



GLOBAL MARKETS COMMENTARY

# H1 2025 MANSA<sup>x</sup> MARKETS REVIEW & Q3 2025 OUTLOOK

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## Global Markets Team

**FA Nahashon Mungai, ACI**  
nmungai@sib.co.ke

**Jesse James A'ruwa**  
jjames@sib.co.ke

**Joseph Kahinda**  
jkahinda@sib.co.ke

**Dan Murage**  
dmurage@sib.co.ke

**Gerry Kiruthu**  
gkiruthu@sib.co.ke

**Desmond Kinyua**  
dkinyua@sib.co.ke

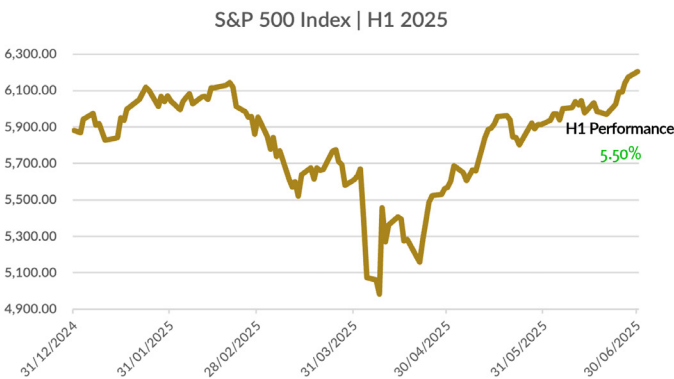
**John Mungai**  
jbmungai@sib.co.ke

**Farhan Abdi**  
fabdi@sib.co.ke

**Khushal Bhawaan**  
kbhawaan@sib.co.ke

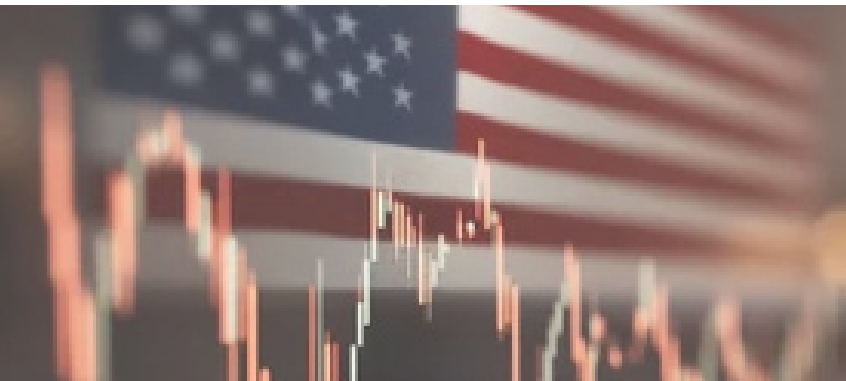
## From Turmoil to Record Highs.

It is easy to tell a simple story about the markets at the moment, but it would be wrong. In the parable of the blind men attempting to describe an elephant, one likens it to a snake after touching its trunk, while another describes it as a tree after feeling its leg. A third, touching its tusk, says it's like a spear. Given their limited perception, none can understand the entirety of the great animal. Although 2025 is only about half over, the start of the year might seem like a lifetime ago, given the twists and turns of the past six-and-a-half months. Market participants have endured three distinct market environments so far in 2025 which taken on their own resemble the aforementioned parable. The first, which began with the post-election euphoria and ran through mid-February, saw the S&P 500 return 5.4% as investors cheered what they hoped would be an era of deregulation and growth-friendly policies for businesses after the Republican sweep in November. Small-caps and cyclical sectors like consumer discretionary and financials shone. That narrative quickly fell apart in February through mid-April. Capricious policymaking from the White House led to a near bear market decline in the S&P 500 as investors worried that a recession was just around the corner. Previous winners—cyclical sectors and tech, from earlier in 2024—fell. Defensive areas like utilities and staples were suddenly back in vogue. All that changed again from mid-April. Since then, the S&P 500 has ripped higher with the market hopeful that more favourable trade deals will be struck and that the productivity gains from artificial intelligence will spur long-term growth in profits.



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The first half of 2025 has thus been a study in contrasts, defined by a sharp Q1 pullback followed by a dramatic, policy-fuelled rebound in Q2. This first half of 2025 will be remembered as one of the most volatile and policy-driven periods in recent market history. It was a period of extremes, where investor sentiment swung violently not on the back of economic data or corporate earnings, but almost exclusively in response to the unpredictable twists and turns of U.S. trade policy.



The second quarter began under a dark cloud of policy uncertainty, which analysts noted was at an extremely elevated level. On April 2, an event dubbed “Liberation Day,” the Trump administration announced a surprisingly aggressive and larger-than-expected package of reciprocal tariffs targeting a wide range of trading partners. The market’s reaction was swift and brutal. The S&P 500 plunged by as much as 12% in the week that followed, with the broader Index falling over 19% from its February high, pushing it perilously close to the technical definition of a bear market. This sharp downturn was accompanied by a surge in fear. The CBOE Volatility Index (VIX), often referred to as the market’s “fear gauge,” skyrocketed to a level not seen since the chaotic early days of the COVID-19 pandemic in March 2020. The market was clearly pricing in a significant increase in the probability of a recession, driven by fears that a global trade war would cripple corporate earnings and global growth. The sell-off demonstrated the market’s acute sensitivity to trade policy, with the initial enthusiasm for Trump’s business-friendly measures giving way to deep concerns about the impact of tariffs on growth and inflation.

