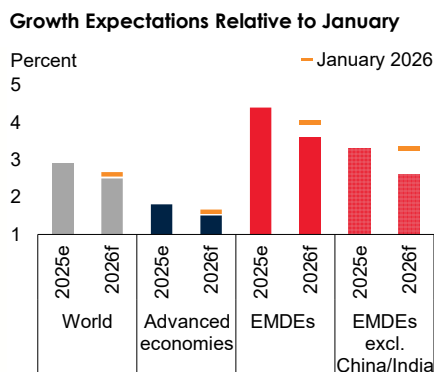


GLOBAL ECONOMY

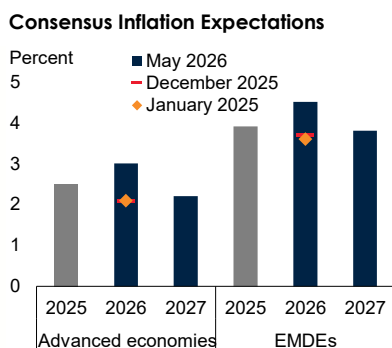
GLOBAL GROWTH & INFLATION

Global economic activity moderated during the first half of 2026 as the Middle East conflict triggered a sharp, albeit temporary, rise in energy prices, reviving inflationary pressures and delaying the expected pace of global monetary easing.



Source: Bloomberg; World Bank

While higher oil prices weighed on growth expectations - particularly for energy-importing economies - the impact proved less severe than in previous energy shocks, reflecting stronger labor markets, improved household resilience, policy interventions to cushion energy costs, and continued investment in structural growth themes such as artificial intelligence.



Source: Bloomberg; World Bank

Following the U.S.-Iran ceasefire, oil prices retraced to pre-conflict levels, easing inflation concerns and improving the outlook for growth into the second half of the year. However, there are vulnerabilities to this growth and inflation outlook if a resurgence of the conflict results in energy prices rising again.

Regional Dynamics

United States

The U.S. economy remained resilient through H1 2026, supported by robust consumer spending, continued AI-related investment and fiscal support, despite tighter financial conditions and higher energy prices. Inflation reaccelerated during the period, driven by higher energy costs and tariff pass-through, although easing oil prices following the ceasefire suggest headline inflation likely peaked in Q2. Markets increasingly expect inflationary pressures to moderate as energy and tariff effects gradually fade.

Euro Area

The Euro Area experienced a more pronounced slowdown as elevated energy prices weighed on household spending, business confidence and manufacturing activity. Growth expectations weakened while inflation moved higher, creating a stagflationary backdrop during the first half of the year. However, the subsequent decline in oil prices, together with expectations of renewed monetary easing and fiscal support, has improved the medium-term outlook.

China

China's economy remained relatively resilient, supported by policy stimulus, infrastructure investment and strong technology-related exports. Although producer prices increased alongside higher global commodity prices, consumer inflation remained subdued due to weak domestic demand and continued softness in the property sector. Fiscal policy is expected to remain supportive as authorities seek to sustain growth momentum.

Japan

Japan's economy continued its gradual recovery, underpinned by strong business investment and sustained wage growth. Inflation dynamics increasingly reflected a self-sustaining wage-price cycle, although government subsidies helped contain headline inflation. Rising energy prices temporarily added to inflationary pressures, while easing oil prices are expected to reduce this headwind in the second half of the year.

Emerging Markets

Emerging market economies entered 2026 on relatively solid footing but faced renewed headwinds from higher energy prices, tighter financial conditions and persistent geopolitical uncertainty. While energy-importing economies experienced greater pressure on growth and inflation, the subsequent reversal in oil prices has reduced downside risks and improved the near-term macroeconomic outlook.

