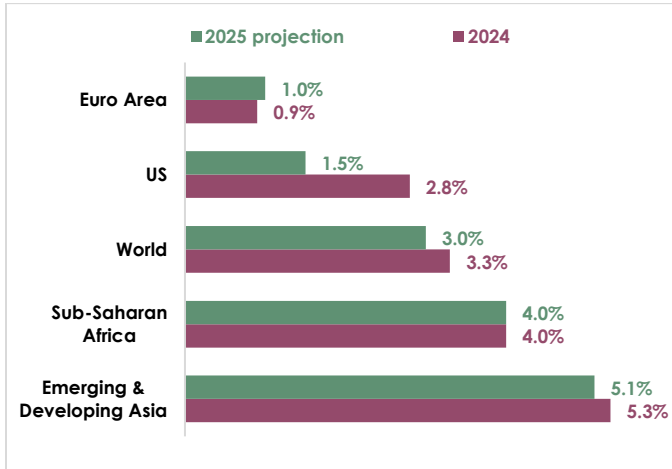


GLOBAL ECONOMY

Global Growth: Modest upgrades to 2025 growth forecasts

Consensus forecasts for global growth in 2025 remain weak, even as they have marginally improved compared to quarter one forecasts reached in April and early May during the trade upheavals.

The slight upward revisions reflect the de-escalation of trade tensions between some major economies in July and moderation in economic policy uncertainty.



Source: IMF Forecasts, NCBA Wealth Research

However, with negotiations between major economies still ongoing, trade uncertainty is likely to remain elevated and weigh down on global growth. Global activity indicators such as PMIs suggest a subdued growth outlook.

The U.S.

The U.S. economy recorded stronger-than-expected growth in the second quarter, with real GDP expanding at an annualized rate of 3.8% following a contraction in the first quarter. The outturn was supported by solid household consumption and a sharp decline in imports, which provided a temporary boost to net trade. Current estimates for the third quarter point to a moderation in activity to growth around 3%.

The private sector is still in growth mode with S&P Global composite PMI readings averaging ~54.7 in Q3, consistent with the softening. Services activity remains a resilient pillar, carrying the momentum, while manufacturing is volatile, reflecting cost pressures and external demand weakness.

Consumer spending held up, but high borrowing costs, sticky inflation, and tariff-related price increases weigh on real purchasing power. Business investments tied to AI productivity upgrades and recent tax incentives are expected to provide a medium-term tailwind.

Euro Area

The euro area economy recorded modest growth in Q2 2025, with GDP rising 0.3% quarter-on-quarter. Momentum remains uneven, with the composite PMI averaging ~51.4 in Q3. Household consumption has been supported by slowing inflation and wage gains, though higher borrowing costs and fragile confidence weigh on spending.

Business investment is concentrated in green and digital projects, aided by EU policy support, but broader activity remains constrained. Growth is expected to remain modest at ~0.3% per quarter through year-end.

Upside potential lies in faster disinflation boosting real incomes and stronger public investment deployment. Risks to the downside from trade and energy shocks.

U.K.

The UK economy expanded 0.3% q/q in Q2 2025, slowing from 0.7% in Q1. Growth was supported by government spending and inventories, while business investment contracted sharply, and household consumption remains weak. Policy-driven spending and easing inflation should provide some offset, but momentum is likely to remain subdued.

Asia region

The region remains the fastest-growing globally, though momentum is uneven across economies.

China's growth moderated from 5.4% (y/y) in 2025Q1 to 5.2% in Q2, with consumption supported by fiscal measures and resilient exports while property sector weakness, soft external demand, and trade tensions weigh on activity. PMI surveys point to volatility in manufacturing, while services remain more resilient. Policy support has been targeted, focusing on infrastructure and credit easing, but structural challenges continue to cap growth potential.

