

Dear Investor,

**HAPPY NEW YEAR!**

As we kick off 2026, 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 Financial Markets' Performance**

**1.1. Equity Markets**

- Global equities recorded mixed performance in December as investors engaged in profit-taking and year-end consolidation.
- Easing monetary policy helped lift risk sentiment and despite a softer finish, U.S. markets delivered a robust full-year performance.
- European markets rallied strongly in December driven by sector specific profit-taking as easing financial conditions and improving risk sentiment supported a year-end rebound across cyclicals and defensives.
- In Asia, markets delivered mixed performance in December, reflecting divergence in domestic policy dynamics and investor sentiment.
- Elsewhere, emerging markets wrapped the year higher as year-end rebalancing followed profit-taking across markets, though gains remained uneven across regions.

Global			
Index	Market	Dec-25	FY 2025
MSCI All Country	Global	0.94%	20.60%

U.S. Market			
Index	Market	Dec-25	FY 2025
S&P 500	US	(0.05%)	16.39%
Nasdaq	US	(0.53%)	20.36%
Dow Jones	US	0.73%	12.97%

Europe			
Index	Market	Dec-25	FY 2025
STOXX 600	Europe	2.73%	16.66%
FTSE 100	UK	2.17%	21.51%
DAX	Germany	2.74%	23.01%
CAC 40	France	0.33%	10.42%

Asia			
Index	Market	Dec-25	FY 2025
CSI 300	China	2.28%	17.66%
Hang Seng	Hong Kong	(0.88%)	27.77%
Nikkei 225	Japan	0.17%	26.18%

Local			
Index	Market	Dec-25	FY 2025
NASI	Kenya	3.05%	51.10%
NSE-25	Kenya	5.72%	49.78%

- Kenyan equity markets delivered a strong finish December, with all broad indices posting gains supported by easing monetary policy and improved liquidity conditions.

- Market activity, which has largely been driven by sustained participation from local investors as foreign investor involvement remained limited, remains robust, with sustainability of the rally dependent on domestic liquidity conditions.
- Corporate earnings held up well over the year, providing a fundamental anchor to markets' performance. With financing conditions easing, the lower interest rate environment should reinforce earnings momentum and sustain investor confidence.

**1.2. Bond Markets**

- Global fixed income markets posted mixed returns in December, with subdued inflationary pressures and a more accommodative policy backdrop supporting bond performance.
- Developed market yields experienced volatility but largely trended lower amid easing policy, with Japan remaining an outlier due to its ultra-loose stance and fiscal expansion concerns.
- U.S. Treasury yields continued to reflect the interplay between interest-rate expectations and elevated term premiums. The benchmark 10-year Treasury yield hovered around 4.2%, modestly lower on cooler inflation but still well above pre-cut levels, while the 2-year yield remained anchored near 3.50% as markets priced future cuts.
- Comparatively, yields in the U.S. remain higher than in Europe, UK, and Japan, anchored by fiscal policy concerns, offering a better risk-reward profile.
- Emerging market debt remained attractive, with higher real yields and a weaker U.S. dollar supporting performance.
- Kenya's short-term rates edged lower, impacted by lower the Central Bank Rate by 25 bps to 9.00%. Yield curve shifts were uneven, with mid-tenor bonds softening while short- and ultra-long tenors ticked higher, reflecting issuance patterns and market liquidity.
- The central Bank of Kenya remained proactive with bond auctions and a switch to manage redemptions and anchor rates.
- Eurobond yields edged lower in December on improved investor sentiment, stronger liquidity flows, and ongoing liability-management efforts. Pricing remains sensitive to shifts in global risk sentiment and U.S. rate expectations, with the IMF's early-January visit expected to further support investor confidence.

## 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.

We believe these funds are well-positioned to deliver solid, sustained returns in comparison to their respective benchmarks.

### 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.

This fund is suitable for investors seeking a low-risk KES denominated fund that generates steady returns by earning and re-investing of interest income while ensuring safety of the principal.

Performance	Dec-25	FY 2025	2 years
Fund	1.03%	12.17%	23.90%
Benchmark	0.66%	8.35%	23.65%
Fund Size	KES 39.93B		

\* - Benchmark – 91 Day Treasury Bill rate

The fund remained resilient in December, delivering positive total returns, ahead of benchmark, boosted by valuation gains as lower yields improved on the value of existing government bonds. Our strategy leaned into proactively tightening duration, reducing exposure to long-term bonds that have come under pressure as the government continues to front-load debt raising at the long end and investor demand concentrates on the primary markets.

Our shift toward shorter-dated securities is deliberate, aimed at protecting the portfolio from further rate volatility.

*Limited bond maturities through March 2026 and investor receptivity to "fair" long-dated yields will provide CBK with a clear runway to maintain downward pressure on rates which will aid continuing proactive liability management and favor bonds valuation stability supportive of fixed-income fund 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.

This fund is suitable for investors seeking a low-risk USD denominated fund that generates steady returns by earning and re-investing of interest income while ensuring safety of the principal.