The market’s precipitous fall was halted as abruptly as it began. On April 9, president Trump, seemingly responding to the sharp negative market reaction, announced a 90-day “pause” on the most severe reciprocal tariffs to allow for trade negotiations with key partners. This single announcement acted as a powerful catalyst, igniting one of the most ferocious single-day rallies on record. The S&P 500 surged 9% in a single session, its largest one-day percentage gain since the Global Financial Crisis in October 2008. This event established the dominant theme for the remainder of the quarter: markets were no longer trading on fundamentals but on policy headlines. Investor sentiment became tightly tethered to the perceived progress of trade talks, with any hint of de-escalation or potential deals providing additional fuel for the rally. U.S. equities embarked on a relentless climb for the remainder of the quarter, clawing back all of the losses and pushing into uncharted territory to set new all-time highs in the final days of June, a stunning reversal from the depths of the sell-off. The speed of this recovery was historic. It took the S&P 500 just 55 days to rally from its April low to a new record high after a drawdown of over 15%. This was the fastest such recovery in at least 75 years, shattering the historical average of 361 days.

While policy headlines dictated the market’s day-to-day movements, the underlying U.S. economy presented a complex and often contradictory picture during the first half of 2025. Key indicators painted a portrait of an economy grappling with the initial impacts of trade friction and showing signs of deceleration, yet supported by a resilient labour market. This created a challenging environment for investors and policymakers alike, where the true health of the economy was obscured by significant data distortions.

The most striking economic data point of the period was the final estimate for first-quarter Gross Domestic Product (GDP). The Bureau of Economic Analysis (BEA) reported that the U.S. economy contracted at an annualized rate of -0.5%, a sharp reversal from the +2.4% growth recorded in the fourth quarter of 2024 and the first quarterly contraction in three years. This headline number, on its face, signalled a significant economic slowdown. However, a deeper analysis reveals a more nuanced story. The negative print was overwhelmingly driven by a massive 37.9% surge in imports, which are a subtraction in the calculation of GDP. This import surge was not a sign of collapsing domestic production but rather a direct and predictable consequence of the administration’s tariff announcements. Businesses and consumers rushed to stockpile foreign goods in anticipation of higher prices, front-loading purchases and thereby distorting the data. When stripping out the volatile trade and inventory components, the underlying strength of the economy appeared more robust.

The inflation picture provided a source of comfort for markets throughout the quarter. The trend of disinflation that began in 2023 continued, with key measures approaching the Federal Reserve’s target. This cooling inflation was a critical factor in the market’s rally, as it provided the Federal Reserve with the flexibility to consider future rate cuts without immediately fearing an inflationary spiral. However, this benign picture was not without risks. Economic analysts cautioned that the full inflationary impact of the enacted tariffs had likely not yet worked its way through supply chains to the end consumer. The Fed itself acknowledged this lag, expecting to see more tariff-related price pressures emerge in coming months. Furthermore, escalating geopolitical tensions, particularly the conflict between Iran and Israel, posed a latent risk of a spike in energy prices, which could quickly reverse the disinflationary progress.



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Throughout the turbulence of the first half, the U.S. labour market remained the bedrock of the economy. While showing clear signs of moderation from its red-hot pace in previous years, it continued to display remarkable resilience. The juxtaposition of these macroeconomic signals reveals an economy at a crossroads. The strength of lagging indicators like the unemployment rate provided a sense of stability, which the market embraced. However, the weakness in forward-looking indicators like business sentiment and the distortion in coincident indicators like GDP painted a more cautious picture. The market's decision to focus on the former while pinning its hopes on a policy solution to the latter created a significant divergence between equity prices and the underlying economic reality, a key tension heading into the second half of the year.

As widely anticipated, the Federal Reserve left the federal funds rate unchanged at 4.25%-4.50% throughout the first half of this year. At the most recent Federal Open Market Committee (FOMC), The decision was unanimous and the accompanying policy statement offered few surprises, acknowledging that while economic uncertainty had “diminished” since the height of the tariff scare in April, it “remains elevated”. Fed Chair Jerome Powell, in his post-meeting press conference, reiterated a message of patience, emphasizing that given the highly uncertain environment, the “appropriate thing to do is hold where we are”. He noted that the economy remained “solid” but that the Fed expected to see higher inflation over the summer as the effects of tariffs worked their way through the economy. The real drama of the June meeting was revealed in the Summary of Economic Projections (SEP), specifically the “dot plot” which maps out individual members’ expectations for the future path of the federal funds rate. The plot revealed a committee that was increasingly divided and leaning more hawkish than it had in March. While the median projection still implied two 25-basis-point rate cuts by the end of 2025, the number of participants foreseeing no cuts at all this year increased significantly to 7 out of 18, up from just four in the March projection. This hawkish shift signalled a growing reluctance among some members to ease policy pre-emptively, likely due to concerns that tariffs could reignite inflation. The committee’s long-term outlook also hardened, with the median forecast for 2026 now showing only one rate cut, compared to two previously. This collective message suggests a “higher for longer” interest rate environment, a stance that has drawn the ire of President Trump and is fundamentally at odds with the narrative that fuelled the Q2 equity rally with futures currently pricing in a 77% probability of the first rate cut as early as the September meeting.

This divergence represents a primary source of potential market volatility. The market has priced in a policy response to slowing growth that the Fed has not committed to delivering. The central bank is navigating a complex quandary. On one hand, decelerating growth argues for easing. On the other hand, the inflationary potential of tariffs argues for caution. This places the Fed in a difficult position, caught between its dual mandate and a market that has already decided which part of that mandate should take precedence.