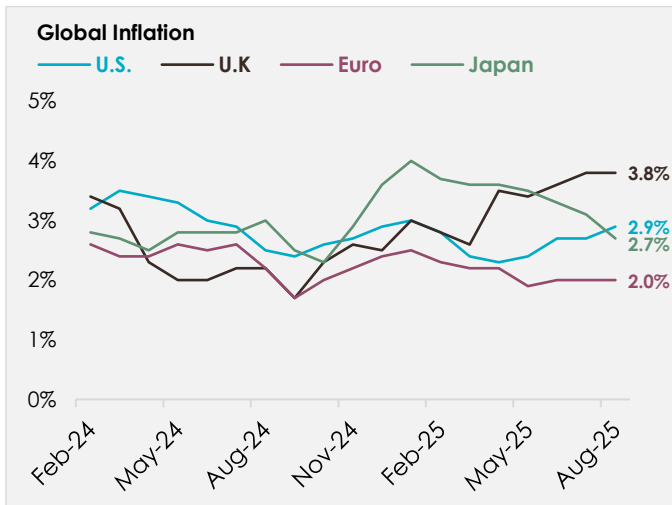
India continues to be the regional outperformer, with growth projected above 6%, supported by strong domestic demand, investment in infrastructure, and robust services exports, particularly in IT and financial services.

Activity is steady, benefiting from resilient consumption and supply-chain diversification inflows, though external demand is soft.

Emerging markets are experienced moderate but resilient growth, supported by domestic demand and easing inflation, though capital outflows and external financing pressures remain key vulnerabilities.

Global Inflation: Tariff effects are still filtering through

Slower disinflation globally has largely reflected continuing inflationary pressures. Although global inflation remained subdued in the quarter, tariff-related pass-throughs are starting to lift imported consumer goods prices.



Source: Bloomberg, NCBA Wealth Research

U.S. inflation remained above the Fed target through Q3 2025, with headline CPI moving from 2.7% y/y in July to 2.9% in August, and early estimates pointing to ~3% in September. Core inflation has proven sticky at just under 3%, reflecting persistent price pressure.

UK inflation stayed elevated through Q3 2025, with headline CPI running at 3.8% y/y while core inflation remains above 4%, reflecting persistent services and housing-related price pressures.

Eurozone inflation held at 2.0% y/y, supported by easing energy prices and a softening growth backdrop. Core inflation, however, remains somewhat elevated at 2.5%, above ECB's target, underscoring the persistence of domestic cost pressures.

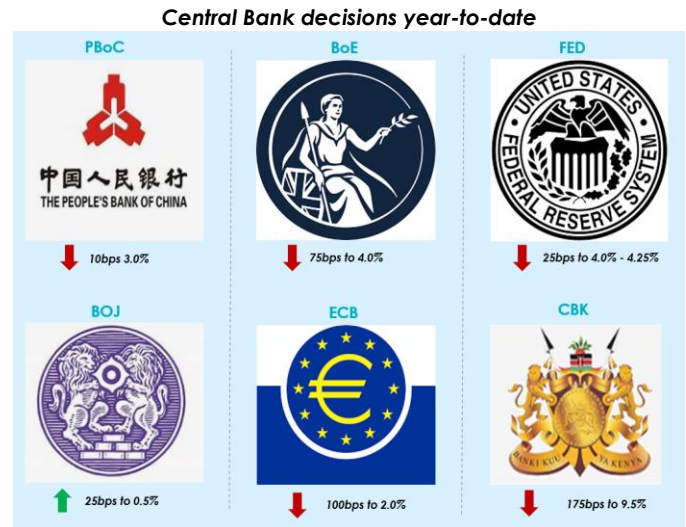
Looking ahead, inflation is expected to ease gradually toward target in 2026, though the trajectory depends heavily on labor market, fiscal policy, and the extent of tariff-related pass-through into consumer prices.

Mirroring global trend, inflation eased across major African economies supported by tighter monetary conditions and lower energy costs, though core inflation remains sticky.

While tighter monetary stances and stabilizing exchange rates will anchor inflation expectations, vulnerabilities from food and energy price shocks, climate-related disruptions, and fiscal pressures continue to cloud the outlook.

Global Monetary Policy: Steady Easing

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



Source: Central Banks, NCBA Wealth Research

The Federal Reserve cut the fed funds rate by 25 bps to 4.00–4.25%, its first rate cut in 2025. The move was prompted by softer labor market data amid heightened political pressure to cut rates

Fed signaled a measured approach to further monetary policy easing, as inflation persistence limits room for aggressive easing and the impact of tariffs has yet to fully materialize, leaving investors in doubt about the pace of future moves.

The ECB kept its key policy rate unchanged and is expected to remain on hold through year-end. Similarly, the BoE held its Bank Rate at 4.00 %, opting to maintain its restrictive stance despite persistent inflation pressures.

