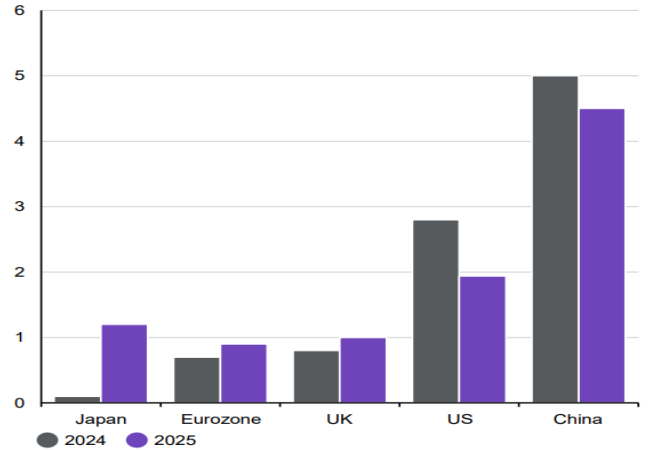


GLOBAL ECONOMY

Global Growth: Slowing growth hinged on US trade tariffs and their impact on global trade dynamics

Consensus forecasts for real GDP growth
% change year on year



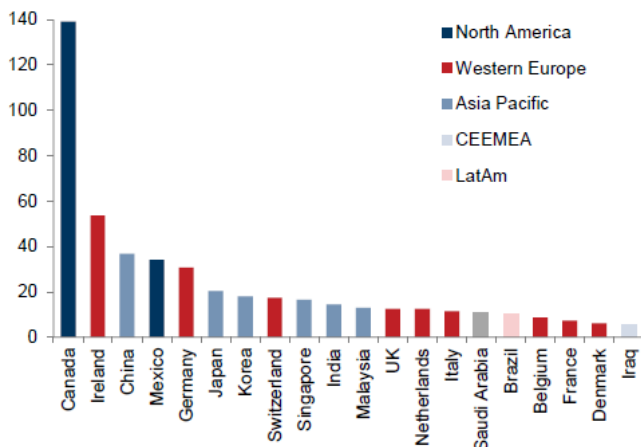
The U.S.

The U.S. economy continues to grow at a robust pace ~2.8% driven by consumption and an expanding labor force. The labor market remains resilient and real wage growth should continue to boost the purchasing power of consumers.

However, the anticipated impact of Trump 2.0 which brings a vision centered on 'US exceptionalism' through higher tariff duties, deregulation, and tax cuts, risks causing a state of stagflation – hurting growth while fueling inflation. Consequently, GDP growth is forecast to slow to 2.0% in 2025.

In the latest tariff announcements, Trump imposed a 10% baseline tariff on all nations and even higher duties for its major of trade partners – including 34% for China, 20% for the EU, 26% for India, and 25% for Mexico and Canada.

Exports of critical goods to the US, 20 largest exporters, \$Bn



A 10% universal tariff on all core goods imported into the U.S. could add as much as 1.8% to the Consumer Price Index (based on share of exposure), triggering a resurgence in inflation between 3% and 4% by mid-2026.

Europe

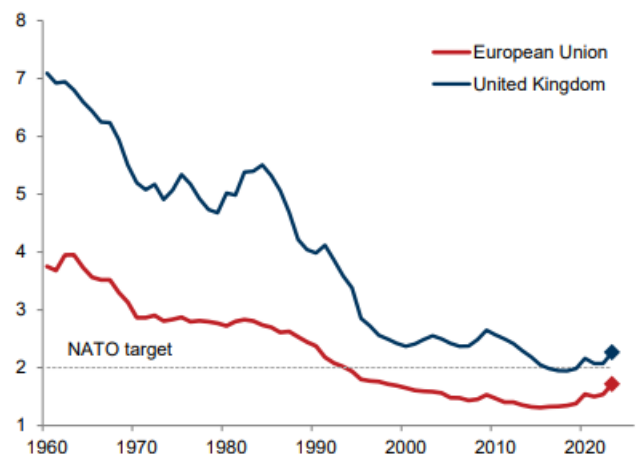
Europe growth is gradually gaining momentum driven by shifts in fiscal policies. Subdued growth and continued disinflation provide scope for further monetary easing which could stimulate consumer spending. The labor market remains a bright spot, with tight conditions and rising labor force participation supporting wage growth.

