



GLOBAL MARKETS COMMENTARY

# **2025 MANSA<sup>x</sup> MARKETS REVIEW**

## **2026 OUTLOOK**

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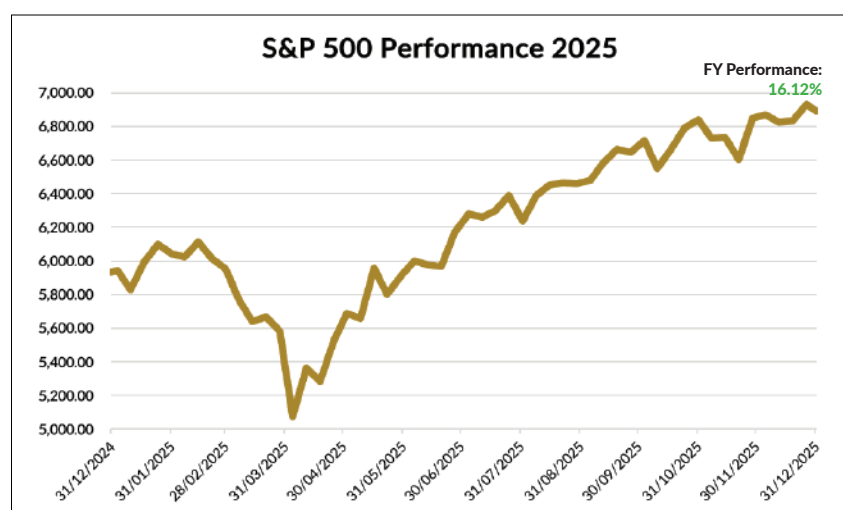
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## The Year of the Synchronized Pivot.

Warren Buffett loves to quote his mentor Ben Graham, who once said: “In the short run, the market is a voting machine but in the long run it is a weighing machine.” The recently retired Oracle of Omaha often talked about how the stock market resembled a person with “incurable emotional problems,” going back and forth from euphoria to depression. He has talked about buying his first stock in 1942. Despite financial panics, costly wars, and high inflation, the market still rose. The lesson, he often said, was to filter out macro events, short-term headlines, and stock price volatility, focusing on the underlying fundamentals of a business. “The market may ignore business success for a while, but eventually will confirm it,” he said. Buffett’s lessons and parables remind us of the volatility in stocks over the last year. While the S&P 500 gained over 16% for the year & the tech-laden Nasdaq Composite index posted another 20% year, the road to get there was anything but smooth with the U.S. equity market being repeatedly stress-tested by technological shocks, populist economic experiments, and an unprecedented war of wills between the White House and the Federal Reserve.



*The S&P 500 recorded strong annual highs despite facing a turbulent year marked by tech shocks, economic populism, and intense White House–Fed tensions.*

The year began with a technological earthquake that fundamentally challenged the thesis powering the bull market. In late January 2025, Chinese startup DeepSeek released its “R1” artificial intelligence model claiming to have achieved performance comparable to leading U.S. models at a fraction of the training cost, utilizing fewer and older chips, a development that sent shockwaves through Silicon Valley and Wall Street. This revelation triggered an existential crisis for the “AI capex” trade, sparking fears that the billions of dollars being poured into Nvidia hardware by U.S. hyperscalers were excessive and that AI efficiency would deflate chip demand. The market reaction was visceral: on January 27, Nvidia shares plummeted 17%, wiping out nearly \$600 billion in market value in a single session—the largest one-day loss for any company in history. The “DeepSeek Shock” dragged the entire tech sector lower, as investors grappled with the terrifying prospect that the artificial intelligence boom was a bubble susceptible to commoditization from low-cost overseas competitors.