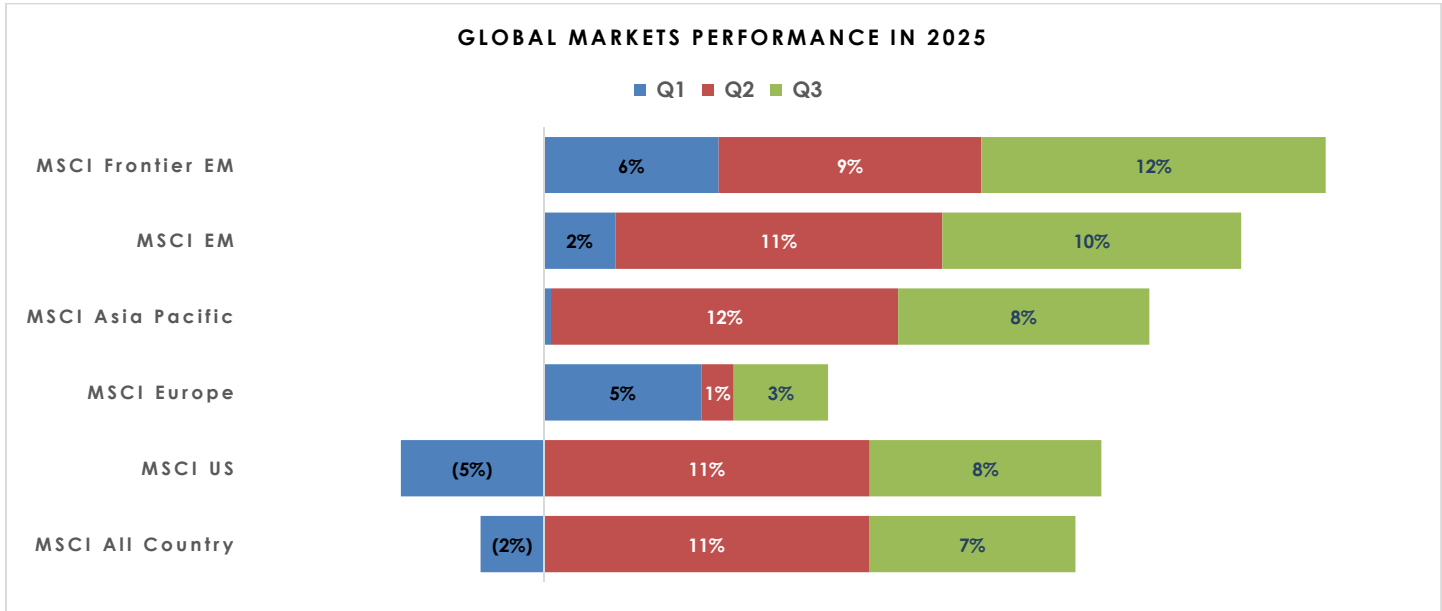
In Asia, monetary policy is more uneven. The PBoC continues to favor targeted easing to counter slowing growth and deflationary pressure, though constraints from capital outflows and property market instability limit its scope for large-scale stimulus. The BoJ, by contrast, faces persistent core inflation and wage pressures, complicating its path of loosening policy.

Emerging market central banks front-loaded tightening cycles earlier, further rate cuts are expected, but inflation expectations and uncertainty surrounding trade policy could lead to further divergence.

GLOBAL FINANCIAL MARKETS

Global Equities: Gains amid trade deals and earnings growth

The global equities extended their rally, with the MSCI All Country World index advancing 7% in the quarter with significant cross-regional re-allocation. The rally was underpinned by expectations of monetary easing, particularly the Fed's September rate cut, which reinforced risk appetite globally.



Source: Bloomberg, NCBA Wealth Research

U.S. Equities

The earnings season turned out stronger than expected, especially across technology and consumer discretionary, reinforcing the narrative that corporate remains remarkably resilient despite tighter financial conditions.

The quarter closed with the S&P 500 gaining 7.8%, the Dow adding 5.2%, and the tech-heavy Nasdaq stealing the show with an 11.2% advance.

The rally seems almost unstoppable with AI enthusiasm continuing to dominate and feed momentum across growth sectors. However, beneath the surface, a lingering debate is building over whether AI-driven earnings can truly sustain current multiples, or markets are quietly inflating another bubble.

European Equities

The region's resilience has been underpinned by easing inflation and tailwinds from global monetary easing though the geographical divergence is quite telling.