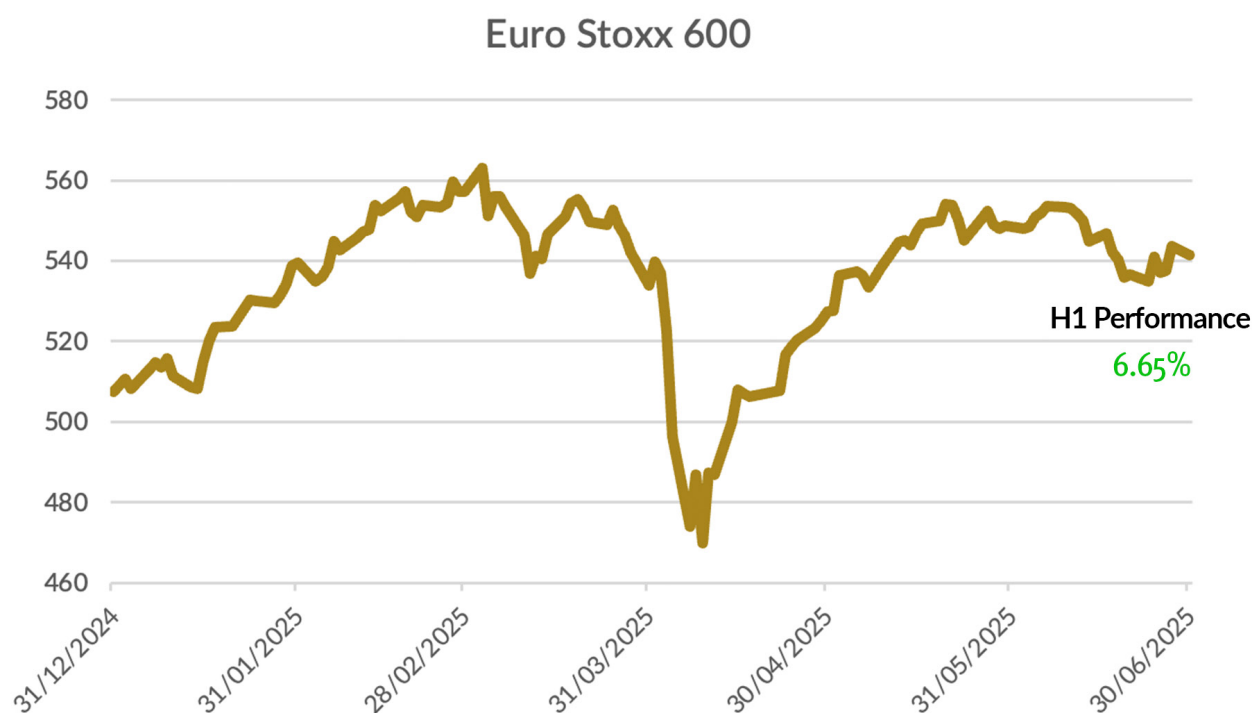


## Eurozone

European markets delivered a strong performance in the first half of 2025, building on a rotation into the region that began in the first quarter. This headline strength, however, belies a period of extreme volatility in the second quarter, which like their American counterparts, saw markets plunge on erratic implementation of US trade policy and geopolitical shocks before staging a remarkable recovery. The narrative of H1 is one of resilience, underpinned by a surprising economic upswing, diverging central bank policies, and a significant investor embrace of European assets, which were perceived as attractively valued compared to their US counterparts.

Against this backdrop of trade-induced volatility, European central banks charted diverging monetary policy paths from the US Federal reserve, largely dictated by their respective domestic inflation dynamics. The European Central Bank (ECB), facing a more benign inflation picture, acted proactively to support the Eurozone economy. The bank delivered two 25 basis point rate cuts during the quarter, one in April and another at its June 5th meeting, bringing its key deposit rate down to 2.0%. This decisive action was justified by an inflation outlook that was converging with the bank's 2% target. Eurozone Harmonised Index of Consumer Prices (HICP) inflation fell from 2.2% in April to 1.9% in May, before a slight uptick to 2.0% in June, a level that met the ECB's objective. At the June press conference, President Christine Lagarde signalled that the bank was "nearly concluded" with its rate-cutting cycle but she demonstrated a willingness to ease policy further provided a crucial tailwind for European assets emerged. In contrast, the Bank of England (BoE) adopted a more cautious stance, constrained by more persistent domestic inflation. The UK's Consumer Prices Index (CPI) registered 3.4% in May, remaining stubbornly above the BoE's 2% target. This led to a more hesitant approach to easing. The Monetary Policy Committee (MPC) delivered a single 25 basis point cut to 4.25% in May, a decision that passed on a narrow 5-4 vote. At its subsequent meeting in June, the MPC voted 6-3 to hold the rate steady, with the dissenters favouring another cut. This hawkish hold, relative to the ECB's actions, highlighted the unique inflationary challenges facing the UK economy and created a distinct policy dynamic for UK assets.

