

GLOBAL ECONOMY: The conflict in the Middle East continues to amplify already elevated global uncertainty

The **global economy** has come under pressure in the first quarter due to elevated uncertainty exacerbated by the conflict in the Gulf. The mix of higher yields, elevated energy prices, a firmer dollar, and heightened inflationary pressure continues to shape a challenging macro backdrop.

Global central banks, caught between an inflationary energy shock and a slowing economy, find themselves with no good options, opting, as they usually do in genuine uncertainty, to wait and see.

With seemingly no end to the conflict in sight as it continues to escalate, its potential duration, impact on **global energy** supplies, and economic and market implications are of great concern.

Macro impact of the war in three phases

- Flow shock**
 Strait of Hormuz effectively closed, shipping stops, inventories are buffers, transitory macro effects
- Supply shock**
 Upstream production cuts, material supply impact, strategic reserves (or not) come into play, market begins to fragment
- Market shock**
 Global repricing: Global markets down, safe haven flows, financial conditions tight, broad-based macro slowdown

Source: S&P Global Ratings, © 2026 Standard & Poor's Financial Services LLC.

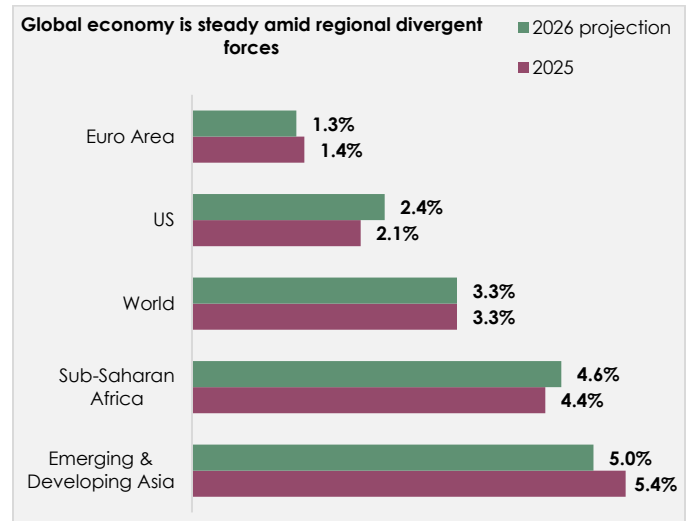
The **U.S. economy** remains resilient supported by fiscal policy and the lagged effects of earlier policy easing, though downward revision is expected as escalating geopolitical tensions weigh on consumption. Given its high degree of energy independence and strong investment and consumption trends, the resilience of U.S. economy is higher.

Monetary policy is likely to remain data-dependent, with the Fed expected to hold rates in the near term. Market expectations for rate cuts have shifted further out, with a potential cut now seen around September, although persistent inflation from energy shocks could delay easing or even reopen the door to tightening. Seemingly, the labor market is also gradually softening, with wage pressures signaling a transition to slower growth.

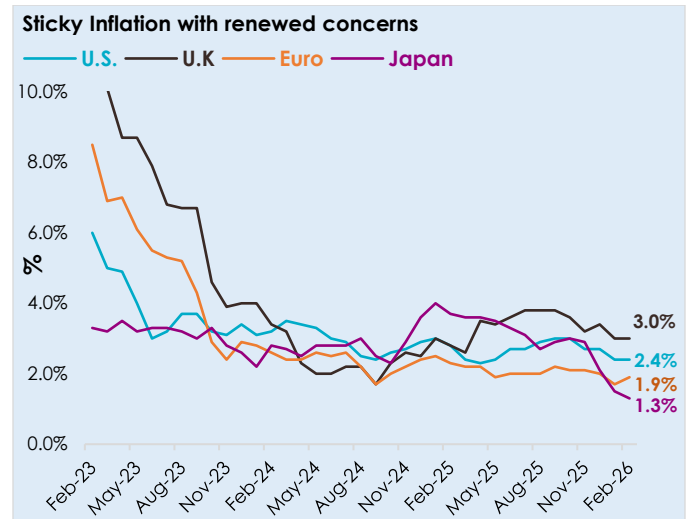
Europe should see the largest cumulative downward revisions to growth, mainly due to the inflationary impact of high energy prices, especially gas, whose effects are gradually being felt throughout the economy. While easier financial conditions and modest fiscal support provide some cushioning, they are only partially offsetting the drag from weaker external demand and consumption is expected to remain under pressure as real incomes adjust to higher energy costs.