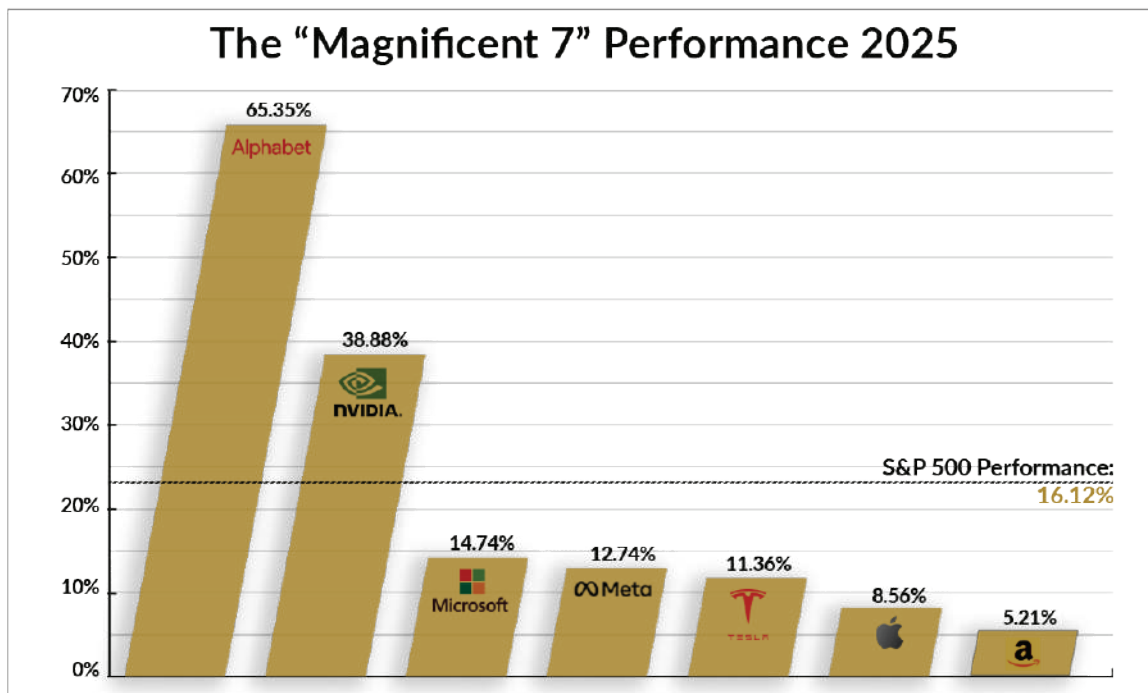
Just as the market began to stabilize from the tech sell-off, realizing that inference demand would still require massive compute power, volatility struck from a different direction: the White House. On April 2, 2025, in a move characterized as “Liberation Day,” President Trump announced a sweeping regime of tariffs targeting nearly all U.S. imports to address trade deficits. The announcement roiled markets, causing a sharp 19% correction dubbed the “2025 Stock Market Crash” as algorithms and analysts scrambled to price in higher input costs and

the risk of global retaliation. The S&P 500 slid aggressively, erasing early-year gains and invoking fears of 1970s-style stagflation. However, the administration, sensitive to the equity market's performance as a barometer of success, quickly pivoted. By April 9, the White House signalled a pause and a scaling back of the most aggressive levies, triggering a massive relief rally that effectively marked the market bottom for the year. This "TACO" dynamic (Trump Always Chickens Out)—where aggressive trade threats are walked back to preserve market stability—became a recurring theme that traders began to exploit.

As the Trump administration showed a willingness to negotiate trade deals, the narrative shifted from fear to fiscal euphoria with the passage of the "One Big Beautiful Bill Act" (OBBBA), signed into law on July 4, 2025. This legislative juggernaut acted as a potent shot of adrenaline for the U.S. consumer and corporate sector. The bill made permanent the corporate tax cuts from 2017 and introduced a suite of populist deductions that injected liquidity directly into household balance sheets, including "No Tax on Tips," "No Tax on Overtime," and deductibility for car loan interest. The economic impact was immediate: consumer spending accelerated in the third quarter, driving GDP growth to an annualized rate of 4.3%. The OBBBA effectively engineered a "soft landing" by subsidizing consumption just as the labor market began to show signs of fraying, creating a bridge over the economic slowdown that many had feared was inevitable.