However, trade ties with the U.S. present key risks to Europe's industrial sector, particularly in machinery, pharmaceuticals and automotive. The proposed auto tariffs and levies on steel and aluminum—if implemented in Q2 2025—could exert upward pressure on inflation and disrupt supply chains.

Persistent high energy costs have placed significant pressure on the manufacturing sector, contributing to prolonged contraction in industrial activity. As a result, the sector continues to weigh on overall economic performance, with sustained PMI readings below 50 highlighting contractions in the sector.

Meanwhile, defense spending by EU member states is set to rise significantly over the next two years. While this increase will contribute positively to GDP growth, its overall economic impact may be limited.

Europe's defense expenditure as % of GDP



The planned expansion in defense and infrastructure spending could act as a catalyst for economic growth in the medium term. However, the key question remains: To what extent can increased defense spending translate into sustained economic expansion?

China

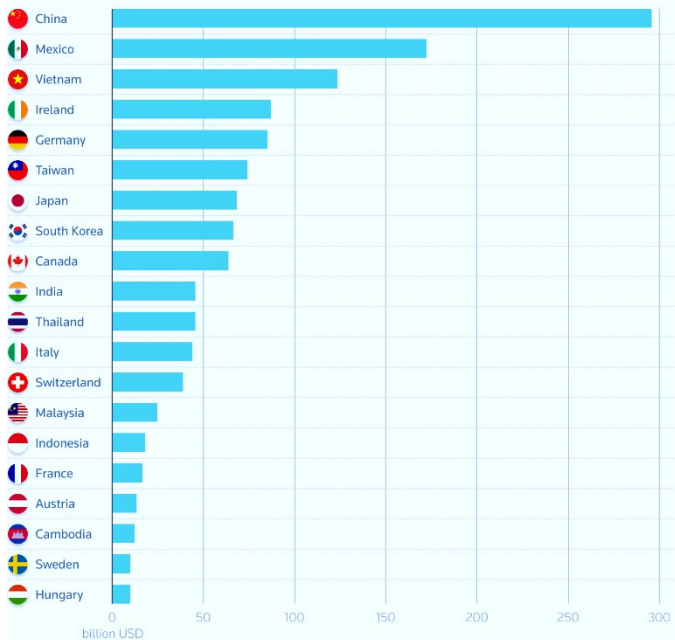
China is prioritizing domestic consumption, strategic industries—such as AI, and private sector to support growth in 2025. Investment in these priority sectors reflects a structural shift towards a tech-driven economy.

The property market remains sluggish with real estate investment contracting by around 10% annually. As a result, GDP growth is projected to slow to 4.5% in 2025.

Economic headwinds persist, with higher U.S. tariffs escalating trade tensions. China's external trade position remains a key pressure point, with the largest trade deficit among all US trade partners, underscoring the depth of economic interdependence.

Economies with highest US trade deficits in 2024

According to the U.S. Census Bureau



Source: United States Census Bureau

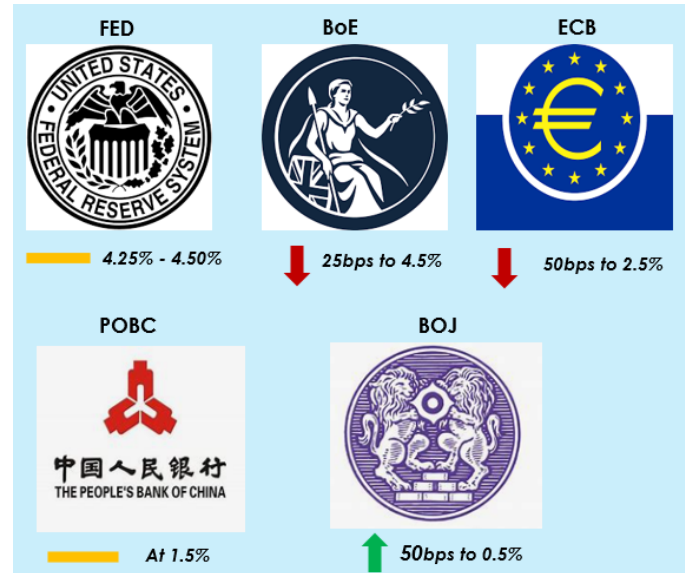
A pivotal policy shift occurred in February 2025, when the government reassured private businesses. The renewed government support signals a friendlier stance towards the private sector, reducing regulatory risks and improving business confidence.