Asia's growth remains supported but increasingly fragile and unevenly exposed to the energy shocks. While the region is vulnerable to the energy disruptions, several economies benefit from temporary mitigants including favorable financial conditions with targeted fiscal and monetary policy support.

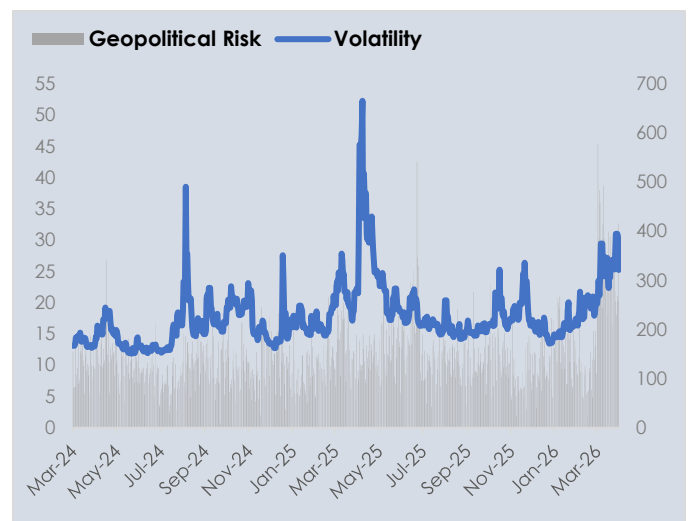
For **Emerging economies**, growth carryovers from 2025 and financial conditions remain reasonably favorable; however, energy importers will see relatively more strain.



Source: IMF Forecasts, NCBA Wealth Research



Source: Bloomberg, NCBA Wealth Research



Source: Bloomberg, NCBA Wealth Research

GLOBAL FINANCIAL MARKETS
Global Equities: Volatile, require selectivity

The dominant story remains the US-Israeli war on Iran, its deepening distortions across markets, and its impact on investor sentiment.

While the economic and market impacts have so far remained relatively muted, the longer the conflict and the resulting chokehold on global energy supply last, the less likely that will remain the case.

U.S. Equities

US equities recorded a significant drop, with the S&P 500 closing ~4.6% lower for the quarter with the Middle East conflict and the related jump in oil prices causing jitters over the inflationary impact. Nevertheless, given the US's relatively low dependence on energy imports compared to Europe or Asia, US equities are placed to outperform non-US equities supported by a firmer US dollar and tech innovation, but high valuations temper the potential.

European Equities

European markets showed relative resilience in Q1, though gains were eroded by a sharp March sell-off driven by global risk repricing. The STOXX Europe 600 declined 1.53% over the quarter, masking the strong start while the FTSE 100 was a notable outperformer, rising 2.47% in Q1, supported by its heavy weighting in energy and defensive sectors, despite 6.73% decline in March. The sector composition due to exposure to defense and financials provides relative insulation.

Asian equities

Asia Pacific markets delivered a mixed and highly divergent performance, with strong early gains reversed sharply in March highlighting both strong prior momentum and heightened volatility. Japan stood out as the strongest performer, with the Nikkei 225 rising 1.44%, despite a steep 13.23% decline in March, driven by financial conditions buoyed by a stronger Yen.