FINANCIAL MARKETS

GLOBAL FIXED INCOME

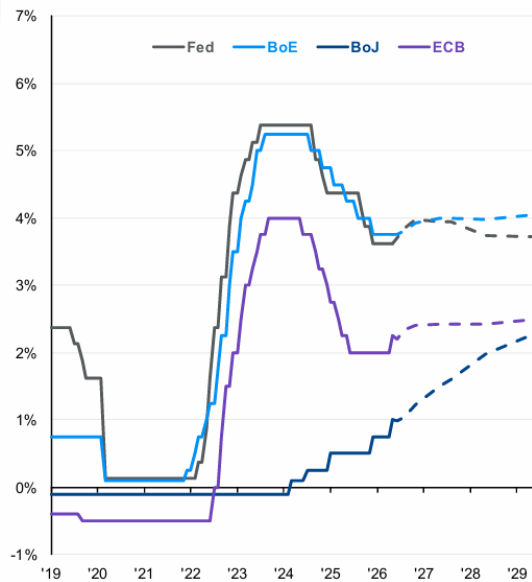
Central Bank Policy

Following the energy-driven inflation shock in the first half of 2026, major central banks adopted a more cautious policy stance, delaying the easing cycle that markets had anticipated at the start of the year.

However, the subsequent normalization in oil prices following the U.S.-Iran ceasefire has eased inflation concerns, allowing policymakers to maintain a data-dependent approach rather than tightening policy further. While policy divergence remains evident across regions, central banks generally appear comfortable keeping rates restrictive until inflation shows clearer signs of moderating.

Historical and expected policy rates

Target policy rates and market implied forward rates



Source: JPMorgan

U.S.

The Federal Reserve maintained its policy rate across all four meetings held in H1 2026, citing persistent inflation and a resilient labor market. While easing energy prices lower near-term inflation risks, continued strength in economic activity - supported by AI-related investment and defense spending - is expected to keep the Fed on hold through Q3.

Markets currently price a modest probability of one additional rate hike later in the year. Easing inflation should strengthen the case for policy easing in 2027.

Euro Area

The ECB delivered a precautionary 25bps rate hike in June, lifting its policy rate to 2.25%, as higher energy prices temporarily shifted inflation expectations upward. Despite the move, subdued economic growth and limited wage pressures suggest policy is likely to remain on hold for the remainder of the year, unless inflation proves more persistent than expected.

UK

The Bank of England left policy unchanged throughout H1 2026, maintaining a cautious stance amid elevated but moderating inflation. While markets expect one additional rate increase during the second half of the year, policymakers remain focused on balancing persistent price pressures against a weakening growth backdrop.

China & Japan

The People's Bank of China continues to pursue an accommodative policy stance aimed at supporting domestic demand. Rather than lowering policy rates further, authorities are expected to rely on reserve requirement ratio cuts and targeted liquidity measures to support credit growth and priority sectors while maintaining ample system liquidity.

The Bank of Japan continued its policy normalization cycle, raising its policy rate to 1.00% in June, the highest level in three decades. With inflation increasingly supported by sustained wage growth and resilient domestic demand, further gradual policy tightening remains likely over the coming quarters.

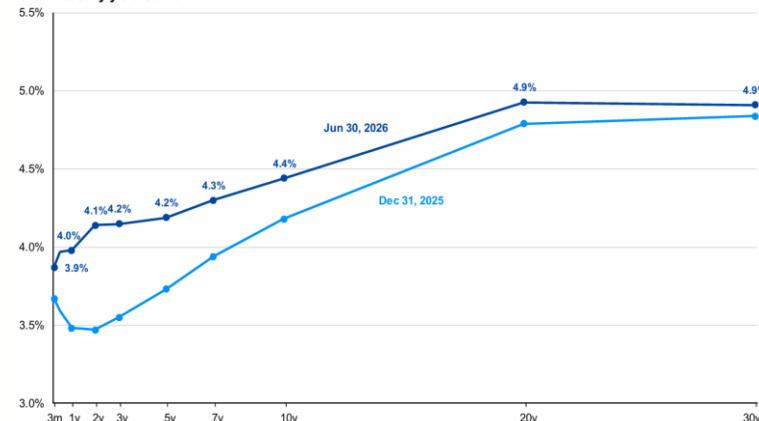
Emerging Markets

Emerging market central banks have generally weathered the recent energy shock better than anticipated, although higher inflation has prompted a more cautious policy outlook across several economies. While expectations for Fed policy remain an important driver of EM monetary conditions, resilient domestic growth and proactive policy frameworks continue to support the broader outlook.

Global Government Bonds

Government bond markets repriced higher during H1 2026 as renewed inflation concerns reduced expectations for near-term monetary easing.