Performance	Dec-25	FY 2025	2 years
Fund	2.48%	7.41%	11.67%
Benchmark	0.32%	4.24%	9.38%
Fund Size	USD 47.29M		

\*\* - Benchmark – Secured Overnight Financing Rate

The fund delivered a strong performance in December, supported by valuation gains from our Eurobond exposure as yields declined, supported by ongoing liability-management efforts and stable external liquidity flows.

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

*With the Fed expected to continue easing, and lower deposit rates, the fund continues to diversify its holdings to strengthen returns. We are actively locking in attractive offshore yields to boost income and further support fund valuations.*

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



### 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.

This fund is suitable for investors seeking long-term capital growth through investing in a diversified pool of local equity investments.

Performance	Dec-25	FY 2025	2 years
Fund	4.06%	35.65%	66.78%
Benchmark	3.69%	32.24%	56.46%
Fund Size	KES 226.27M		

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

The fund closed the year strong, outperforming the benchmark, supported by robust performance in the banking and technology sectors, which led the broader market rally. The NSE All Share Index rose 3.05% over the month, while the NSE 25 advanced 5.72%, reflecting improved sentiment and sustained earnings momentum.

FY 2025	Fund	NSE 25
P/E (Price-to-Earnings) Ratio	6.71	9.20
P/B (Price-to-Book) Ratio	1.73	2.22
Dividend Yield	4.66%	6.03%

*The fund remains attractively valued relative to the benchmark and well-positioned to deliver a strong performance, supported by strategic positioning and conviction in our counter selection for long-term total returns. 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.

This fund is suitable for investors seeking long-term capital growth through investing in a diversified pool of global equities while diversifying the local currency risks.

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	Dec-25	FY 2025	Since Inception
Fund	1.21%	24.45%	21.08%
Benchmark	0.94%	19.16%	19.16%
Fund Size	USD 4.35M		

\* - Benchmark - MSCI All Country World Index

The fund recorded improved performance in December, outperforming the benchmark, driven by a rebound in Emerging Markets and select Asia-Pacific exposures. Strength in Europe and resilient contributions from North America further supported returns, offsetting pockets of weakness in China amid profit-taking.

Despite lingering concerns about valuations, the market continues to be supported by consumer spending, which remains strong, reinforcing economic optimism. We remain cautious given that market performance has been uneven, with sectors like real estate, healthcare still lagging. This suggests there is still room for sector rotation and opportunity.

Geographical allocation strategies continue to be a key driver, and we maintain flexibility to increase or reduce exposure to markets in response to policy shocks, risk sentiment, and capital flow volatility.

*Looking ahead, We expect the fund to continue benefiting from broad-based monetary policy support and earnings resilience which should sustain the rally.*

**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.

This fund is suitable for investors seeking to earn steady growth in their investment through a globally diversified pool of interest earning assets.

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

Performance	Dec-25	FY 2025	Since Inception
Fund	0.62%	9.85%	7.76%
Benchmark	0.37%	10.01%	9.18%
Fund Size	USD 11.89M		

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

The fund outperformed the benchmark, driven by strong contributions from high-yield corporates and select frontier-market sovereign bonds benefited from steady inflows. Global government bonds and U.S. Treasuries provided muted support, while short-term holdings modestly detracted amid low yields.

As rate cuts filter through markets, the fund stands to benefit from improved bond valuations and the gradual alignment of local USD rates.

Our diversified exposure across the yield curve and investment grade bonds has supported the fund's return profile.

We maintain flexibility to increase credit risk selectively should dislocations emerge as fiscal pressures and rate expectations evolve.

*With the path for future central bank decisions uncertain, readiness to adjust allocation remains critical and yield seeking in cross-border sovereign bonds, particularly in regions where growth and inflation appear relatively benign.*

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



**Our Markets focus this January**

2026 looks like a promising year. Despite mixed global signals, we expect stability and sustainability in the local economy. Fingers crossed on politics!

What to look out for as we start 2026.

**On the global stage**

- **Interest rates rollercoaster?** —mixed signals with US Fed and Bank of England cuts and Japan hikes call for alertness in investment decisions.
- **It may help to play the long game:** Adding some longer bonds now before yields drop further will add to valuation gains on bonds investments.
- **Stay defensive on equities:** Selection of defensive sectors will cushion against expect slowdown in growth.
- **Future bets:** AI and clean energy are not expected to slow down soon. Invest to ride those waves.

**Back Home - Kenya Outlook**

- **Cheaper money:** CBK slashed Central Bank rate to 9%—borrowing is easier, growth is slowly coming back.
- **Treasury Bond sweet spot:** Short-to-mid government bonds look juicy for yield hunters, as money market rates become unattractive.
- **Take some risk on Banking sector stock:** Local banks' dividends and credit growth are on point.

*As your investment manager we are agile to ensure your investment in the NCBA Unit Trust Funds stay aligned to the above themes.*

*If you'd like to explore how these insights and opportunities fit into your investment strategy, feel free to reach out. We're always happy to discuss what works best for your investment goals.*

**Wishing you a prosperous Year!**

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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