Gradual monetary easing is currently in progress, its momentum however, constrains the effectiveness of the stimulus measures.

A rapid economic turnaround remains unlikely but the increased focus on tech-related capital expenditures and a more predictable policy environment could support long-term growth.

Policy Rate decisions: Trade upheaval leaves foreign central banks guessing

Slowing economic growth, renewed inflation risks, and rising geopolitical uncertainties have increased global financial market volatility, leading to diverging monetary policy decisions across major central banks.



The Fed kept interest rates unchanged, in line with market expectations for a gradual approach to monetary easing, citing slower economic growth and temporarily higher inflation.

The European Central Bank (ECB) reduced its rate by 50bps this quarter. U.S. tariff measures continue to pose significant risks in an already uncertain economic climate. The ECB warned that European Union retaliation could reduce growth and increase inflation by at least 0.5 percentage points in the short term.

The Bank of England (BoE), which had initially cut its rate by 25 bps in January, held its rate steady in March specifically pointing to Trump's tariff moves as clouding the economic outlook.

Similarly, the Bank of Japan and the People's bank of China signaled future moves will be shaped by how new tariffs plays out in practice.

If U.S. tariff policies are imposed, central banks may implement 'insurance' rate cuts, resuming easing measures to mitigate potential economic slowdowns.

We maintain our forecast for further rate cuts later this year, but caution that the high uncertainty surrounding trade policy could lead to a wide range of possible outcomes.

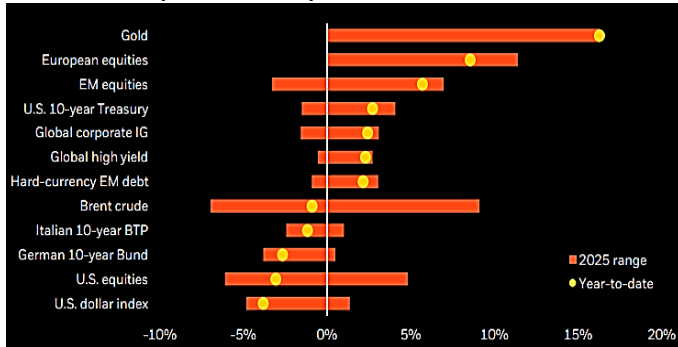
GLOBAL COMMODITIES

Commodities in 2025 are navigating a fragmented landscape, with geopolitics, policy volatility and climate extremes playing pivotal roles.

Gold

Gold has outperformed all asset classes, with spot prices increasing by 18% in the first quarter. In early March, gold surged past \$3,000 per ounce, hitting fresh record highs, spurred by President Trump's tariff measures and escalating global trade tensions.

Selected asset performance, year-to-date

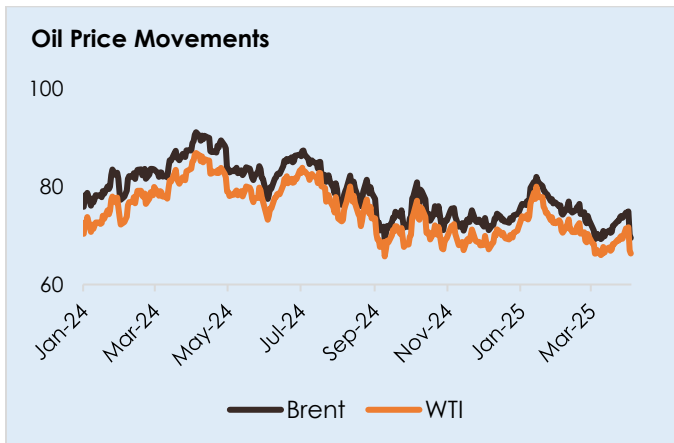


Strong demand from central banks and investors remains a key driver gold's price growth alongside significant buying activity in gold exchange-traded commodities.

Gold's position as a "safe haven" asset, particularly during periods of heightened economic uncertainty, will continue to support its performance. With robust long positioning, we expect gold to maintain a steady upward trend in the medium term.