Sovereign yields rose across most developed markets, while breakeven inflation rates widened as investors demanded more compensation for inflation risk. As uncertainties remain prevalent, expectations for restrictive monetary policy continue to anchor sovereign yields at elevated levels.

U.S. Treasury yield curve

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.

As a result, we expect U.S. treasury yields to remain broadly range-bound through the remainder of the year, with the 10-year Treasury trading at around 4.25% - 4.50%. The Bund and Gilt yields are also expected to remain elevated amid cautious central bank policy and persistent fiscal pressures.

Current yield levels continue to present attractive income opportunities across developed market government bonds. However, upside risks remain should inflation prove more persistent or labor markets remain resilient, while a sharper deterioration in global growth could see yields retrace as markets reprice policy easing.

Within emerging markets, easing oil prices reduce one source of macro risk, although a stronger U.S. dollar and higher developed market yields are expected to remain headwinds for local currency government bonds.

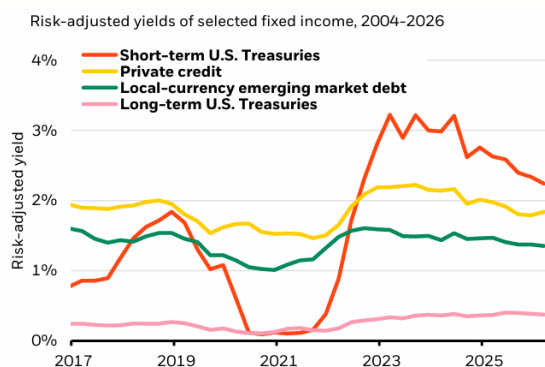
Credit Markets

Global credit markets remained resilient through the first half of 2026, supported by attractive all-in yields, resilient corporate fundamentals and sustained investor demand. Despite heightened geopolitical uncertainty, credit spreads remained historically tight as strong institutional inflows offset elevated issuance across both investment grade and high-yield markets.

While spread compression now appears largely exhausted, the carry available across corporate credit continues to support returns. Investment grade issuers continue to benefit from solid profitability, stable leverage and healthy interest coverage ratios, while active refinancing has extended maturity profiles and reduced near-term refinancing risks.

High-yield credit also remains supported by improving credit quality, with BB-rated issuers accounting for an increasing share of the market, alongside below-trend default rates and strong fund inflows. Although spreads may widen modestly during the second half of the year, elevated starting yields continue to provide an attractive income opportunity.

Within emerging markets, investors continue to favor U.S. dollar-denominated sovereign debt over local currency bonds, given attractive carry and reduced exposure to foreign exchange volatility. Overall, preference for corporate credit over government bonds has become clear with exposures in investment grade and U.S. high-yield credit.



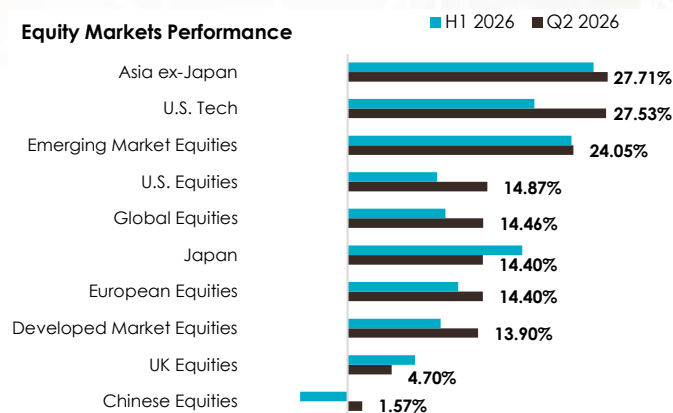
Source: BlackRock

GLOBAL EQUITIES

Global equity markets advanced through the first half of 2026 as resilient corporate earnings and continued AI enthusiasm outweighed geopolitical tensions, higher oil prices and elevated bond yields. The Middle East conflict triggered bouts of volatility, but the subsequent U.S.-Iran ceasefire and energy price normalization improved investor sentiment and reinforced expectations that inflation has peaked.