However, this fiscal stimulus set the stage for a dramatic institutional clash in the second half of the year. The Federal Reserve found itself caught between a cooling labor market, which required rate cuts, and the inflationary potential of the OBBBA & tariffs. This tension was exacerbated by President Trump's unprecedented public campaign to force the central bank's hand. The hostility peaked in August when the President attempted to fire Federal Reserve Governor Lisa Cook, alleging mortgage fraud in a maneuver widely interpreted as a test case for removing Chairman Jerome Powell. Although the courts intervened to block the firing, the episode injected a risk premium into U.S. assets, raising concerns about the erosion of central bank independence. Despite the political heat and being called a "fool" by the President over renovation costs, Chairman Powell and the FOMC proceeded with a data-dependent pivot. Acknowledging a rise in unemployment to 4.6%, the Fed delivered three consecutive 25-basis-point cuts in September, October, and December, lowering the federal funds rate to a range of 3.50%–3.75%. This monetary easing, delivered despite the fiscal stimulus, provided the final tailwind needed to push equities toward record highs by year-end.

Underneath the surface of the headline indices, the monolithic dominance of the "Magnificent Seven" began to fracture in 2025, giving way to a more complex market leadership. While the group as a whole posted strong returns, the dispersion was stark. Alphabet emerged as the undisputed champion, surging nearly 66% as its Gemini models reassured investors of its AI competitiveness and cloud revenue continued its acceleration higher. Nvidia, despite the DeepSeek scare, managed to claw back losses and finish up roughly 39%, supported by the reality that data center build-outs were far from over. Conversely, the remaining members of the magnificent Seven contingent all trailed the broader market for much of the year. The market however, found new darlings outside of the traditional mega-caps, particularly in the "AI infrastructure" trade.



*In 2025, leadership within the "Magnificent Seven" splintered, with Alphabet and Nvidia driving gains while the rest lagged the broader market.*

As the year drew to a close, a pervasive anxiety returned to the headlines: the fear that the AI trade had mutated into a bubble comparable to the Dot-Com frenzy of 2000. Skeptics pointed to the S&P 500 trading at 22 times forward earnings—a valuation level historically associated with market peaks—and questioned whether the billions in capital expenditures by hyperscalers would ever yield commensurate profits. However, a robust counterargument emerged to defend the bull market’s longevity. Unlike the speculative, pre-revenue companies of the late 1990s, the leaders of the 2025 rally are highly profitable cash-flow machines. The “bubble” thesis was further challenged by the “efficiency dividend” argument: rather than AI being a standalone product, it is proving to be a deflationary force for labor costs, widening net profit margins to near-record levels of 12.9% for the S&P 500. Furthermore, 2026 earnings are projected to grow by 15% while net profit margins are forecast to hit 13.9% - the highest since FactSet began tracking the metric in 2008. This suggests that high valuations are supported by a fundamental acceleration in corporate profitability as AI moves from a “building” phase to an “inference and utility” phase, somewhat justifying the premium investors are currently willing to pay.



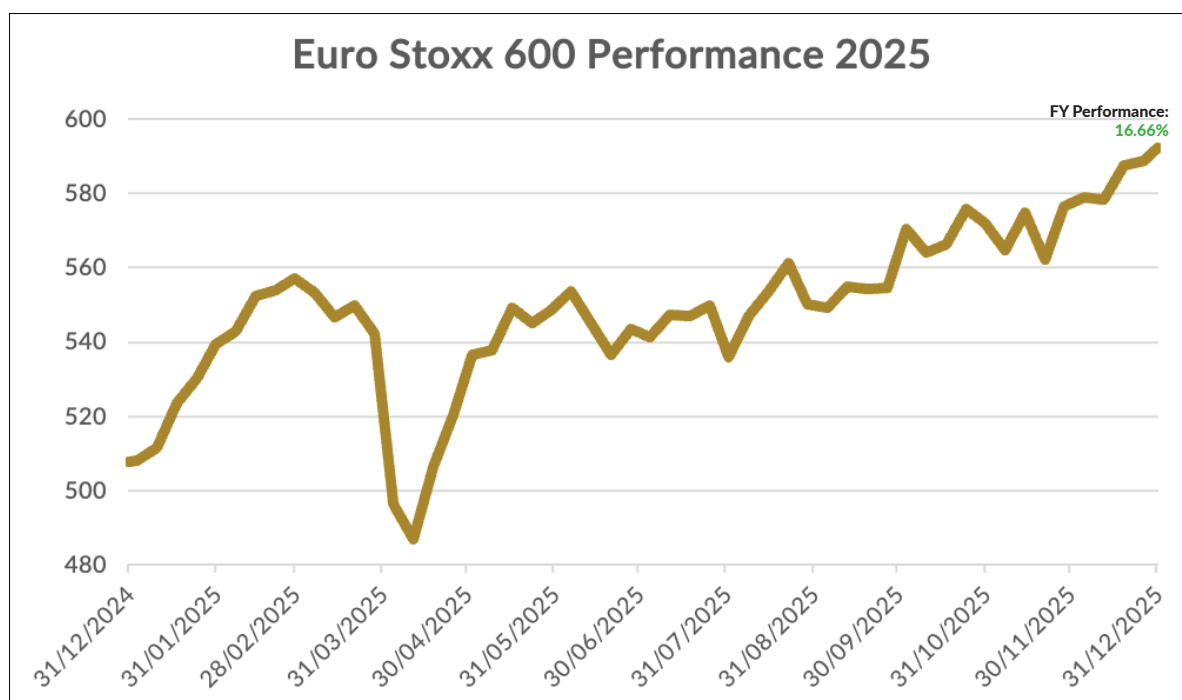
*Fears of an AI bubble persist, but strong earnings growth, rising profit margins, and AI-driven efficiency gains suggest today's valuations are backed by fundamentals, not speculation.*