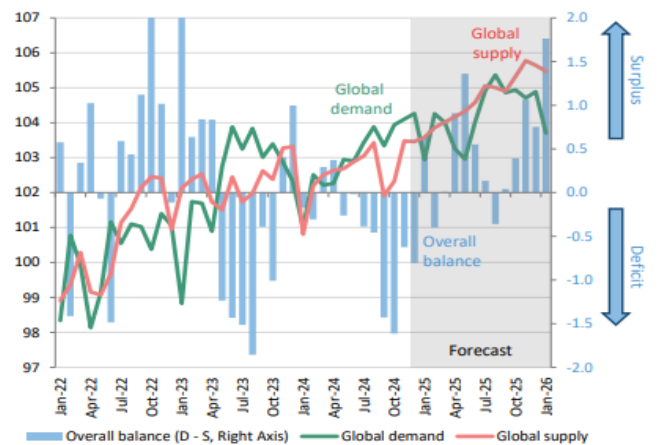
Oil

Oil prices remained rangebound amid heightened uncertainty in the Middle East and Europe, with Brent and WTI prices declining by 2% in Q1 2025. Despite pressure from growth concerns surrounding the U.S. economy and declining Chinese demand, oil markets remain resilient, supported by strong demand from other Asia.



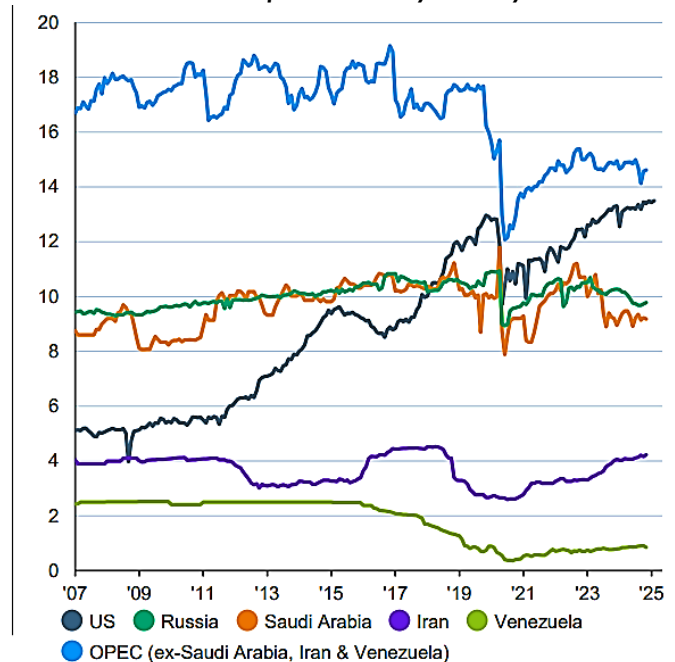
Market predictions are an oversupplied market in 2025. However, the International Energy Agency (IEA) suggests a moderately undersupplied oil market in early 2025, with a more balanced market throughout the year.

Oil fundamentals are pivoting to oversupply in 2025
Global oil demand, supply and overall balance (m b/d)



The start of the year saw fresh U.S. sanctions on Russia and Iran, but their impact on global oil supply has been limited. Non-OPEC+ oil supply is expected to outpace demand growth in 2025. However, improved OPEC+ compliance with agreed targets and planned unwinding of voluntary cuts from April should help balance the market.

Crude oil production by country



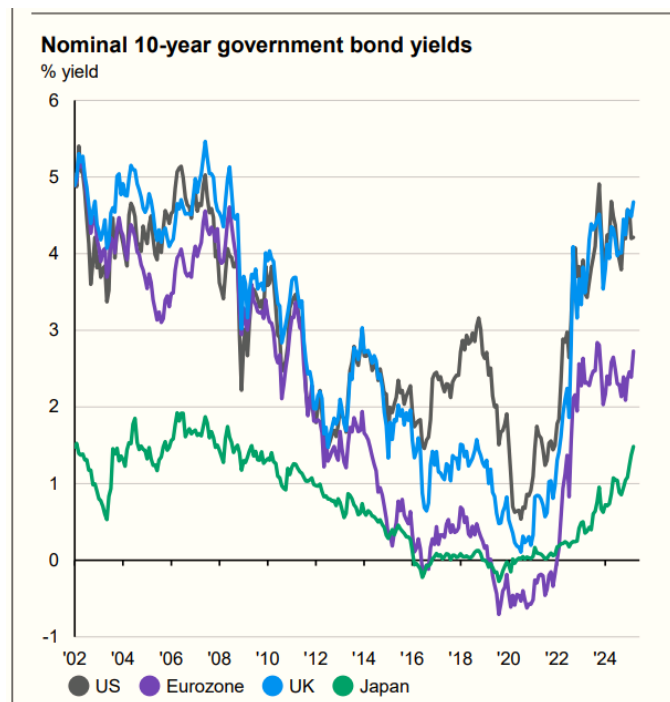
In the near term, US tariff news is likely to keep oil prices volatile. However, we believe oil price risks are skewed to the downside.