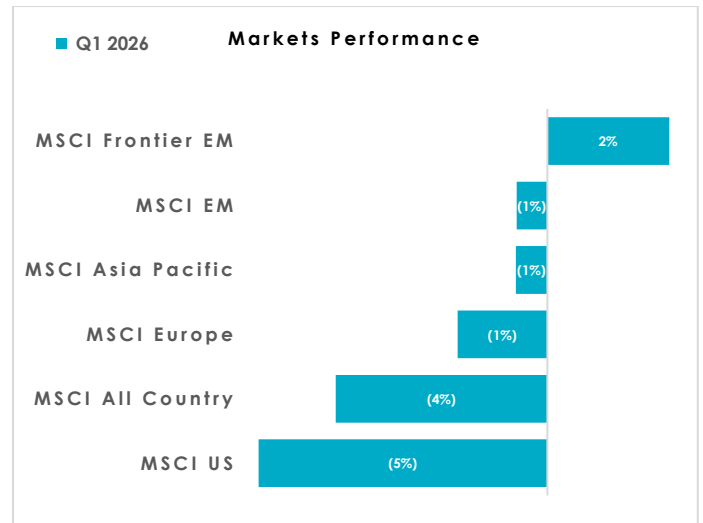
The region will continue to benefit from AI-driven capital flows and export strength though geopolitical tensions, rising oil prices, and global risk aversion will disproportionately impact energy-importing economies.

Emerging Markets

Emerging markets outperformed developed markets, posting posted a flat but volatile outturn, with strong early gains offset by a sharp March sell-off.

Frontier markets showed even greater resilience, with the MSCI Frontier Emerging Markets Index gaining 2.03% in the quarter, supported by domestic financial conditions and less direct exposure to global capital flows, although they too declined 8.72% in March.

EM markets continue to offer more attractive valuations. However, this valuation appeal is likely to remain contingent on the global risk sentiment, with geopolitical stability and external financing conditions key to unlocking sustained inflows.



Source: Bloomberg, NCBA Wealth Research

Global			
Index	Market	Mar-26	Q1 2026
MSCI All Country	Global	(7.36%)	(3.52%)

U.S. Market			
Index	Market	Mar-26	Q1 2026
S&P 500	US	(5.09%)	(4.63%)
Dow Jones	US	(5.38%)	(3.58%)
Nasdaq	US	(4.75%)	(7.11%)

Europe			
Index	Market	Mar-26	Q1 2026
STOXX 600	Europe	(8.00%)	(1.53%)
FTSE 100	UK	(6.73%)	2.47%
DAX	Germany	(10.30%)	(7.39%)
CAC 40	France	(8.90%)	(4.08%)

EM			
Index	Market	Mar-26	Q1 2026
MSCI EM	EM	(13.26%)	(0.51%)
MSCI Frontier EM	FM	(8.72%)	2.03%

Asia			
Index	Market	Mar-26	Q1 2026
Hang Seng	China	(6.92%)	(3.29%)
Nikkei 225	Japan	(13.23%)	1.44%

Local			
Index	Market	Mar-26	Q1 2026
NASI	Kenya	(9.84%)	4.42%
NSE-25	Kenya	(8.94%)	6.28%

Source: Bloomberg, NCBA Wealth Research

Global Fixed Income: Long-term yields likely to drift higher

The US-Israeli war on Iran and the risk that it could escalate into a wider regional conflict has rattled markets.

Initially, the fear that the oil price shock automatically raises prices, inflation caused **bond yields** to rise, as the assumption was that central banks would have to raise rates to combat the higher prices.

However, that fear morphed, as investors became increasingly concerned about a recession or **slower growth concerns** arising from consumers and companies to spending less on things other than oil. All else equal, that would justify further rate cuts, and bond yields adjusted lower.

The markets are saying the fiscal positions of these nations are likely to worsen considerably in the coming years as energy and defense bills come due, just as they would have to reckon with mounting infrastructure related spending

While the bond yield spikes may be the result of the **short-term** developments from the regional hostilities; however, the underlying negative narrative is one of a **long-term**, structural nature.

Global commodities

Commodities in 2026 are navigating a fragmented landscape, with geopolitics and policy volatility playing pivotal roles.

Oil

The unprecedented US-Israeli war on Iran has resulted in the largest energy supply disruption in history, as shipping traffic in the **Strait of Hormuz**—through which 20% of global oil supplies typically flow—has ground to a near halt and regional energy infrastructure has become the latest target in the conflict.

Longer disruptions could present substantial upside risk to prices, with Brent likely to **exceed \$120** if depressed flows keep the market focused on the risk of lengthier disruptions.

