds and Emerging Market Bonds, while Africa Eurobonds also benefited from moderating yields.

U.S. Treasury holdings detracted due to volatility and fiscal concerns; however, the Fund's emphasis on high-quality, investment-grade instruments with attractive spreads helped mitigate broader market swings.

The performance underscores the Fund's resilient positioning and its ability to navigate uncertain markets while capturing opportunities across diversified credit exposures.

*We remain well placed to tap on sentiment around emerging market debt, with the recent waves in rating upgrades, and continued flows into the region. With global monetary policy rates anchored in the near-term, and spreads at historically slim levels, we are keen on balancing instruments with attractive risk-return, and duration profiles.*

**Daniel Ndung'u**
**Portfolio Manager**
**NCBA Global Special Funds**

## Looking Ahead

- **The Middle East conflict and energy shock:** Escalating conflict in the Middle East has emerged as the dominant global risk, disrupting shipping routes and energy supply chains. The closure and disruption of the Strait of Hormuz through which roughly 20% of global oil supply passes has pushed oil prices sharply higher and heightened fears of a renewed inflation impulse and slower global growth.

- **Central bank policy meetings:** Monetary policy expectations will remain in focus as the Fed meets on March 17–18. We will watch for signals on the timing of potential rate changes, particularly as geopolitical risks and higher energy prices complicate the policy outlook.

**Back Home - Kenya**

- **Government financing and IMF visit:** While we recently tapped international markets through Eurobond refinancing, discussions with the IMF are ongoing and we will be monitoring the evolving financing strategy.

- **Banking Sector Earnings:** Banks release their FY2025 results this month and we will be assessing the sustainability of earnings momentum, asset quality trends, and the outlook for lending growth as interest rates gradually moderate.

*While the global stage feels increasingly crowded with "noise" - from Middle East energy shocks to shifts in Fed policy - our strategy remains anchored on clarity. We aren't just watching these risks; we are actively positioning your investments to withstand them.*

*We recognize that bond market volatility can be unsettling. That is why we've brought back the **NCBA Money Market Funds (KES & USD)**.*

*These are designed specifically for those seeking the "pure play" of interest income without the valuation swings of the bond market.*

*We invite you to speak with your advisor to ensure your cash is working as hard as it should be in this environment.*

Yours Sincerely,

**Paul Gicheru**
**Chief Investment Officer**

*** NCBA Fixed Income Fund** invests in a diversified portfolio of interest-earning assets, with a focus on preserving capital, maintaining liquidity, and delivering stable income over time. The fund invests in high-quality interest earning securities such as treasury bills and bonds, bank deposits, commercial paper, and corporate bonds, ensuring both safety and accessibility of investor funds.

**** NCBA Dollar Fixed Income Fund** invests in a diversified portfolio of interest-earning assets, with a focus on capital preservation, liquidity, and consistent income generation. The fund invests in high-quality interest earning instruments, including bank deposits, Eurobonds, money market securities and mutual funds, and other fixed income assets.

***** NCBA Equity Fund** is focused on long-term capital growth through a diversified portfolio of equity securities, targeting both dividend income and capital gains. Classified as a medium-to-high risk fund, it invests at least 60% of its portfolio in listed or unlisted equities, locally or across regulated markets. The remaining portion is held in cash or cash equivalents for liquidity and risk management.

****** NCBA Global Equity Special fund** is a USD-denominated collective investment scheme that provides investors with exposure to global equities through a diversified portfolio of global exchange-traded funds (ETFs) and mutual funds, targeting medium- to long-term capital growth.

******* NCBA Global Fixed Income Special fund** - is a USD-denominated fund investing in a globally diversified portfolio of USD-denominated fixed income ETFs and mutual funds, aiming to deliver sustainable, medium-term returns.

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