



### Inflation Trends

The U.S. Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in February, following a 0.5% increase in January, bringing the annual inflation rate to 2.8%. The energy index edged up 0.2% over the month, while food prices also increased by 0.2%. Core CPI (excluding food and energy) rose 0.2% in February and 3.1% year-over-year.

The Federal Reserve's latest economic projections indicate a downward revision in GDP growth, now expected at 1.7%, from 2.1%. This reflects expectations of moderated economic activity, largely due to the impact of newly implemented U.S. tariffs and retaliatory measures. While consumer spending has shown signs of slowing, the Fed anticipates that tariffs could exert upward pressure on prices, prompting an upward revision in core inflation projections for 2025 from 2.5% to 2.8%.

### Interest Rates & Central Bank Policy

Among the major central banks, the European Central Bank stood out during the latest round of policy meetings, delivering a 25bps rate cut, a notable move as others held steady.

The Bank of Japan, Bank of England and People's Bank of China all maintained their benchmark rates at 0.5%, 4.5% and 3.1%, respectively.

The Fed unanimously voted to hold interest rates steady at 4.25% - 4.50% for a second consecutive meeting. However, the Fed remains cautious, opting to wait for more clarity on the economic impact of the Trump administration's policies. Despite this, it still anticipates a gradual easing of interest rates later in the year, projecting a year-end range of 3.75% - 4.00%, implying a 50bps cut (two 25bps). Meanwhile, markets are pricing in a 25bps rate cut in June, followed by two additional, similar-sized cuts in July and October.

### Yield Curve Movements

U.S. treasuries were largely unchanged in March, with yields remaining volatile throughout the month. Short- and medium-term benchmark bonds declined marginally by 5-10bps, while long-dated securities, such as the 30-year Treasury, edged up 10bps. These movements reflected the Fed's decision to hold rates steady during its March meeting. Periodic rallies in Treasuries underscored the impact of uncertainty surrounding tariff policies and fears of a trade war, which drove investors toward the perceived safety of U.S. government debt. As a result, we anticipate heightened rate volatility in the U.S., with movements likely to be influenced by debt sustainability concerns, and moderated by forward expectations of future Fed cuts.

In Europe, yields are expected to remain elevated, supported by a stronger growth outlook, persistent inflation pressures and increased government borrowing. In the UK, gilt yields have lagged the rally in U.S. treasuries, yet continue to outperform German bunds.

In China, strong market activity and resilient equity market performance has driven adjustments at the long end of the yield curve. The front end remains anchored by accommodative monetary policy, while long-term movements are likely to be subject to US-China trade negotiations and the tariff situation.

In Japan, yields have risen modestly over the past month, largely influenced by global tariff uncertainty and parallels to Europe, where elevated yields are being driven by increased spending plans, particularly for defense and infrastructure, in response to the U.S. pullback from its commitment to European security.

### Credit Conditions & Spreads

Investment-grade corporates, especially at the long-end, underperformed Treasuries as market volatility weighed on excess returns. Spreads widened by 7bps, with yields rising to 5.15%.

High-yield bonds fared worse, with riskier issues underperforming, amid a rush of new issuance ahead of expected further U.S. tariff announcements.

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