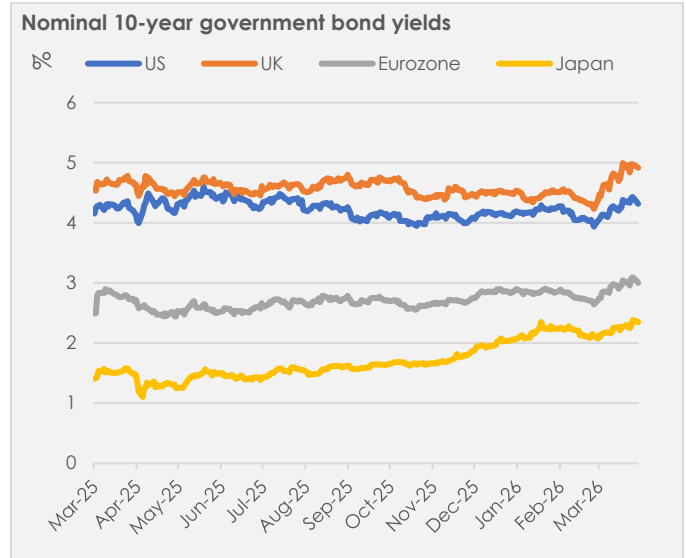
Energy extends far beyond oil and gas; the pain of higher prices extends to the impact on **global manufacturing** industry supply chain disruptions.

Gold

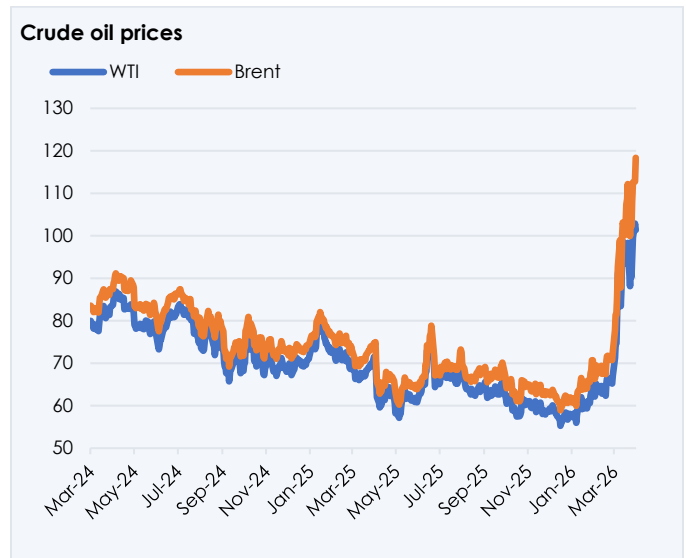
Amid mounting concerns about the war and inflation, it should be gold's time to shine. Instead, the metal's luster has faded since the Middle East conflict began.

The counterintuitive move reflects positioning effects, shifting **interest rate expectations**, and the US **dollar strengthening**. Gold's softening amid crude's firm persistence represents a grim transition from a war premium to a growth tax.

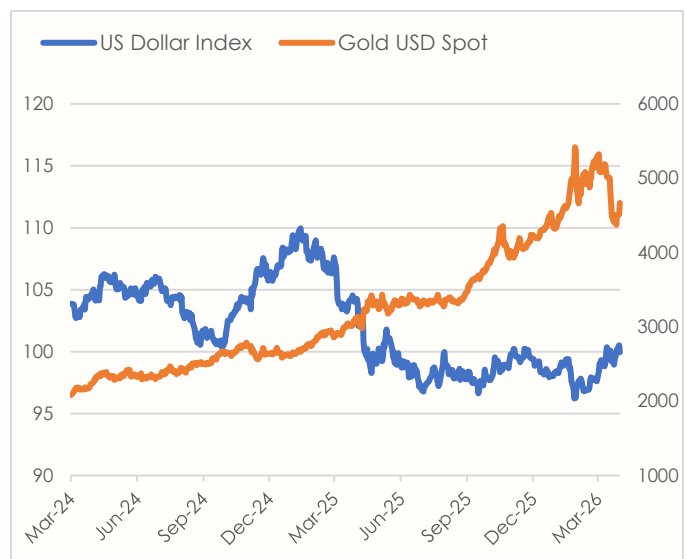
Gold's position as a "safe haven" asset will continue to support its performance and with robust long positioning, we expect gold to maintain a steady upward trend in the medium term.