During the second quarter, Asia ex-Japan emerged as the strongest performing major equity market, delivering a return of 28%. Significant gains were observed in Korea (+88%) and Taiwan (+49%). Robust investor interest in electrical equipment companies propelled index leaders such as SK Hynix and Samsung, resulting in their respective valuations tripling and doubling.

Equity Markets Performance



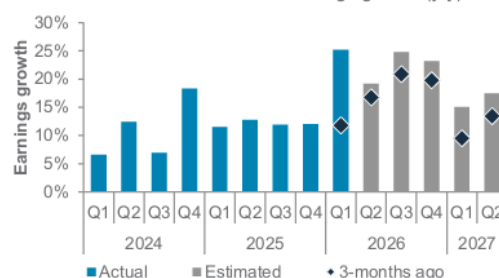
Source: MSCI, Bloomberg, NCBA Research

European equities advanced amid easing geopolitical tensions and sustained positive economic sentiment. Consumer confidence rebounded from April lows, and the PMI remained firmly in expansionary territory. UK equities registered a 5% increase but lagged behind other regions, attributed to substantial exposure to commodity market declines and a more defensive sector composition.

Emerging markets in the Middle East and Latin America characterized by high exposure to energy firms underperformed relative to the MSCI EM. Meanwhile, Japan benefited from a depreciated currency and continued yield curve steepening, which supported both exporters and the financial sector.

Although AI-related businesses continue to benefit from strong capital expenditure and earnings, market leadership became increasingly diversified across sectors and regions, a sign that recent rotations reflect a maturing bull market rather than the beginning of a broader downturn. In the U.S., the rally has broadened beyond mega-cap tech companies and semiconductors into software, internet, communication services and healthcare.

MSCI US actual and consensus earnings growth (y/y)



Source: FactSet, Bloomberg, Standard Chartered

Corporate earnings remain the primary driver of our outlook, particularly in the U.S. AI infrastructure investments, including semiconductors, software, cloud computing and power infrastructure, continue to support growth, although investors are increasingly focused on whether elevated capex will translate into sustainable returns.

Consequently, we expect equity markets to remain constructive but more volatile through H2 as valuations, investor positioning and an active IPO calendar temper further multiple expansion.

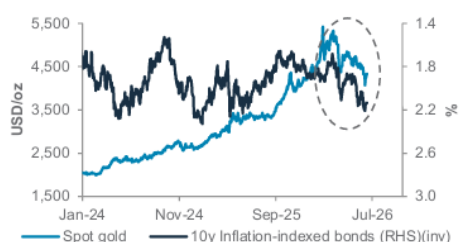
The outlook for the Asia-Pacific bloc ex Japan also remains an attractive regional play. Easing energy prices help the macro backdrop, Taiwan benefits from semiconductor leadership, China is supported by tech innovations and policy support, while India offers attractive, domestically-driven earnings outlook less correlated to the AI themes.

COMMODITIES

Gold

Gold corrected sharply during the second quarter as easing geopolitical tensions, firmer U.S. Treasury yields, and a stronger U.S. dollar prompted profit-taking and ETF outflows.

Spot gold vs. US 10-year inflation-indexed bonds



Source: Bloomberg, Standard Chartered

However, the pullback appears to reflect changes in market positioning rather than a deterioration in the long-term investment case. Structural demand from emerging market central banks and Asian investors remains resilient, underpinned by reserve diversification, de-dollarization and continued geopolitical uncertainty.

Easing energy prices and a more cautious Fed may cap near-term upside, but fiscal imbalances, geopolitical fragmentation, and central bank demand remain supportive longer term. Gold continues to serve as an effective hedge against stagflation and geopolitical tail risk.

Oil

Oil prices retraced from their conflict-driven highs, falling ~38%, as the war de-escalated and reopening of the Strait of Hormuz eased supply concerns. Softer-than-expected demand, particularly from China, in addition to lower inventory drawdowns, has further moderated the outlook for crude prices.

Price of oil
WTI crude, nominal prices, USD/barrel



Source: JPMorgan

Barring a resurgence in geopolitical risk, prices should stay on a gradual downward trend through year-end, a tailwind for global growth through lower inflation and input costs.