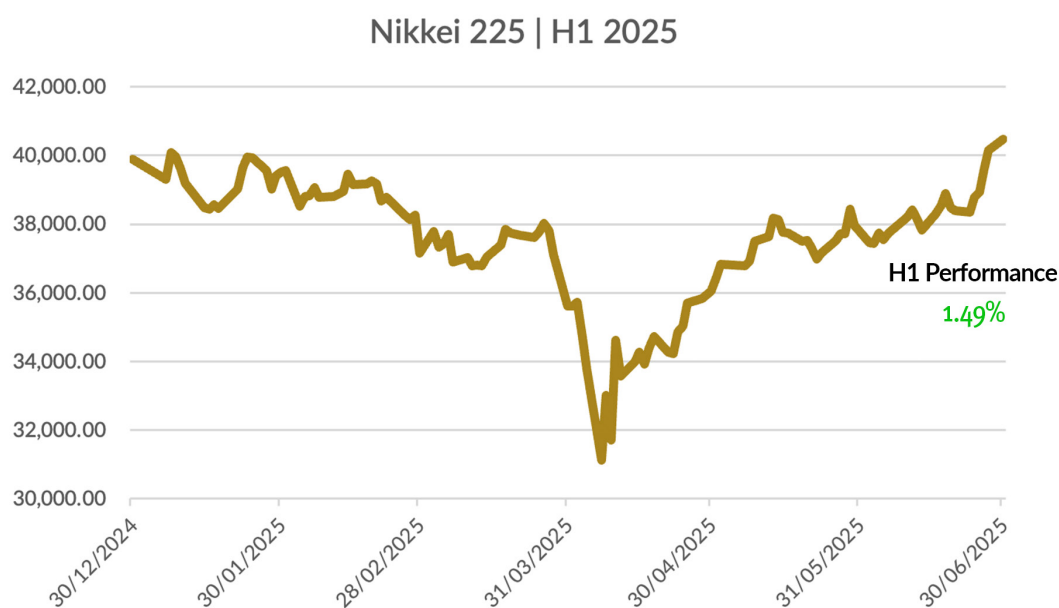
The pan-European STOXX 600 index navigated the quarter's extreme volatility to post a solid gain for the first half of 2025, rising +6.55% in local currency terms. This positive H1 performance however, was heavily front-loaded into the first quarter and conceals a challenging second quarter in which the index registered a loss of -1.33%. Over in the UK, the large-cap FTSE 100 index rose +7.19% in the first six months of the year, despite the index giving up some gains with a slight loss of -0.13% in the second quarter. In contrast, the broader FTSE All-Share index, which includes mid- and small-cap companies, delivered a healthier return of +4.4% in Q2, highlighting the strength of the domestic UK economy relative to the challenging global backdrop as domestically-focused companies outperformed global cyclicals.



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## Asia

The Japanese equity market experienced a volatile first half, ultimately posting strong gains in the second quarter as initial fears over U.S. trade policy gave way to optimism driven by domestic factors. The Nikkei 225 surged 13.8% in Q2, while the broader TOPIX Total Return index gained 7.5%. This recovery helped the Nikkei 225 claw back the losses from Q1 and finish the first half with a modest gain of 1.5%. While Japan's GDP contracted by 0.2% on an annualized basis in Q1, this was better than initial estimates and driven largely by external factors. Private consumption and capital expenditure remained firm, and the Q2 Tankan survey of large manufacturers beat expectations, indicating underlying resilience. The Bank of Japan (BoJ) kept its policy rate on hold at 0.5% during its April and June meetings but announced a concrete plan to slow its government bond purchases, signalling a gradual path toward policy normalization.



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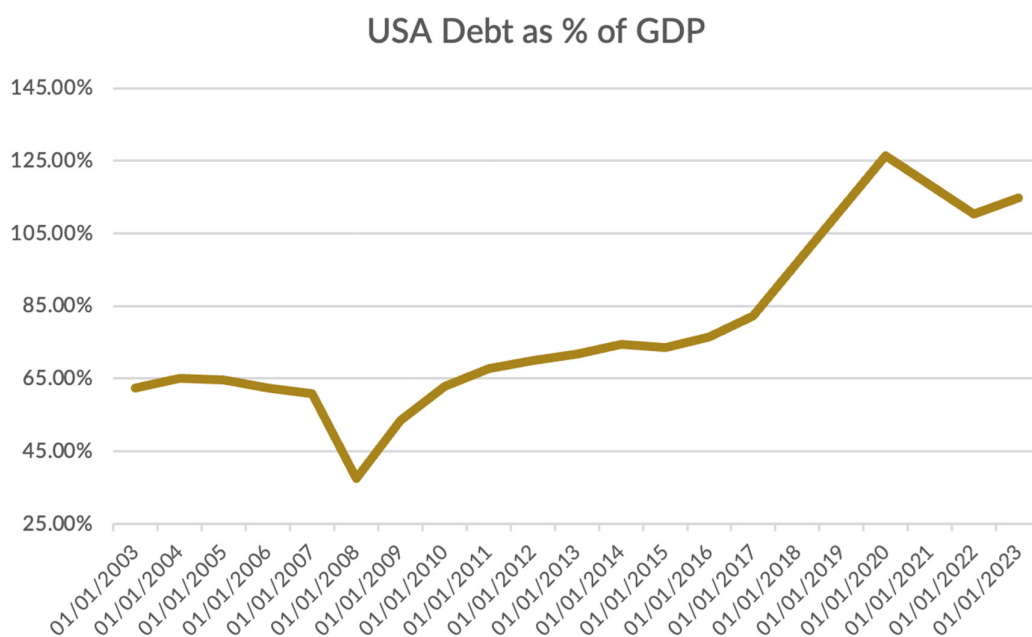
The equity markets of Greater China presented a study in contrasts during the first half of 2025. While Hong Kong's market staged a powerful rally, mainland shares delivered a more subdued performance, reflecting ongoing domestic economic challenges. The Hang Seng Index surged nearly 20% in the first half of the year. Investors flocked back to innovation-led sectors, with tech giants like Alibaba, Tencent, and Xiaomi posting significant gains. Enthusiasm for AI and biotech was a significant catalyst following the introduction of new Chinese AI models into the market. Hong Kong-listed stocks offered lower valuations and greater international transparency compared to their A-share counterparts, making them an attractive destination for long-term capital. In contrast, the CSI 300 Index posted a more modest gain of 0.03% during the first half of 2025. The market underperformed its regional peers as investors remained cautious due to persistent domestic headwinds. While official data showed Q1 GDP growth holding steady at 5.4% and Q2 growth estimated around 4.8% to 5.1%, underlying issues persisted. The Caixin Manufacturing PMI remained in contraction territory for much of the quarter, reflecting weak export orders and a shrinking Labor force. Although Beijing has committed to policy support, including cuts to the Loan Prime Rate (LPR) and other liquidity measures, the deep-seated property crisis and weak consumer confidence continue to weigh on sentiment.