The STOXX 600 gained 3.1% in the quarter while the FTSE 100 climbed 6.7% supported by strong performance in banking stocks and energy. In contrast, Germany's DAX slipped 0.1% in quarter, after a strong first half, as fiscal concerns weighed on investor sentiment. Even so, it remains the region's frontrunner on a YTD basis, nearly 20% higher.

Asian equities

The standout performer was China, with the CSI 300 surging nearly 18% in the quarter, its strongest performance in years, as stimulus expectations and tech flows lifted sentiment. Hong Kong's Hang Seng also rallied 11.6%, extending YTD gains to almost 34%. The rally was supported by global investors rotating into Asia as a diversification play.

Beyond China, other emerging markets extended their outperformance, fueled by increased investor interest, largely driven by a weaker U.S. dollar and improved global liquidity.

Emerging Markets

The MSCI EM index gained 10.1% in the quarter, bringing YTD returns to 25%, with Asia leading but broad-based strength across Latin America and EMEA also contributing.

Frontier markets outshone even further, with the MSCI Frontier EM advancing 11.6% in Q3 and nearly 29% YTD, reflecting renewed investor demand for risk appetite exposure as global rate expectations shift lower.

With vulnerabilities from global trade frictions, fiscal imbalances, and commodity swings, the rally's persistence will depend on whether these risks stay contained.

Global Fixed Income: Fiscal Risks Overshadow Easing

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.

U.S. Treasury yields fell in Q3, driven by the Fed’s 25bps cut in September, which marked a clear pivot toward easing. However, the move was cushioned by mounting fiscal concerns and the looming risk of a government shutdown. With Congress failing to pass funding, the shutdown added another layer of uncertainty, limiting the extent of the compression.

In Europe, yields climbed to 2.7%, as fiscal concerns overshadowed the ECB’s summer rate cut. Even as growth slowed and inflation eased, the fiscal overhang pushed term premia higher, limiting the impact of monetary easing. Similarly, the U.K.’s 10-year gilt yields climbed over the quarter, reversing much of the Q2 decline. Persistent fiscal risks tied to rising debt levels kept pressure on gilts, underscoring how policy credibility remains central to the UK’s rates outlook.

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.