FX

The dollar remains supported by resilient U.S. growth, relatively restrictive policy, and continued capital inflows into U.S. equities and fixed income (notably AI/tech-linked). Structural de-dollarization remains a longer-term theme but isn't yet challenging near-term dollar strength.

Developed market currencies show a mixed picture, with policy tightening offering limited support where growth is soft. EM currencies benefit from stronger fundamentals and proactive policy, though elevated U.S. rates and dollar strength remain a headwind. We expect the dollar to stay broadly firm near-term, with a slowdown in U.S. growth or AI investment as the key risk to that view.

KENYAN ECONOMY

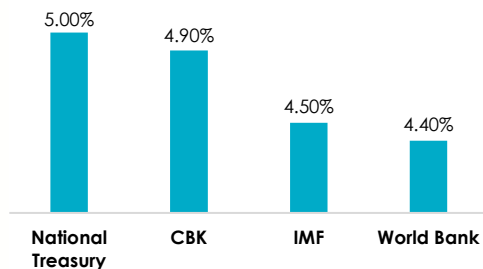
ECONOMIC GROWTH

Kenya's economic growth moderated in 2025, with fourth-quarter GDP expanding by 4.2%, down from 5.6% in the corresponding period of 2024, as weaker performance in the agriculture and services sectors offset improvements in industrial activity. Consequently, annual real GDP growth slowed marginally to 4.6% in 2025 from 4.7% in the previous year.

The outlook for 2026 became more challenging during the second quarter following the surge in global energy prices triggered by the Middle East conflict. As a net oil importer, Kenya remains vulnerable to higher fuel costs, prompting downward revisions to the country's growth outlook from 5.5% to 5.3%, and subsequently to 5.0%.

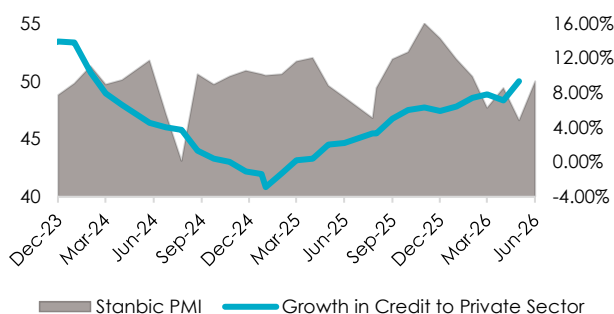
The manufacturing, transport and storage, wholesale and retail trade, and accommodation sectors are expected to bear the greatest impact of elevated energy costs, while favorable weather conditions are expected to cushion the agricultural sector despite higher fertilizer prices.

GDP Growth Rate Forecast - 2026



Private sector activity reflected the softer operating environment during the quarter. The headline Purchasing Managers' Index (PMI) remained below the neutral 50.0 threshold in April (49.4) and May (46.6), before recovering to 50.0 in June as expectations of lower fuel prices improved business confidence. While operating conditions remained constrained by weak demand, rising input costs and tight cash flows, new orders returned to modest growth for the first time since February, suggesting a gradual stabilization in business activity.

Private Sector Conditions vs Credit Growth



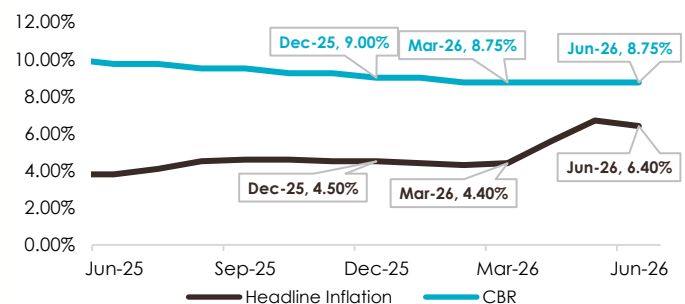
Encouragingly, lower interest rates continued to support private sector credit growth. Annual private sector credit expanded to

9.3% in May 2026, from 8.1% in March and 7.4% in February, reflecting improving demand for credit as monetary easing implemented earlier in the year gradually filtered through the economy.

INFLATION & MONETARY POLICY ACTION

Headline inflation averaged 6.23% during the second quarter, up from 4.37% in the first quarter, primarily reflecting higher domestic fuel prices following the pass-through of elevated global crude oil prices. Government measures, including the reinstatement of fuel subsidies and reductions in VAT, helped cushion consumers from the full impact of higher import costs, although fiscal constraints limited the scale of intervention.