GLOBAL FINANCIAL MARKETS

Global Fixed Income

Global government bond yields displayed mixed performance across both developed and emerging markets with bouts of volatility as markets grappled with the potential impact of tariffs on inflation and growth.

The yield on the U.S. 10-year Treasury surged to a peak of 4.8% in mid-January, reflecting investor anxiety over escalating trade tensions and their potential economic impact. However, the yield retreated to 4.2% at end of the quarter, as concerns over economic slowdown prompted a flight to safety.



In Europe, Germany's 10-year bund yield climbed to 2.7%, driven by increased government spending and expectations of higher debt issuance. Similarly, the U.K.'s 10-year gilt yield rose to 4.7%, influenced by investor concerns over the government's fiscal outlook and persistent inflationary pressures.

Emerging market debt benefited from a weaker dollar and renewed investor appetite for risk as softer U.S. yields and improved global liquidity conditions fueled demand for higher-yielding assets. Gains were, however, restrained by persistent geopolitical risks and economic vulnerabilities in select markets.

Investors remain cautious, wary of a potentially more inflationary environment ahead, driven by the US protectionist trade policies and renewed tariff threats.

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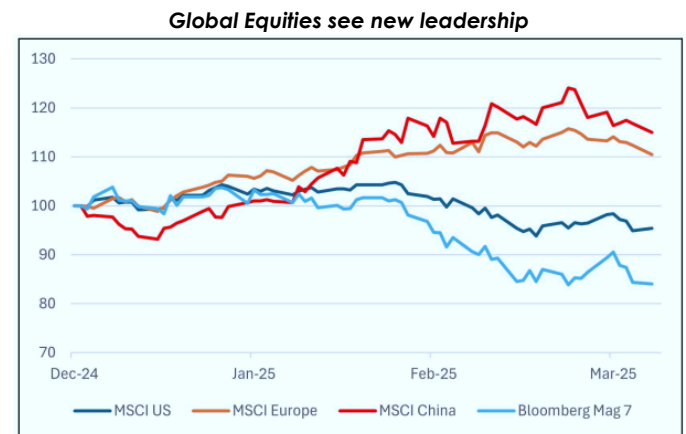
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Global Equities

The global equity index was down 2% in the quarter, however, this headline figure masked significant regional divergence.

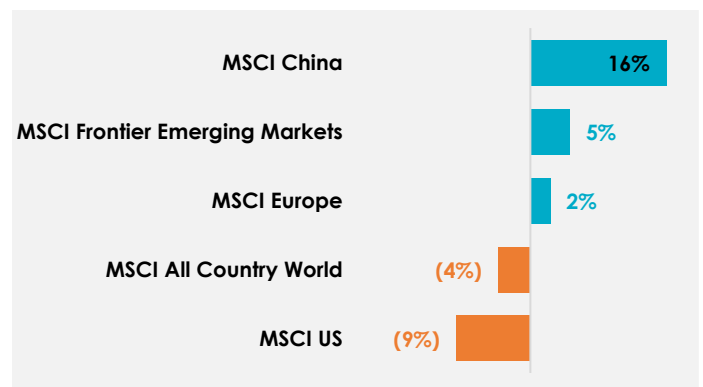
The first quarter action saw a shift in global equity market leadership driven by policy uncertainty, volatility, and a broad underperformance in the US.

U.S. equities struggled, with the S&P 500 and Nasdaq posting sharp losses. Tech stocks, the 'magnificent 7', were at the forefront of the decline, dragging the S&P 500 down by 8% YTD and while the NASDAQ posted 14% losses.



In contrast, European equities posted an impressive comeback, rising 10.7% driven by the shift in investor sentiment following government priorities towards spending particularly in defense supporting growth forecasts and boosting market confidence.