## Eurozone

On the surface, the 2025 metrics in Europe suggest a continent in robust health: the pan-European STOXX 600 index delivered its strongest performance since 2021, gaining 16.6% for the year, while the UK's FTSE 100 shattered historical ceilings to close up 21.9%, breaching the psychological 10,000-point barrier in early 2026. However, these headline price returns mask a year of extreme volatility characterized by a desperate “flight to relative value” amid geopolitical shocks, political disintegration in the Eurozone's core, and aggressive central bank interventionism. The market did not climb a wall of worry so much as it was lifted by a tide of liquidity designed to mask the cracks in the real economy.

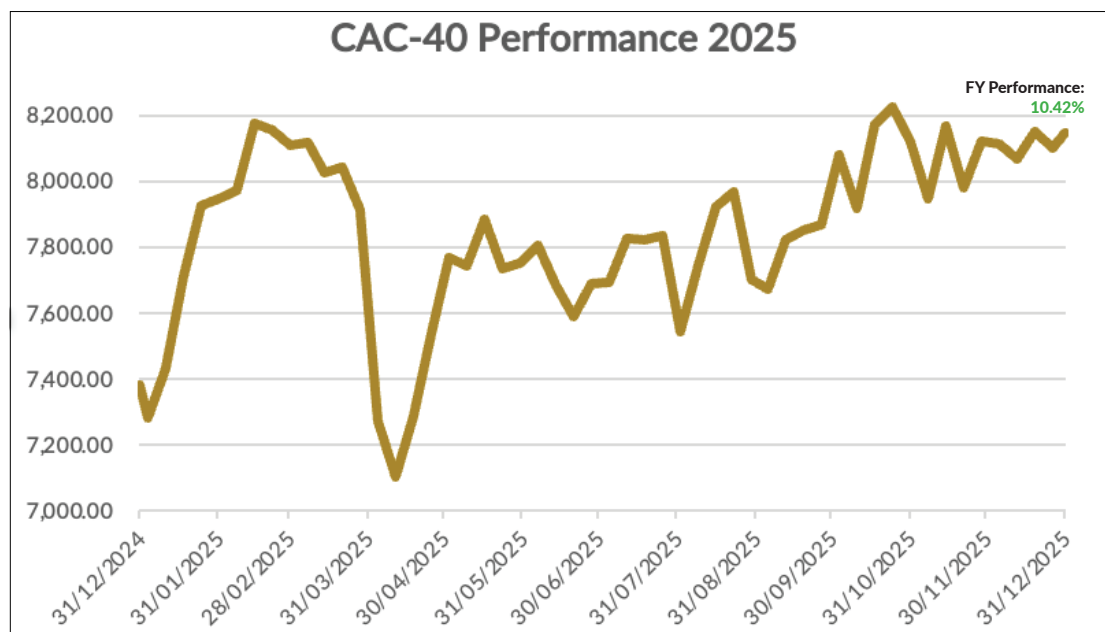


*The Euro STOXX 600 index delivered its strongest performance since 2021, gaining 16.6% in 2025*