Source: Bloomberg, NCBA Wealth Research



Source: Bloomberg, NCBA Wealth Research



Source: Bloomberg, NCBA Wealth Research

LOCAL ECONOMY:

Growth and Business Environment: Improving

The economy expanded by 4.9% in Q3 2025, a slight moderation from the 5.0% in Q2 but a significant uptick from the 4.2% recorded in the same period of 2024.

Economic expansion was supported by steady agricultural activity and a rebound in construction and mining. Services remained growth engine, with accommodation and food services gaining momentum with the seasonal surge in tourist arrivals.

Business conditions continued to improve as indicated by the headline PMI, which rose to 51.9 in March, reflecting stronger demand and private sector credit growth driven by sustained monetary easing that contributed to a more favorable economic environment.

GDP growth is expected to benefit from stronger **private-sector** activity and improving credit conditions with the low interest rates.

Inflation: Moderate acceleration

Inflation averaged **4.4%** in the first quarter of the year, reflecting a notable acceleration, with year-on-year inflation edging up from 3.6% in March-25 to 4.4% in March-26.

Core inflation averaged 3.0%, reflecting elevated **price pressures**. Non-core inflation, which is more volatile due to factors like food and fuel prices, rose significantly, reaching 9.6% in March.

Overall inflation is projected to remain below the mid-point of the target range but rise moderately driven by uncertainties seasonality in impacting food prices and the broader **geopolitical environment**, which could disrupt supply chains and drive oil prices further.

Currency: Stable

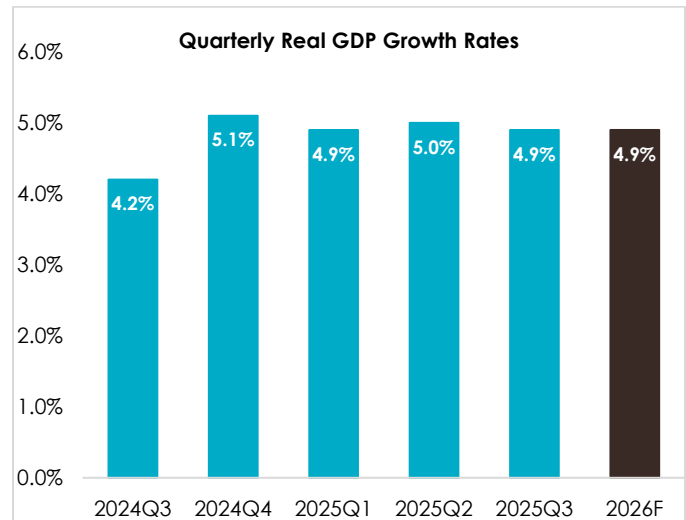
On the currency front, the Kenyan Shilling demonstrated resilience against the greenback supported by the Central Bank's active liquidity management and targeted forex interventions. Although the shilling held firm against the dollar, it strengthened modestly against the British pound and euro, largely due to a **firmer US dollar**.

Ample reserves covering 5.8 months of imports, strong diaspora remittances, and seasonal tourism inflows helped offset external pressures. The Shilling's outlook remains **broadly stable**, though risks persist from external debt servicing will largely depend on global economic developments, **geopolitical risks**, and the Fed monetary policy.