The standout performer was China, where equity markets rebounded sharply. Beyond China, other emerging markets also saw increased investor interest, largely driven by a weaker U.S. dollar and improved global liquidity.



We expect capital markets to stay volatile in the near term as escalating trade tensions, retaliatory tariffs, and policy uncertainty weigh on corporate earnings.

KENYAN MARKET

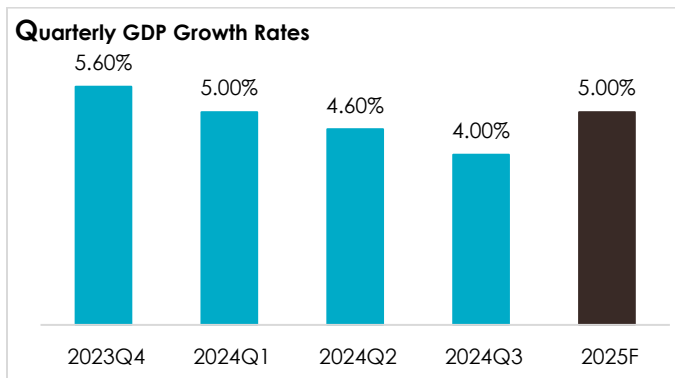
1. Growth and Business Environment

Kenya's economic growth in the first quarter remained resilient but showed signs of moderation driven by global trade disruptions affecting key markets.

Business conditions continued to improve as indicated by the headline PMI, which averaged 50.6, supported by strengthened demand and easing inflationary pressures that contributed to a more favorable economic environment.

GDP growth is expected to recover, supported by increased private sector activity, as businesses benefit from improving credit conditions amid a gradual decline in interest rates.

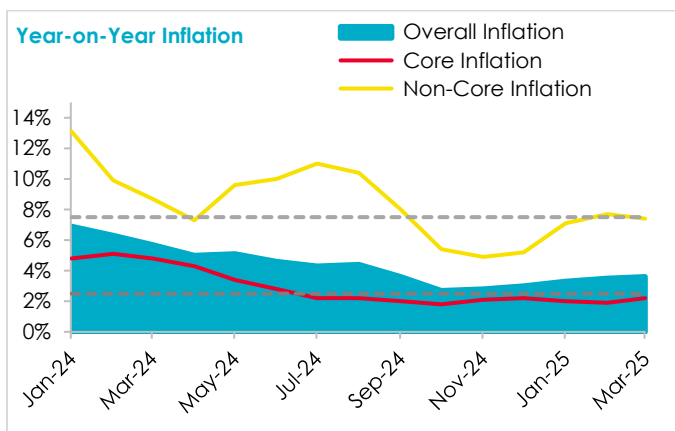
Further monetary easing could provide the much-needed stimulus to boost business confidence and accelerate economic momentum in the coming quarters.



2. Inflation

Inflation averaged **3.5%** in the first quarter of the year, reflecting a notable acceleration, with year-on-year inflation edging up from 3.3% in January to 3.6% in March.

This was largely attributed to favorable weather conditions that improved agricultural output, energy prices were driven by increased supply in international markets.



Core inflation remained subdued, averaging around 2.0%, reflecting muted underlying price pressures. However, non-core inflation, which is more volatile due to factors like food and fuel prices, remained elevated, reaching 7.7% in February before slightly easing to 7.4% in March.

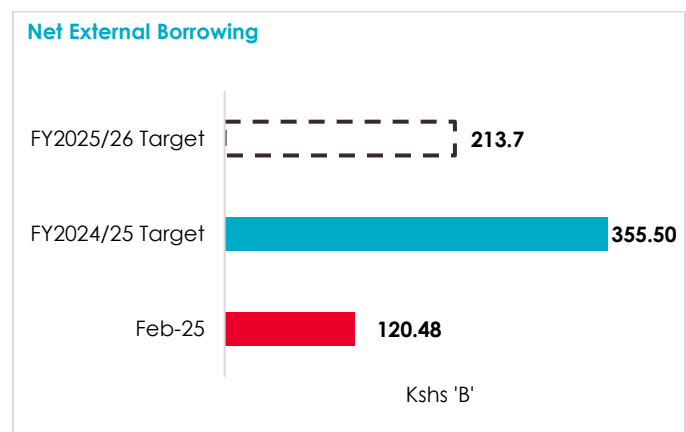
Overall inflation is projected to remain below the mid-point of the target range, but rise moderately to 3.8% in Q2, driven by uncertainties surrounding global oil prices and the broader geopolitical environment, which could disrupt supply chains and drive price volatility.