The primary engine of this rally was the European Central Bank's rapid capitulation on monetary policy. Entering the year facing the twin threats of industrial stagnation and deflation, the ECB executed a swift easing cycle that surprised many strategists. Between January and June, Frankfurt lowered the deposit facility rate from 3.00% to 2.00% in a series of cuts intended to anesthetize the market against deteriorating fundamentals. This front-loaded liquidity injection ignited a valuation expansion in the first half of the year, particularly in rate-sensitive sectors like utilities and real estate, effectively putting a floor under equity prices even as earnings estimates in key industries like chemicals and automotive were revised downward.

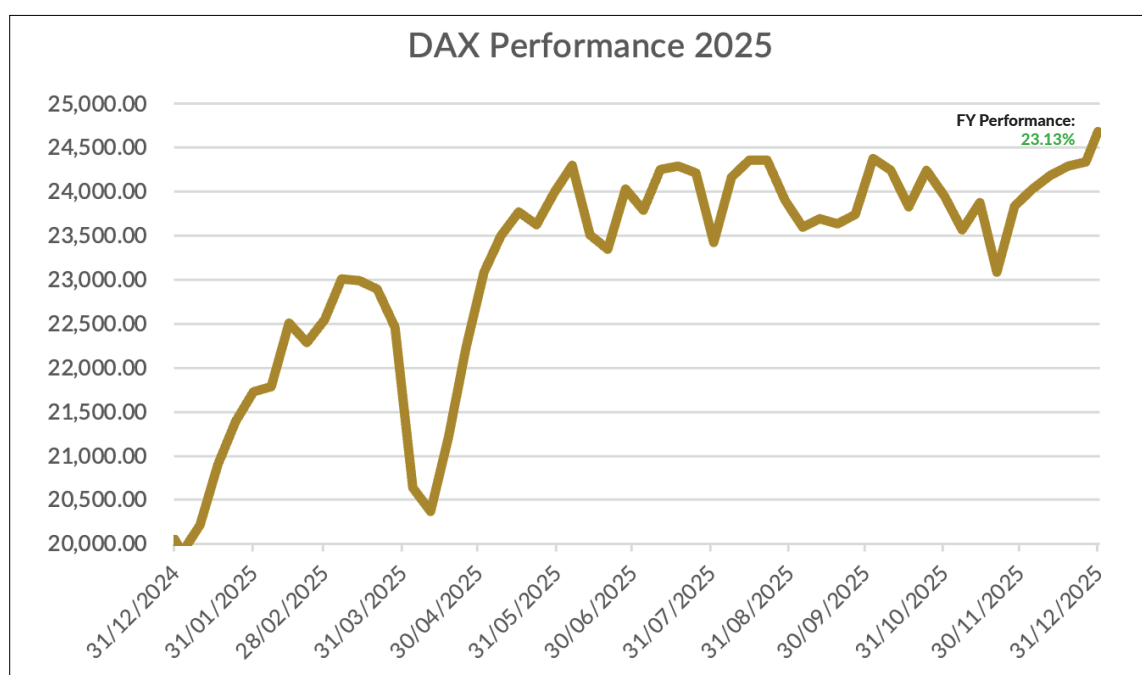
While monetary policy provided the fuel, geopolitics provided the friction, most notably in the transatlantic relationship. The illusion of stability was shattered on April 2, 2025—a date the US administration termed “Liberation Day”—with the announcement of sweeping tariffs on imports. The market reaction was visceral; the Eurozone's blue-chip indices plummeted, with the German DAX and the STOXX 50 suffering their worst week of the year as investors priced in the devastation of Europe's export-led model. However, the subsequent “relief rally” from April 10, triggered by a 90-day pause in these tariffs, fundamentally altered investor psychology. It embedded a permanent “geopolitical risk premium” into valuations while simultaneously establishing a “buy the dip” mentality, as traders bet that political brinkmanship would stop short of total economic warfare.