Global commodities

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

Gold

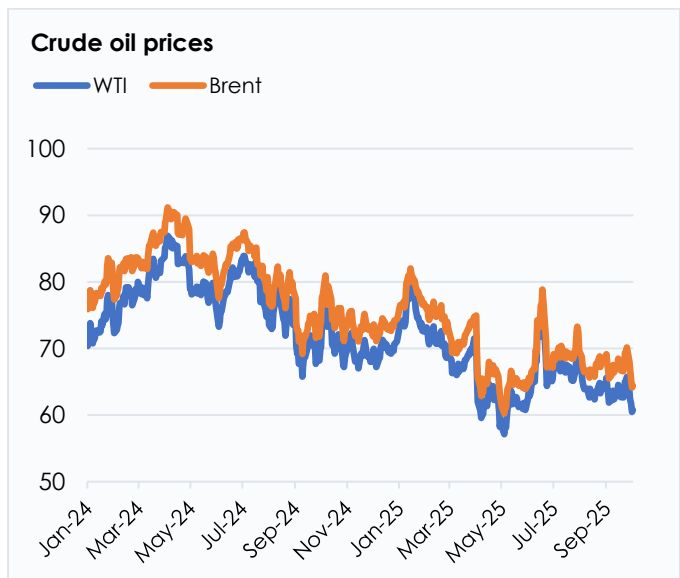
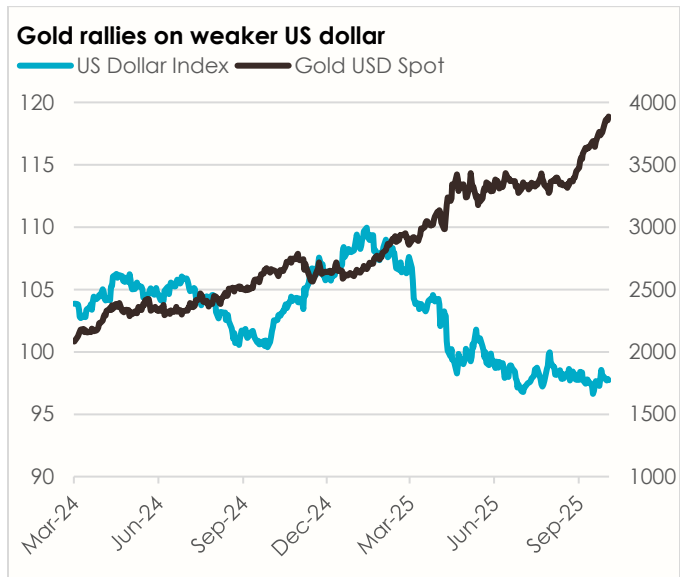
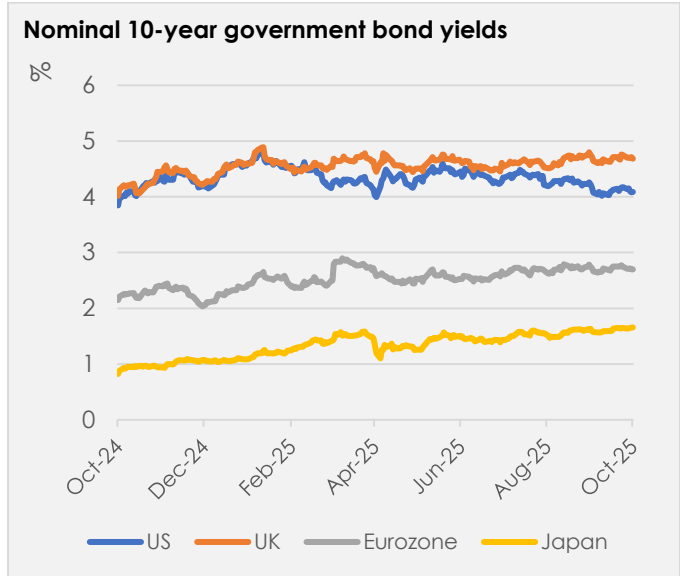
Gold has outperformed all asset classes, with spot prices increasing by 47% YTD, hitting fresh record highs. Strong demand from central banks and investors remains a key driver alongside significant buying activity in gold exchange-traded commodities.

Gold’s position as a “safe haven” asset 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 under pressure, with WTI slipping 4.2% and Brent easing 0.9%, extending the losses from the first half of the year (9% and 10%, respectively).

The weakness reflects a combination of soft demand concerns and supply-side pressures. OPEC announced plans to increase supply starting Q4, a decision that weighed further on sentiment. While impacted by the trajectory of global demand and supply, oil prices are expected to stay range-bound.

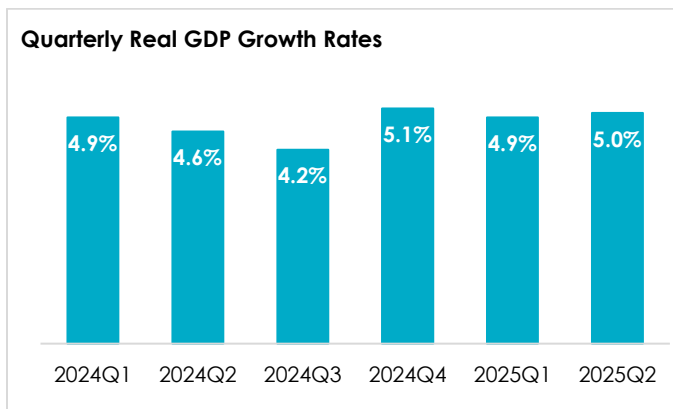


KENYAN MARKET

Growth and Business Environment

The economy expanded by 5.0% in Q2 2025, supported by steady agricultural activity and a rebound in construction and mining. Services remained the main growth engine, with wholesale and retail trade gaining momentum, though manufacturing slowed, and hospitality eased after last year’s exceptional surge.

