

Inflation Trends

The U.S. Consumer Price Index for All Urban Consumers (CPI-U) increased by 0.5% in January, following a 0.4% rise in December, bringing the annual inflation rate to 3.0%. Core CPI rose 0.4% in January and 3.3% year-over-year. February was marked by weaker-than-expected macro-economic data, with serial disappointments as the impact of Department of Government Efficiency (DOGE) policies became evident. Growth expectations declined sharply, even as inflation continued to surprise to the upside.

Bloomberg Economics estimates that if DOGE measures aim to cut \$600 billion annually, the economy could experience a 2% contraction in GDP by year-end, a nearly one percentage point rise in unemployment, and a 0.9% decline in year-over-year CPI.

Interest Rates & Central Bank Policy

March brings a flurry of central bank meetings, with most economies continuing the 2024 rate-cut cycles, except for Japan and Brazil.

The European Central Bank (ECB) is expected to cut rates by 25bps from the current 2.75% on March 6th, following a January reduction. Meanwhile, the Fed (March 19th), Bank of Canada (March 12th) and Bank of England (March 20th) are likely to hold steady at 4.25% - 4.50%, 3.00% and 4.50% levels respectively. The Bank of Japan, having hiked rates to 0.50% in January, is expected to stay on hold until at least the second half of the year.

Yield Curve Movements

Despite tariff risks and firmer inflation data, global bond markets focused on weakening U.S. sentiment and growth concerns. Falling U.S. yields drove positive returns across major fixed-income sectors, with U.S. treasuries leading at 2.2%. A weaker dollar also supported emerging market debt, which gained 1.6%. China and emerging markets led returns on 1-month and 12-months.

Bond yields plunged in February as growth fears intensified, with benchmark yields falling 25-30bps over the month. The 2-year yield dipped below 4% for the first time since October 2024, while the 3-month/10-year spread inverted, signalling investor scepticism about economic growth under Trump 2.0.

Markets have yet to fully price in the impact of DOGE savings. Elon Musk acknowledged concerns over fiscal credibility, as investors demand clearer evidence that spending cuts will meaningfully reduce the budget deficit and national debt. Under Trump 2.0, focus seems to be on U.S. treasuries, particularly the 10-year benchmark bond yield, on Elon and Treasury Secretary Scott Bessent's influence.

Credit Conditions & Spreads

Strong corporate fundamentals kept investment-grade spreads contained, with global investment-grade credit markets rising 1.6% in February. However, U.S. high-yield underperformed, returning 0.6%, as spreads widened slightly and duration shortened.

The shift in sentiment for government bonds was most pronounced in the U.S., where Treasuries outperformed European counterparts. In Europe, optimism over a potential Russia-Ukraine ceasefire and concerns about increased borrowing for defence spending led to smaller yield declines compared to the U.S. As a result, European government bonds returned 0.7%, with spreads remaining flat and higher-yielding Italian bonds outperforming German Bunds.

African Eurobond Markets

African sovereign bonds gained 1.6% in February, supported by steady price increases following Benin's inaugural 2025 Eurobond issuance in January. Kenya successfully raised \$1.5B through an 11-year (10-year weighted average) issue to refinance the 2027 \$900M maturity buyback. Eurobond prices across other tenors also rose, contributing to the overall market returns.

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