3. Fiscal Position

Pressure persists, with mixed performance in borrowing and revenue collection.

Local borrowing has already surpassed the target, appetite by the government is now informed by the need to cover domestic debt maturities. To manage upcoming obligations, KES 50Bn was successfully retired through bond buybacks across three maturities set for April and May.

On the external front, financing is significantly lagging at 20% of the budget. This shortfall follows the government's decision to cancel the IMF program after the ninth review, foregoing the final disbursement. The National Treasury is now seeking a new arrangement to support fiscal consolidation.

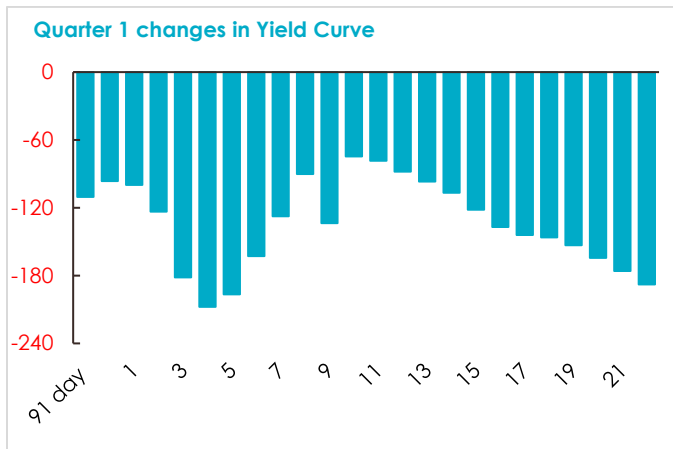


4. Interest Rates

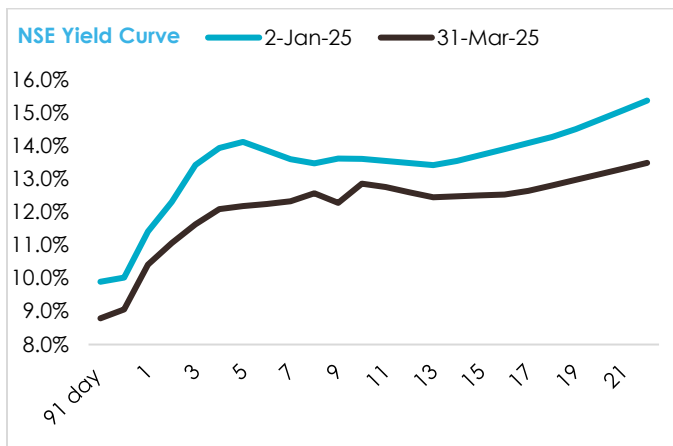
In its February 5th meeting, the MPC cut interest rates by 50bps which led to significant yield compression across the curve.

Reflecting the central banks' monetary policy easing, the yield curve shifted an average of 134 basis points downwards during the quarter.

Short-term rates maintained a consistent downward trajectory, with significant contraction observed in February 2025. The 91-day and 182-day yields fell by 110 basis points and 97 basis points, respectively, while the 364-day yield contracted by 100 basis points, underscoring broad-based easing across tenors.



The central bank adopted a selective approach by rejecting high-yield bids on re-opened medium- and long-term maturities. This targeted intervention facilitated a rebalancing of the yield curve.



We expect interest rates to remain relatively stable with sustained downward pressure in the near term.

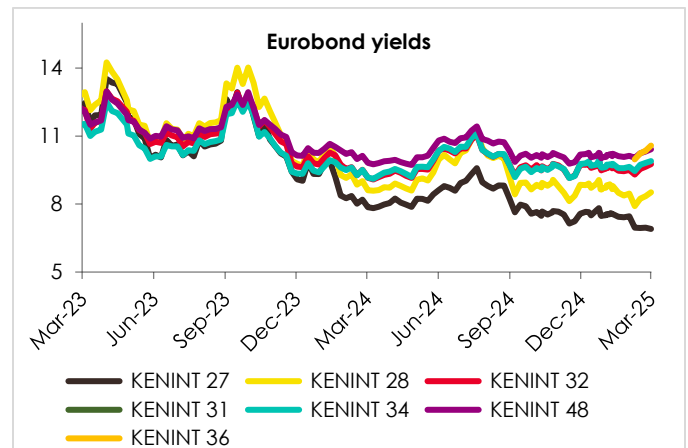
However, further rate movements will depend on the broader macroeconomic environment and the pace of fiscal consolidation efforts.