Inflation vs Policy Rate



Despite the acceleration, inflation remained within the Central Bank of Kenya's target range of 2.5%-7.5%. Nevertheless, the Central Bank continues to monitor potential second-round effects arising from higher transport and food costs, particularly as agricultural production cycles adjust to elevated input prices.

Against this backdrop, the Monetary Policy Committee maintained the Central Bank Rate at 8.75% during both its April and June meetings, following a 25 basis point reduction in February. The decision reflected a balanced approach between containing inflation risks and supporting the ongoing recovery in private sector credit. With inflation expected to moderate as global energy prices ease and domestic credit conditions continue to improve, the current policy stance remains broadly appropriate.

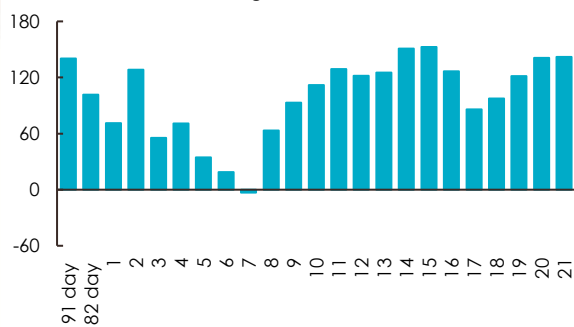
FINANCIAL MARKETS

Fixed Income: Local

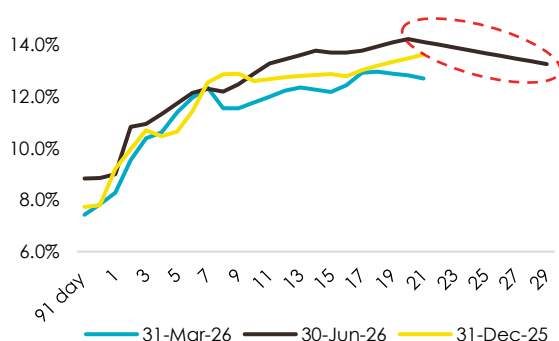
Local fixed income markets repriced higher during the second quarter as rising inflation expectations, fiscal pressures and increased government borrowing requirements pushed short-term interest rates upward.

Treasury bill yields experienced the largest adjustment, with the securities rising by over 100 basis points in Q2 and moderately by 64bps in H1 as the 364-day paper declined on a year to end of June basis. The shorter end of the yield curve continued to reflect heightened sensitivity to liquidity conditions and inflation expectations.

Quarter on Quarter Changes in Yield Curve



NSE Yield Curve



Fiscal developments remained a key driver of the domestic rates environment. Tax revenue collection reached KES 2.17 trillion by May, representing approximately 84% of the full-year target and leaving a sizeable revenue shortfall heading into year-end. At the same time, reduced VAT collections on petroleum products and continued pressure on recurrent expenditure are expected to weigh on fiscal performance.

To bridge the financing gap, the government significantly increased planned net domestic borrowing to KES 994 billion for FY2025/26 and continues to rely heavily on the local market to finance the projected FY2026/27 fiscal deficit.

While elevated issuance is expected to keep upward pressure on yields, favorable domestic liquidity conditions, strong investor demand and ongoing liability management initiatives have helped contain borrowing costs. We therefore expect domestic yields to remain broadly around current levels in the near term, although fiscal developments and budget revisions remain key upside risks.

Fixed Income: Eurobonds

Kenya's Eurobonds sold off sharply in March as the Middle East conflict triggered a broad risk-off move across emerging markets, pushing sovereign spreads wider and Eurobond yields higher. However, investor sentiment recovered during Q2 following easing geopolitical tensions and renewed external financing inflows, allowing Eurobond yields to retrace from their highs.