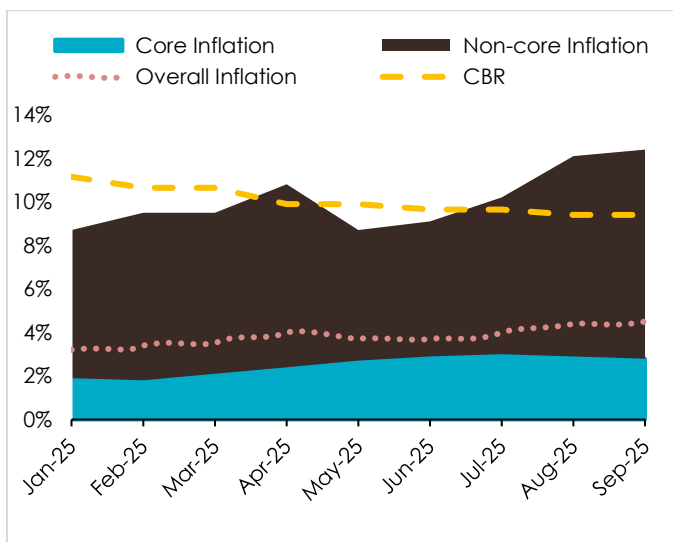
Business conditions continued to improve as indicated by the headline PMI, which rose to 51.9 in September, reflecting stronger demand and private sector credit growth driven by sustained monetary easing that contributed to a more favorable economic environment.



GDP growth is expected to benefit from stronger private-sector activity and improving credit conditions as interest rates gradually decline.

Inflation

Inflation averaged **4.4%** in the third quarter of the year, up from 3.9% in the previous quarter, reflecting a notable acceleration, with year-on-year inflation edging up from 3.8% in June to 4.6% in September.



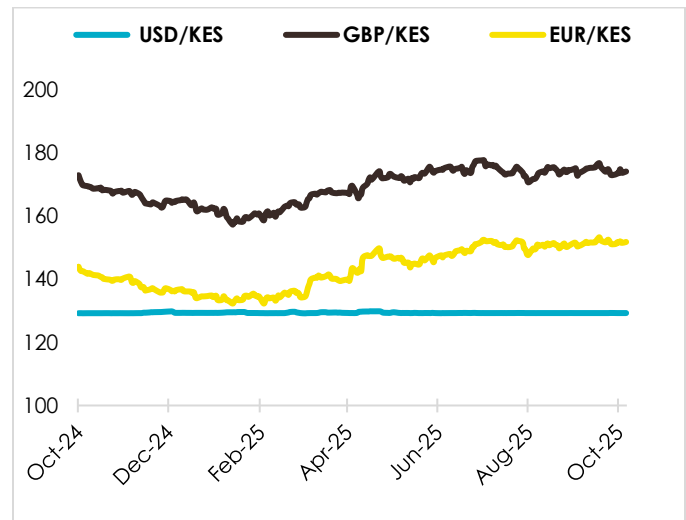
Core inflation averaged 3.0%, reflecting elevated price pressures. Non-core inflation, which is more volatile due to factors like food and fuel prices, rose significantly, reaching 9.6% in September.

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.

Currency

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. Ample reserves covering 4.7 months of imports, strong diaspora remittances, and seasonal tourism inflows helped offset external pressures.

Although the shilling held firm against the dollar, it weakened modestly against the British pound and euro, largely due to a softer US dollar.



The Shilling’s outlook remains broadly stable, though risks persist from external debt servicing will largely depend on global economic developments, changes in trade policies, geopolitical risks, and the extent of Fed monetary policy easing.

Fiscal Position

Pressure persists, with mixed progress toward consolidation targets.

In the first two months of FY2025/26, tax revenues reached KES 328bn, representing 12.1% of the annual target and a 5.1% year-on-year increase, though still short of the pace required to achieve the projected 13.8% annual growth.

Expenditures however, expanded sharply by 53% year-on-year to KES 674bn, driven mainly by education capitation disbursements and public debt service costs, which continue to crowd out development spending.

On financing, the government relied heavily on domestic borrowing aggressively tapping local markets early in the fiscal year. In August 2025, CBK reopened two infrastructure bonds (IFB1/2018/015 and IFB1/2022/019) with a KES 90bn target, ultimately raising ~KES 275bn from the two papers following strong investor demand and a subsequent tap sale.