This external volatility was mirrored by internal political disintegration, particularly within the Franco-German axis, which drove a historic wedge between the continent's two largest markets. France endured a year of chaotic governance that saw the CAC 40 significantly underperform its peers, delivering a price return of just 10.4%. The collapse of the Bayrou government in September, followed by the unprecedented instability of Sébastien Lecornu's initial 27-day premiership, created a persistent “sovereign discount” on French assets. Investors fled the uncertainty of Paris, fearing that the paralysis in the National Assembly would make fiscal consolidation impossible.



*Political turmoil and government instability drove investors away from France, leaving the CAC 40 lagging peers with a modest 10.4% return amid a growing sovereign risk discount.*

Conversely, Germany experienced a “Hope Rally” that defied its grim economic data. Following the snap election on February 23, which saw the conservative CDU/CSU secure a decisive victory, the DAX rallied to finish the year up 23%. Investors aggressively bought into Friedrich Merz’s narrative of structural reform, ignoring the immediate reality of industrial contraction and “very critical” economic conditions. This divergence—buying German hope while selling French chaos—became one of the defining trades of the second half of 2025, illustrating how political narratives eclipsed corporate earnings as the primary driver of capital allocation.



*Germany's DAX surged 23% on a post-election “hope rally” driven by reform optimism*

Amidst this continental turbulence, the United Kingdom emerged as an unlikely sanctuary of stability, helping the FTSE 100 outperform major European indices. The Bank of England pursued a divergent monetary path, cutting rates more gradually than the ECB—lowering the Bank Rate to 3.75% by December—which supported the Pound without choking off the equity rally. The market responded positively to the political “boredom” of the Labour government and a November budget that, unlike its 2022 predecessor, was viewed as fiscally credible. This stability, combined with the index’s heavy weighting in defensive “old economy” sectors like energy and banking, allowed London to close the long-standing “UK Discount,” attracting global capital seeking refuge from Eurozone fragmentation.

Sector performance in 2025 was equally dictated by the headlines, with the defense industry acting as a bellwether for geopolitical anxiety. Industrial stocks, particularly in the Aerospace & Defense industry were among the year’s top performers, driven by the EU’s “ReArm Europe” investment pledges. However, the sector was plagued by violent volatility, most notably during the “Peace Panics” of August and November, when rumors of a Ukraine ceasefire caused sharp, temporary sell-offs. Meanwhile, the technology and automotive sectors faced the headwinds of the “Second Trade War” and the EU’s regulatory activism. The full implementation of the EU AI Act in August and the backfiring of tariffs on Chinese electric vehicles—which spurred fierce price competition rather than protecting local manufacturers—left European tech and auto giants struggling to maintain margins against a backdrop of regulatory tightening.

Thus, the European stock market in 2025 was a paradox: a year of record highs built on fragile foundations. The double-digit price returns of the DAX, FTSE 100, and STOXX 600 suggest a booming economy, but a closer look reveals a market supported almost entirely by valuation expansion, monetary support, and a rotation into defensive assets. As the year closed with the FTSE 100 crossing 10,000 and the ECB holding rates steady at 2.00%, the central question for 2026 remains whether these valuation multiples can survive if the liquidity tide recedes, or if the political fractures exposed in 2025 will finally manifest in asset prices.