The tech-centric markets of South Korea and Taiwan were the stars of the region, benefiting immensely from the global AI boom and a de-escalation of trade tensions in the latter half of Q2. While, over in India - markets demonstrated resilience in the first half of 2025, with large-cap indices shrugging off global volatility to post solid gains as the Nifty 50 rose by 6.8% in H1.

Overall, the first half of 2025 underscored Asia's domestic stability and policy readiness, with controlled inflation across most of the region providing central banks with the flexibility to support growth. The outlook for the second half remains contingent on the resolution of U.S. trade policy, but the structural tailwinds of AI, digital infrastructure, and domestic consumption continue to present compelling long-term opportunities.

## Fixed Income

The global fixed income markets in the first half of 2025 were a battlefield of conflicting narratives, defined by extreme volatility as investors grappled with the dual forces of dovish central bank pivots and mounting sovereign debt concerns. The second quarter, in particular, was a period of whiplash. An initial flight to safety in early April, sparked by the announcement of aggressive U.S. tariffs, saw bond yields tumble on rising recession fears. This was immediately followed by a sharp reversal, with yields spiking as the focus shifted to the inflationary impact of those same tariffs and, more critically, to the deteriorating fiscal outlook in the United States leading to a Moody's downgrade of US credit rating. The introduction of the "One Big Beautiful Bill Act," projected to add \$3-5 trillion to the national debt, fuelled fears of a massive future supply of Treasury bonds. This flagship legislation of the Trump administration, which passed the House in June, aims to extend the 2017 tax cuts while also increasing spending. The downgrade "reflects the increase over more than a decade in government debt and interest payment ratios to levels that are significantly higher than similarly rated sovereigns," Moody's said in the statement.



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Despite the turbulence, most major bond indices posted modest gains for the quarter. The Bloomberg Global Aggregate Bond Index was up 4.02% in the first six months of the year. However, this headline figure masks a significant divergence beneath the surface. European government bonds outperformed their U.S. and Japanese counterparts, benefiting from the European Central Bank's decisive rate-cutting cycle. In the U.S., the Treasury yield curve steepened dramatically, not as a signal of robust growth, but as a manifestation of fiscal anxiety, with long-term yields rising to reflect a higher risk premium for funding a ballooning deficit.

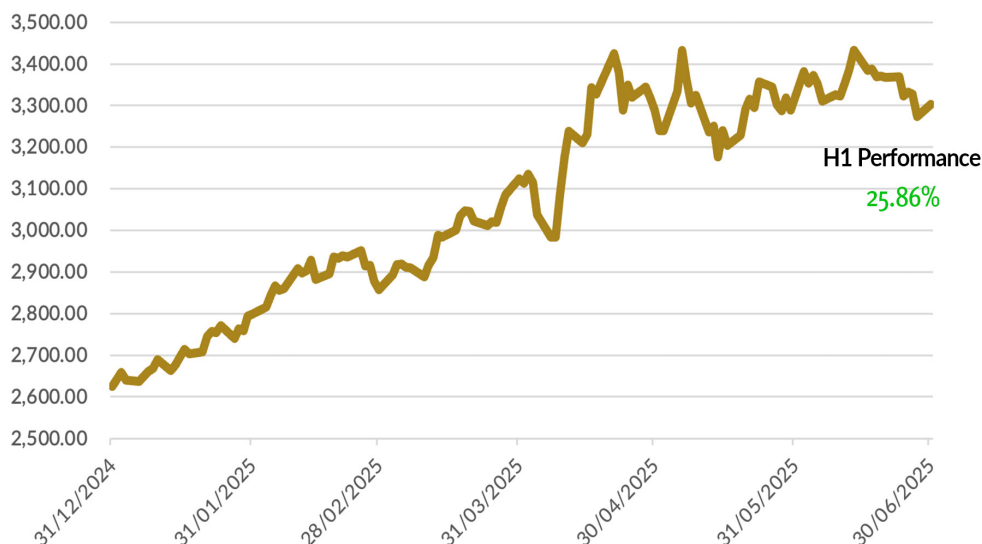
Ultimately, the first half of 2025 left the bond market in a fragile equilibrium, with attractive yields offset by significant policy uncertainty, setting a complex stage for the remainder of the year.



## Commodities

The commodity markets were a story of stark divergence in the second quarter. Precious metals continued their powerful rally, cementing their status as a preferred safe-haven asset in an uncertain world. Gold climbed another 5.0% in Q2, pushing its price above \$3,300 per ounce. This advance was fuelled by a confluence of factors, including persistent geopolitical tensions in the Middle East, significant buying from overseas central banks seeking to diversify away from the U.S. dollar, and expectations that the Fed would eventually begin to cut rates