5. Eurobonds

Eurobond yields exhibited mixed performance driven by the government's initiatives during the quarter.

The refinancing of US \$ ~600Mn of the 2027 Eurobond using proceeds from a new US \$1.5Bn issuance maturing in 2036, reduced short-term repayment risks and bolstered investor confidence, contributing to a decline in yields.

This largely supported the credit rating updates by Moody's and Fitch, citing the easing of government liquidity pressure.



However, the cancellation of the IMF program after the 9th review introduced uncertainty over subsequent external financing flows, yields recorded a slight uptick, but this reaction was temporary. We anticipate that negotiations will lead to a new funding arrangement, but the timeline is uncertain.

In the near term, we expect Eurobond yields to remain relatively stable supported by a favorable domestic environment and IMF's continued support for Kenya's fiscal reforms.

A new IMF program and its ongoing backing of Kenya's fiscal consolidation efforts are expected to bolster investor confidence, compressing yields.

The trajectory of Eurobond yields will also depend on Kenya's ability to deliver on fiscal reforms and maintain external debt sustainability amidst evolving global macroeconomic conditions.

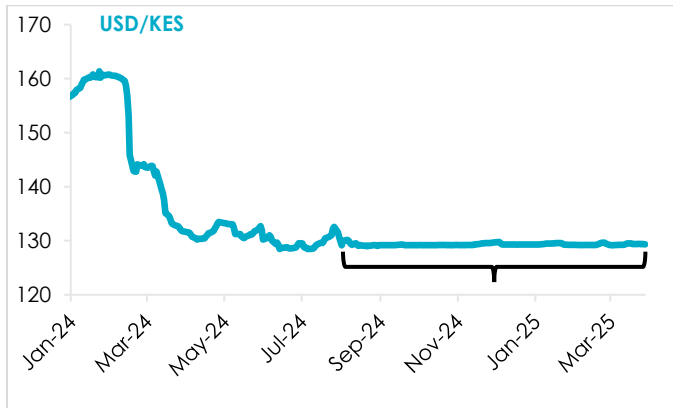
6. Currency

On the currency front, the Kenyan Shilling demonstrated notable resilience against the greenback during the quarter. This performance was primarily underpinned by the central bank's targeted monetary policy actions.

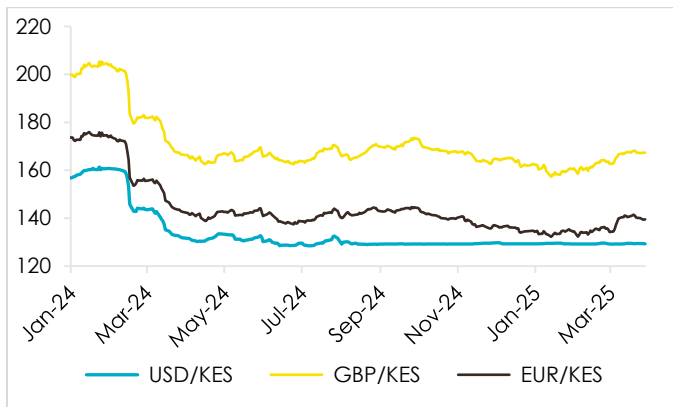
Additionally, the easing of debt distress concerns following the refinancing of KENINT 27 and receipt of dollar inflows

from KENINT 36 in the quarter further supported the Shilling's strength, reducing external vulnerabilities and stabilizing currency flows.

Notably, USD/KES has remained at the same level for the past eight months, supported by the central bank's consistent interventions, which have effectively managed liquidity in the foreign exchange market.



The shilling, however, depreciated by **3.1%** against the British Pound and **3.9%** against the Euro. This decline was largely attributed to Europe's economic recovery, fueled by geopolitical shifts and fiscal policies.



Currency expectations appear anchored with potential for modest depreciation.

The Shilling's trajectory will largely depend on global economic developments, including changes in trade policies, geopolitical risks, and the trajectory of monetary policy easing.