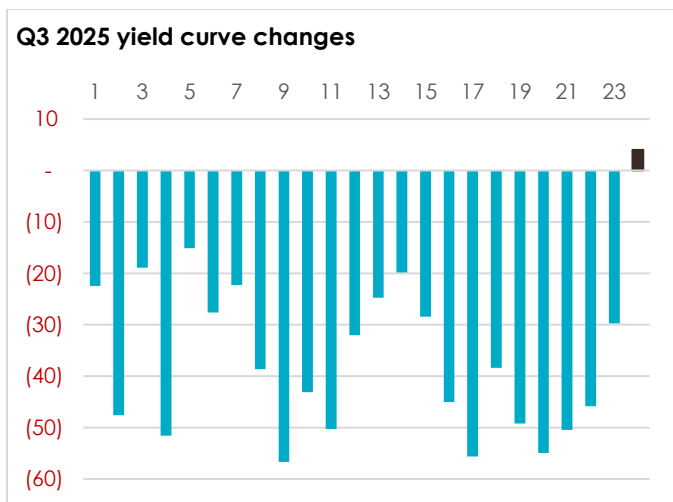
On the external front, the government is seeking additional external funding to plug the fiscal gap through a USD 1.5bn dual-tranche Eurobond in October 2025 to refinance the Kenya 28, extending debt maturities and easing near-term repayment pressures.

Interest Rates

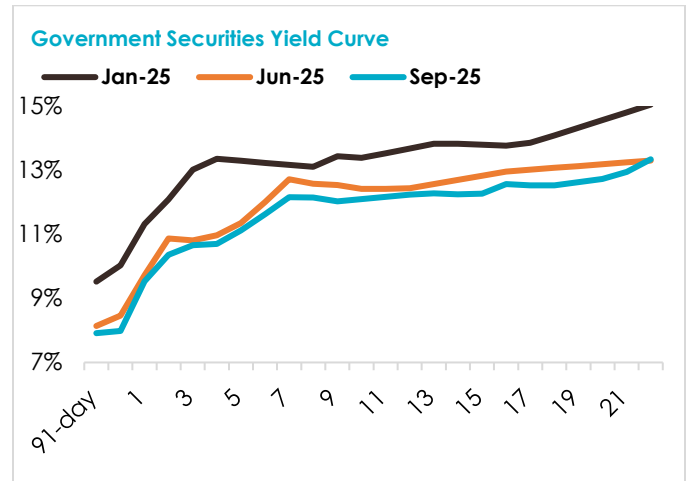
The Central Bank of Kenya's Monetary Policy Committee reduced the Central Bank Rate by 25 basis points to 9.50%, marking a continuation of its gradual easing stance aimed at supporting credit growth amid contained inflation.

Reflecting this policy shift, the yield curve moved an average of 36 basis points lower during the quarter.

Short-term rates maintained a consistent downward trajectory, bringing the year-to-date slump for the 91-day and 182-day 364-day to ~200bps, underscoring broad-based easing across the curve.



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.

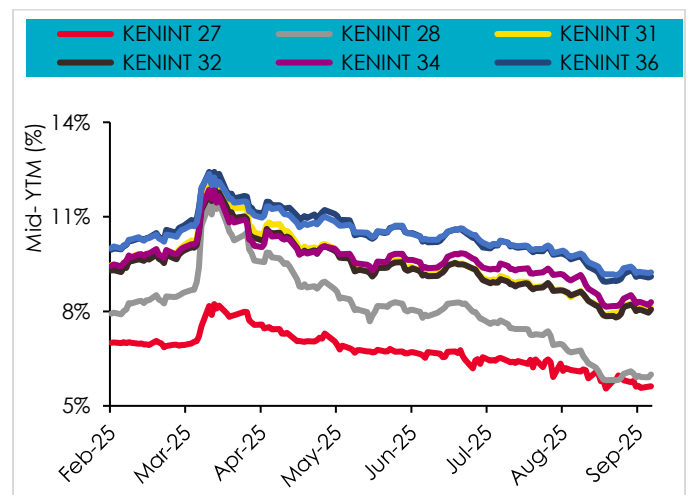


We expect interest rates to remain relatively stable with sustained downward pressure in the near term. However, further rate movements will depend on the broader macroeconomic environment and the pace of fiscal consolidation efforts.

Eurobonds

Eurobond yields declined across maturities, reflecting improved investor sentiment and favorable refinancing prospects.

Short- and medium-term tenors fell the most, with the 2028 and 2031 bonds down nearly 2.0% and 1.2%, respectively. In an aim to ease external financing pressure and extend debt maturities, the government is looking to refinance the Kenya 28 through a USD 1.5bn dual-tranche Eurobond, after refinancing Kenya 27 earlier in the year.



In the near term, we expect Eurobond yields to remain relatively stable supported by supported by ongoing government refinancing efforts and favorable investor demand.

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