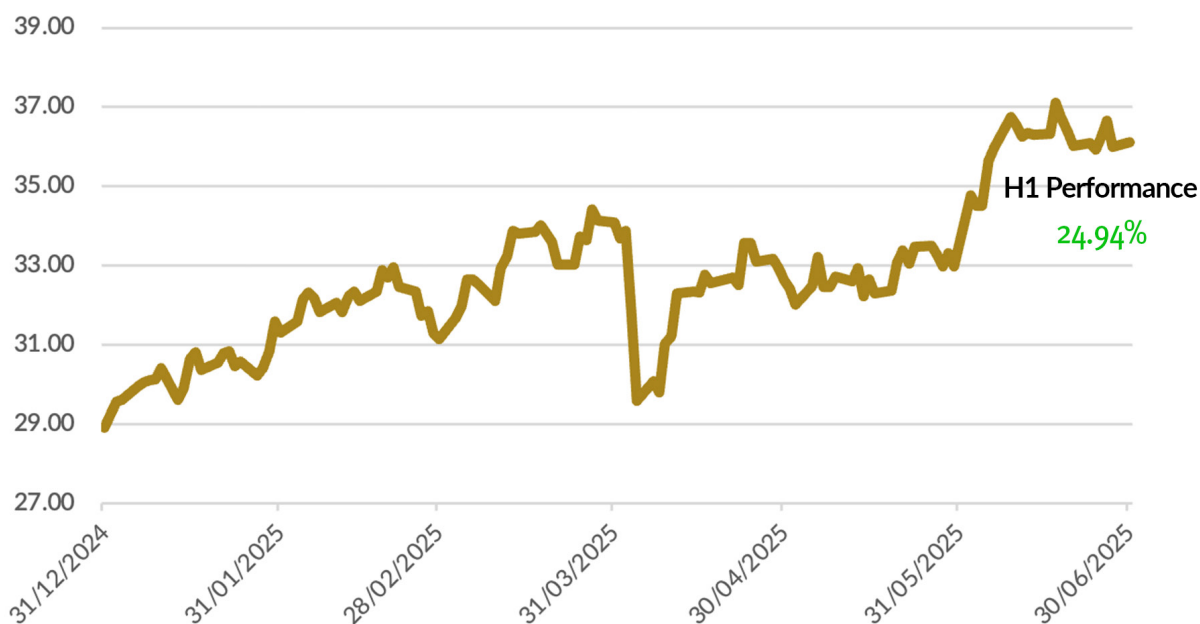
### Gold | H1 2025



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Silver, platinum, and palladium staged powerful “catch-up” rallies in H1, posting double-digit gains. Platinum was the leader, surging 49.2% in H1 and breaking out of a decade-long consolidation to reach \$1,432/oz. Silver rallied to a 13-year high near \$37/oz. While these metals benefited from the same safe-haven flows and weak-dollar tailwinds as gold, their performance was amplified by strong, independent industrial demand narratives. Silver is experiencing a fifth consecutive year of supply deficit, driven by inelastic demand from the photovoltaic sector. Platinum’s rally is supported by a supply deficit, resilient automotive demand for catalytic converters, and its emerging role in the hydrogen economy. This dual-beta nature—exposure to both monetary factors and the green energy transition—suggests they may continue to outperform in H2.

### Silver | H1 2025



Silver rallied to a 13-year high near \$37/oz.



In sharp contrast, the energy sector faced significant headwinds and was defined by a battle between a fleeting geopolitical risk premium and overwhelmingly bearish fundamentals. WTI crude oil prices tumbled -8.9% during the quarter, ending at around \$68 per barrel. However, this doesn't tell the full story as prices spiked in mid-June, briefly touching \$77/bbl following Israeli airstrikes on Iran, but this premium evaporated within a week as no physical supply disruptions materialized. The decline was driven by concerns about a global growth slowdown, which would dampen demand, as well as by supply-side factors as OPEC+ accelerated the unwinding of its 2.2 million barrels per day (mb/d) of voluntary production cuts, signalling a strategic pivot from supporting prices to defending market share against robust non-OPEC+ supply growth

Over on the agricultural side, Cocoa experienced a historic supply crisis, with prices soaring to an all-time high of \$12,261/ton in April due to crop disease and extreme weather in West Africa. This structural deficit is pressuring the earnings of major chocolate manufacturers. Coffee also rallied strongly, with Arabica futures up 21% in Q2 on a structurally tight market, constrained supply from Brazil and Vietnam, and high sensitivity to weather risks. In contrast - corn, wheat, sugar and cotton markets were well-supplied, leading to price declines in H1. This bifurcation is expected to continue, with cocoa and coffee supported by long-term supply challenges.

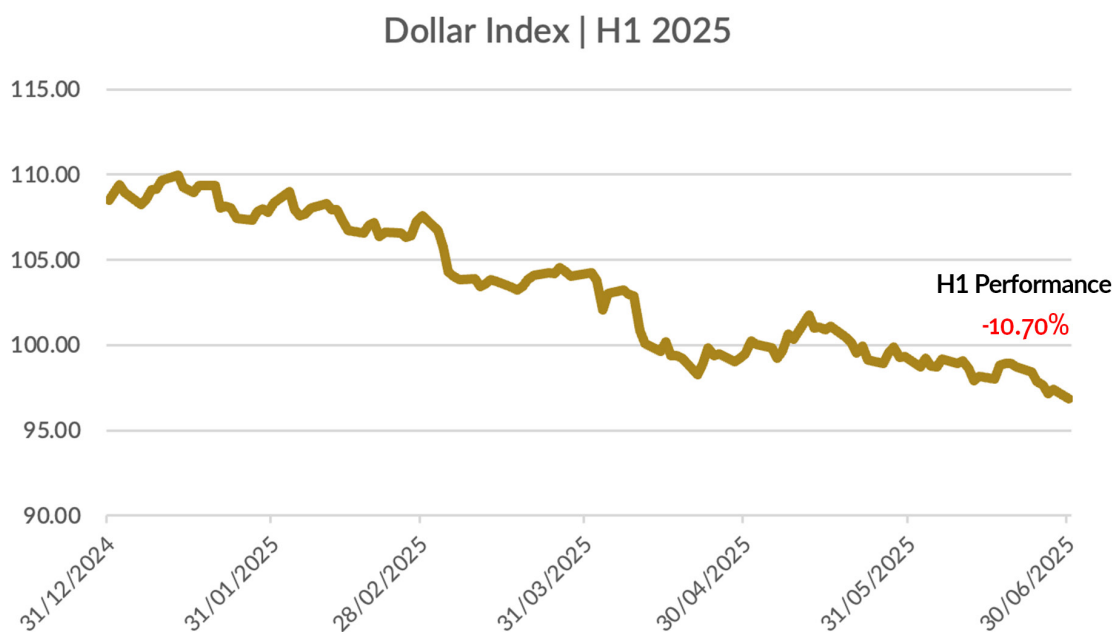


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## Currencies

The first half of 2025 will be remembered as the period when the US dollar's long-standing dominance wobbled. A potent combination of unpredictable U.S. trade policy, burgeoning fiscal concerns, and a clear divergence in global monetary policy paths triggered a significant capital rotation away from U.S. assets, culminating in the dollar's worst first-half performance in over 50 years. The Dollar Index (DXY) plummeted by nearly 11%, a sell-off that provided a powerful boost for nearly every other G10 currency.