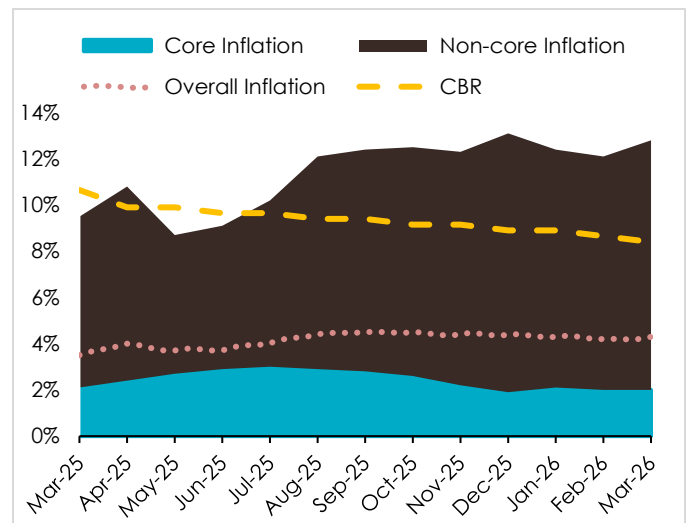
Local Equities: Volatile

Equities delivered a strong but **volatile performance** with NASI rising 4.4% in the quarter while NSE-25 gained 6.3% reflecting solid gains in January and February before declining in March.

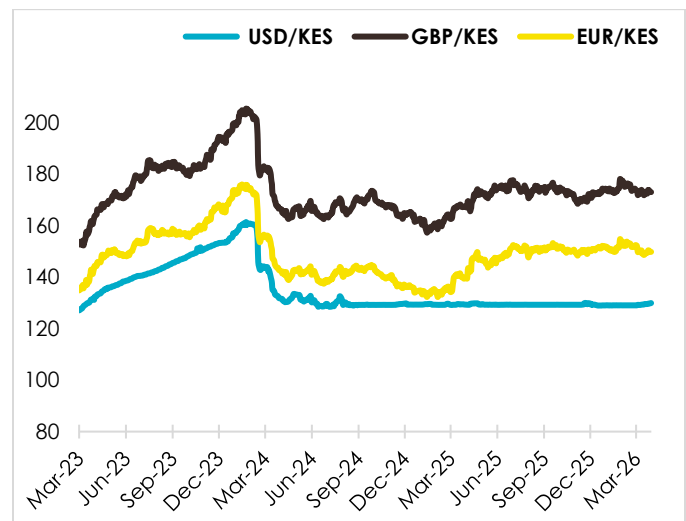
Early momentum was driven by strong corporate earnings releases while the pullback aligned with **global risk-off sentiment** as geopolitical tension spilled over into frontier markets, triggering profit-taking and a temporary **slowdown in inflows**. Near-term performance is likely to remain sensitive to the external shocks.



Source: Kenya National Bureau of Statistics, NCBA Wealth Research



Source: Kenya National Bureau of Statistics, NCBA Wealth Research



Source: Central Bank of Kenya, NCBA Wealth Research

Fiscal Position

Pressure persists, with mixed progress toward consolidation targets with **expenditure outpacing revenue** performance. By February, total revenue reached KES 2.75 trillion (62.1% of the annual target), supported by solid tax collections of KES 1.52 trillion (57.7%) and stronger-than-expected non-tax revenues at 70.5% of target.

Government expenditure expanded sharply reaching KES 3.83 trillion (86.4% of the budget) by recurrent spending (69.6%) and debt servicing costs under Consolidated Fund Services (60.5%), which continue to crowd out development expenditure currently at a slower 46.3% execution rate.

On financing, the government relied heavily on **domestic borrowing** aggressively tapping local markets early in the fiscal year. In the quarter, CBK reopened bonds raising ~KES 273bn from the quarter following strong demand and as investors hunt for yield. Domestic borrowing has been front-loaded, reaching 79.2% of the full-year target, reflective of the continued reliance on the local market for financing.

Interest Rates

The Central Bank of Kenya's Monetary Policy Committee reduced the Central Bank Rate by **25 basis points** to 8.75%, marking a continuation of its gradual easing stance aimed at supporting credit growth amid contained inflation.

Reflecting this policy shift, the yield curve moved an average of 43 basis points lower during the quarter underscoring **broad-based easing** across the curve. Short-term rates maintained a consistent downward trajectory, bringing rates to 7.4%, 7.8%, and 8.3% for the 91-day and 182-day 364-day papers, respectively

The central bank adopted a selective approach by rejecting high-yield bids on re-opened medium- and long-term maturities. This targeted intervention effectively guided market expectations and contributed to a smoother rebalancing of the yield curve.