The country's external position also strengthened during the period, supported by proceeds from the March Eurobond issuance together with additional external financing from multilateral and bilateral partners. Improved external liquidity and

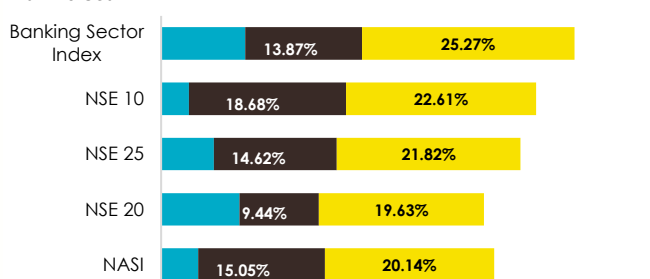
continued market access have helped reinforce investor confidence despite an uncertain global backdrop.

Equities

The Kenyan equity market extended its strong performance during the second quarter, supported by robust corporate earnings, significant corporate activity and improved investor participation. Performance remained concentrated among large-cap counters, with the NSE 10 Index outperforming broader market indices during both the quarter and the first half of the year, while the banking sector continued to benefit from strong earnings momentum.

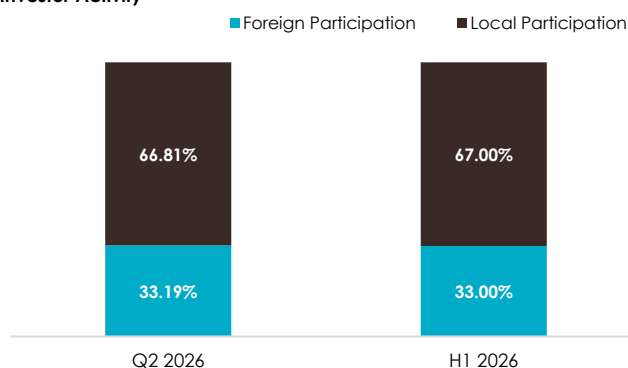
Equity Market Performance

NSE Indices



Market activity remained exceptionally strong, driven by several notable corporate transactions, including the listing of Kenya Pipeline Company and Family Bank, the Government of Kenya's stake sale in Safaricom to Vodacom, and Absa Group's proposed acquisition of an additional stake in Absa Bank Kenya. Together with resilient earnings from Safaricom and the banking sector, these developments supported sustained investor interest throughout the period.

Investor Activity



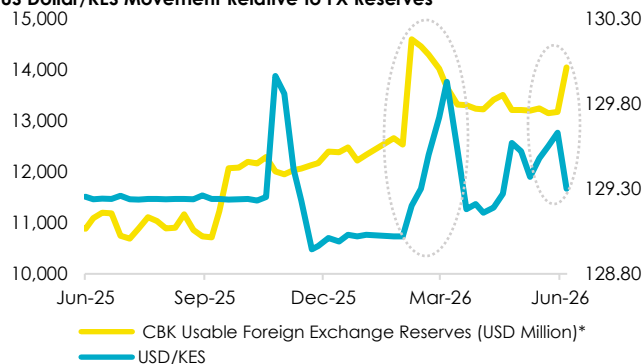
Domestic investors continued to dominate trading activity, accounting for approximately two-thirds of market turnover during both the quarter and the first half of the year. Although foreign investors adopted a cautious stance during the heightened global volatility experienced in February and March, they returned as marginal net buyers in May and June as global risk sentiment improved.

Overall, the combination of attractive valuations, improving corporate earnings and sustained market activity continues to support a constructive outlook for Kenyan equities.

Currency

The Kenya Shilling remained broadly stable during the first half of 2026 despite heightened global market volatility. Against the U.S. dollar, the currency appreciated marginally during the second quarter while recording only a modest depreciation over the first half of the year.

US Dollar/KES Movement Relative to FX Reserves



The Shilling's resilience was largely supported by improved foreign exchange inflows, including proceeds from the March Eurobond issuance, the Samurai facility, World Bank financing and continued Central Bank foreign exchange management. Additional support is expected from proceeds related to the Safaricom-Vodacom transaction together with the country's healthy import cover, which should continue to underpin external liquidity.

Against other major currencies, the Shilling strengthened against both the euro and the British pound during the first half of the year, reflecting the comparatively greater impact of higher energy prices on Europe and continued stability in Kenya's external position.

While global financial conditions remain an important source of volatility, the near-term outlook for the Shilling remains broadly supported by improving external financing conditions and continued policy management by the Central Bank.

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