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The primary catalyst for this shift was a sharp increase in policy-induced volatility emanating from Washington. The “Liberation Day” tariff announcement in early April sent a shockwave through global markets, undermining confidence in the dollar’s traditional safe-haven status and accelerating a flight to alternatives. As the Federal Reserve remained cautiously on hold, other major central banks embarked on their own distinct paths. The European Central Bank and the Bank of England initiated easing cycles, while the Bank of Japan continued its slow but historic policy normalization. This policy desynchronization, coupled with a re-evaluation of relative growth prospects, fuelled significant currency realignments.

The Euro and British Pound were major beneficiaries, staging impressive rallies as their respective central banks signalled a more measured approach to easing than previously anticipated. The Japanese Yen also recovered lost ground, supported by the Bank of Japan’s cautious steps away from ultra-loose policy. However, the standout performer was the Swiss Franc, which surged to a 15-year high as it became the preferred haven from the U.S.-centric political and economic uncertainty. Commodity-linked currencies like the Canadian and Australian dollars also posted solid gains, buoyed by this broad-based USD weakness.

## Nairobi Securities Exchange

The bourse closed the month of June on a bullish note with the broad market returning +14.3% m/m – worth noting is that the All-Share Index closed at the highest level (153.43 points) since 25th April 2022. Behind the performance was the telecommunication sector, accounting for 62.6% of the 14.3% NASI gains (i.e., c. 8.9% market-weighted adjusted return). The counter touched a 30-month high of KES 25.00 in the period under review. Likewise, the N10, NSE 20, and NSE 25 indices returned 12.5% m/m, 11.8% m/m, and 11.4% m/m, respectively.

### Nairobi All Share Index | H1 2025



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In 2Q2025, the market returned 17.3% q/q outpacing 1Q2025's 5.9% q/q gains – thus supporting the outlook for a rally in 2025. The gains, in our view, are more of a recovery as opposed to an outright rally given that the NASI is still below the post-COVID recovery levels (166.46 points at the close of 2021, a regain to pre-COVID levels of 166.41 at the end of 2019). We opine that fundamental growth post-COVID, which has seen expansion, acquisitions, and steady earnings in key sectors, is yet to be priced in – speaking to the likely case of a rally above pre-COVID levels.

During the quarter, (i) Notice of suspension was given to TransCentury PLC and East African Cables PLC shares following the placement of TransCentury PLC under receivership and East African Cables PLC under administration. (ii) Centum announced a profit warning for the year ended 31 March 2025. (iii) Notice of intention not to make a mandatory takeover offer to the shareholders of Sanlam Kenya PLC by Hubris Holdings Limited and Sanlam Allianz Africa Proprietary Limited was given. (iv) Suspension of Umeme was lifted following the release of its full-year results. (vi) Listed banks' results for the period 1Q25 exhibited flat overall profitability, weighed down by sluggish credit demand amid struggling interest and FX income.

## Looking Ahead

Global financial markets are currently at a critical juncture - as the saying goes, 'When America sneezes, the rest of the world catches a cold'. The performance across asset classes and geographies underscores this statement with a lot of moves being induced by headlines emanating from the United States.

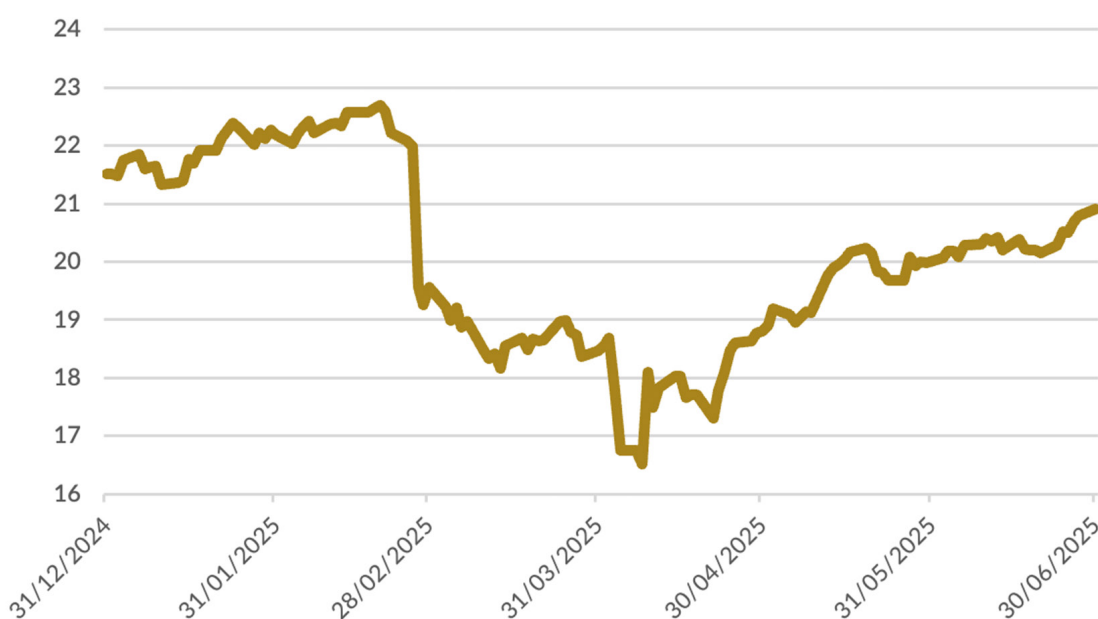
As we look to the remainder of 2025, several significant risks cloud the outlook and threaten the durability of the Q2 rally. The primary and most immediate risk remains the outcome of U.S. trade policy. The 90-day pause on reciprocal tariffs is set to expire on July 9, creating a potential cliff-edge for markets. A failure to secure lasting trade deals or an escalation of the trade war could quickly unwind the Q2 rally, which was built on the assumption of a benign resolution especially with President Trump having announced that failure to secure trade deals will result in the implementation of Liberation Day tariffs from 1st of August.