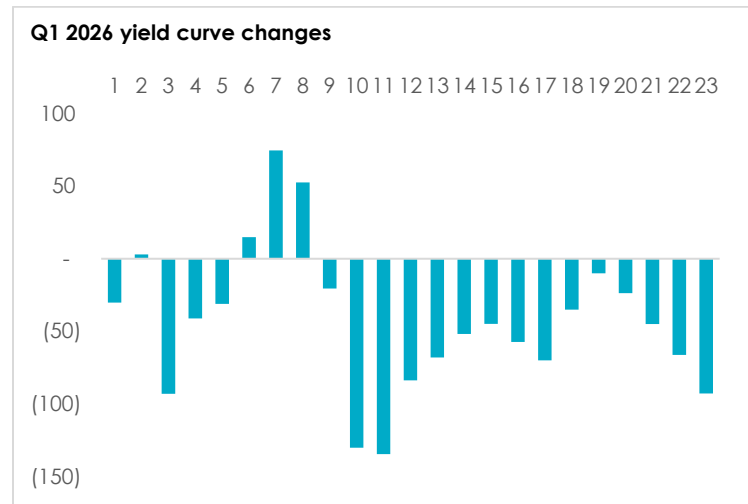
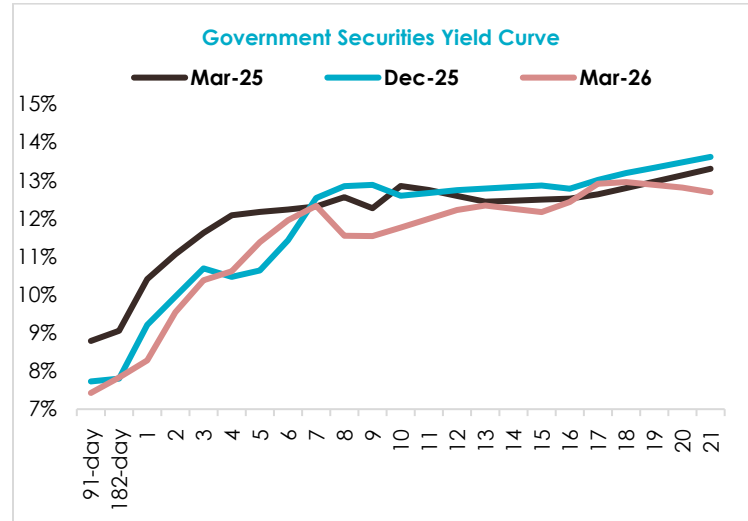
We expect interest rates to remain relatively stable with **sustained downward pressure** in the near term. However, further rate movements will depend on the broader macroeconomic environment and the pace of fiscal consolidation efforts.

Eurobonds

Eurobond yields rose slightly across maturities driven by the broader **global economic volatility**, rising U.S. Treasury yields, and heightened geopolitical risk.

In an aim to ease external financing pressure and **extend debt maturities**, the government refinanced through a dual tranche in February, raising \$2.25 through Kenya 34 and Kenya 39 Eurobonds.

We expect Eurobond yields to remain relatively stable supported by government consolidation and favorable demand. However, the yields may continue to experience **short-term volatility**, particularly for medium- and long-dated tenors, as global rates and geopolitical developments influence investor sentiment.



Eurobond	Tenor	Coupon	Mar-26	Dec-25	Change (bps)
KENINT 05/22/2027	1.1	7.00%	7.26%	5.62%	163.50
KENINT 02/28/2028	1.9	7.25%	7.72%	5.82%	190.30
KENINT 02/16/2031	4.9	9.75%	9.08%	7.41%	167.50
KENINT 05/22/2032	6.2	8.00%	8.79%	7.23%	155.90
KENINT 10/09/2033	7.5	7.88%	9.23%	7.81%	141.90
KENINT 01/23/2034	7.8	6.30%	9.41%	7.71%	169.80
KENINT 02/26/2034	7.9	7.88%	9.53%	-	-
KENINT 03/05/2036	10.0	9.50%	9.90%	8.42%	147.60
KENINT 10/09/2038	12.6	8.80%	9.94%	8.61%	133.60
KENINT 02/26/2039	12.9	8.70%	10.01%	-	-
KENINT 02/28/2048	22.0	8.25%	9.69%	8.79%	90.60

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