Secondly, a critical disconnect exists between the Federal Reserve's cautious policy stance and the market's aggressive expectations for rate cuts. The hawkish tilt in the Fed's June "dot plot" suggests a committee wary of tariff-driven inflation, while the market has fully priced in a dovish pivot to support growth. A Fed that holds firm to its inflation mandate could trigger a "taper tantrum" style correction. Conversely, a Fed that capitulates to the administration and market pressure could risk its long-term credibility, potentially un-anchoring inflation expectations.

Thirdly, The U.S. fiscal picture is deteriorating, with the national debt projected to swell due to new spending legislation. This has already caused a spike in long-term Treasury yields and is fuelling concerns about debt sustainability. Critically, the traditional safe-haven relationship, where U.S. Treasuries and the dollar strengthened during tumultuous periods in markets seemingly broke down during the April sell-off, suggesting the U.S. itself is now viewed as a source of risk. This potential erosion of the dollar's safe-haven status could have profound long-term consequences for global capital flows.

Finally, U.S. equities enter the second half with stretched valuations. The forward P/E ratio of 21.9x is significantly above its 5-year (19.9) and 10-year (18.4) averages, and other metrics like the Buffett Indicator are also flashing warning signs. While high valuations are not a catalyst for a downturn on their own, they leave little room for error and set the market up to "fall faster and further when things go awry". Any negative surprise on the earnings, economic, or policy front could lead to a sharp de-rating, as current valuations are not fully supported by underlying fundamentals. However, For the first time in over a decade, equities in other developed markets have decisively outperformed their U.S. counterparts, a trend driven by a weakening U.S. dollar and more attractive relative valuations abroad. European stocks, for example, trade at a forward P/E of around 14x. This valuation gap, combined with proactive fiscal stimulus in Europe (such as Germany's €500 billion infrastructure and defense package), could continue to attract capital, rewarding globally diversified investors.

### S&P 500 Forward P/E Ratio



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However, it's not all gloom and doom. A primary tailwind for markets is the shift toward monetary easing by major central banks. The European Central Bank (ECB) has been at the forefront, cutting its key interest rate twice in the second quarter to support the Eurozone economy as inflation returned to its 2% target. Central banks in Canada, India, and South Korea have also cut rates, signalling a broader global trend. While the U.S. Federal Reserve has remained on a "hawkish pause," If inflation continues to cool, it provides room for the Fed to resume the rate-cutting cycle without a significant deterioration in the labour market which could validate current market pricing and provide further fuel for the rally.

Despite macroeconomic headwinds, corporate earnings have remained surprisingly robust. 78% of S&P 500 companies that reported in Q2 beat earnings forecasts, and analysts project a respectable 5.0% year-over-year earnings growth for the next quarter. This resilience is mirrored in key economic data. The U.S. labor market remains solid, with a low unemployment rate of 4.1% in June. The Eurozone and the UK both posted stronger-than-expected GDP growth in the first quarter, at 0.6% and 0.7% respectively, suggesting their economies are weathering the storm better than anticipated.

Finally, the rally in H1 was not just a recovery but also a strong endorsement of powerful, long-term growth narratives, most notably Artificial Intelligence (AI). The AI theme delivered an exceptional 48% gain in Q2, powering the Technology sector's 39% surge. This enthusiasm is broadening beyond just tech giants, lifting related sectors like Industrials and Utilities on expectations of increased demand for data centers, electricity, and infrastructure while defense spending boosted the industrial sector to the best performing sector in the S&P 500. This secular trend could provide a durable tailwind for specific market segments regardless of cyclical economic conditions.

The first half was a tale of two quarters: a sharp, policy-driven sell-off was followed by a powerful, tech-led rebound that pushed many global indices to or near all-time highs. The powerful rally in Q2 demonstrated the market's ability to look past near-term uncertainty and focus on the promise of policy support and secular growth. This recovery, however, was built on a complex and often contradictory foundation of resilient corporate earnings, diverging central bank policies, and significant geopolitical uncertainty. The outlook for the remainder of the year is therefore balanced on a knife's edge, with compelling arguments for both continued optimism and heightened caution. Navigating the months ahead will require a nimble, well-diversified approach that acknowledges both the potential for further gains and the significant, unresolved risks that could easily trigger another bout of extreme volatility.



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# SIB Standard Investment Bank

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Regulated by the Capital Markets Authority

## Headquarters

16<sup>th</sup> Floor, JKUAT Towers  
(formerly ICEA Building),  
along Kenyatta Avenue,  
Nairobi, Kenya.

## Telephone:

+254 777 333 000  
+254 20 227 7000  
+254 20 227 7100

## Regional Office

1<sup>st</sup> Floor, Nyali Centre,  
along Links Road,  
Mombasa, Kenya.

## Email:

[clientservices@sib.co.ke](mailto:clientservices@sib.co.ke)