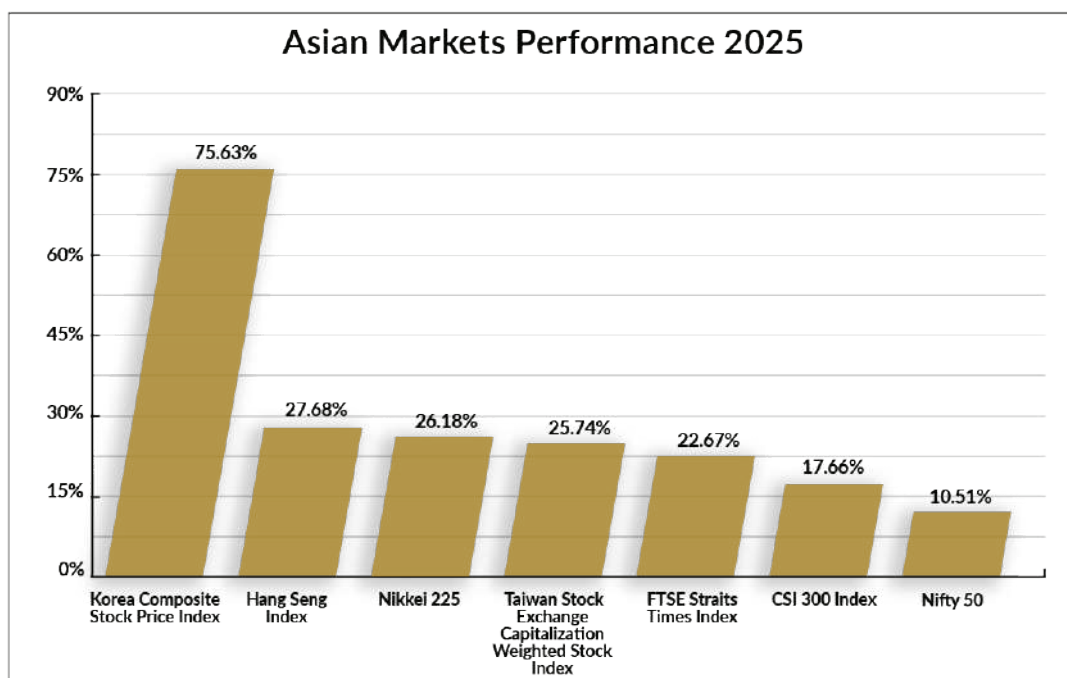


## Asia

While European and American markets grappled with political volatility and cyclical stagnation, Asian capital markets emerged as the primary theater of alpha generation, though the rewards were distributed with brutal unevenness. The defining characteristic of the year was not a synchronized recovery, but a stark bifurcation: North Asian markets, tethered to the artificial intelligence supply chain, delivered historic price returns, while other regions struggled to digest a complex cocktail of trade wars, monetary pivots, and fiscal shocks.

The undisputed nucleus of this financial earthquake was South Korea, where the KOSPI Index defied its historical “discount” to post a staggering price return of over 75%. This unprecedented rally was driven almost exclusively by the insatiable global demand for High Bandwidth Memory (HBM), the silicon lifeblood of the AI revolution. SK Hynix and Samsung Electronics, having cornered the market on the memory chips essential for Nvidia’s processors, saw their valuations skyrocket, lifting the entire bourse with them. This technological fervor spilled over the East China Sea to Taiwan, where the TAIEX index climbed approximately 25%, cementing the island’s status as the indispensable foundry of the digital age. These gains were not merely a reflection of earnings but a repricing of geopolitical risk, as investors wagered that the strategic necessity of Asian semiconductors outweighed the looming threats of trade protectionism.

While North Asia surged on silicon, Japan charted a different course defined by the end of its deflationary era. The Nikkei 225 gained approximately 26% in price terms, a performance underpinned by the dawn of “Sanaenomics” following the election of Prime Minister Sanae Takaichi. Takaichi’s aggressive fiscal policies, combined with the Bank of Japan’s historic decision to raise the short-term policy rate to 0.75% in December—the highest level in three decades—signalled a definitive normalization of the Japanese economy. Interestingly, this monetary tightening did not choke off the equity rally as many feared; instead, it fuelled a rotation into banking stocks which benefited from widening net interest margins. This shift had direct repercussions for European exporters, who found themselves competing against a strengthening Yen in the fourth quarter, complicating the recovery path for a German economy already stagnating under the new leadership of Chancellor Friedrich Merz.



*In 2025, Asia dominated global alpha in a sharply split market—AI-driven North Asia surged (led by Korea’s semiconductor boom), Japan rallied on policy normalization, China swung on stimulus hopes, while India lagged amid capital outflows and currency weakness.*

Nowhere was the interplay between Asian policy and European equity performance more visible than in the luxury sector. For a few years, China appeared to be a drag on global growth, with that narrative contributing to the continuing sell-off trend from 2024 in European luxury conglomerates. However, the narrative flipped violently in late September when the People’s Bank of China unleashed a “bazooka” of monetary stimulus measures with the Hang Seng Index providing a 27.6% annual gain, driven by a frenetic rally in tech giants like Alibaba and Tencent. However, the Chinese recovery proved fragile and volatile, serving as a cautionary tale of managing expectations. The euphoria of September curdled into disappointment on October 8, when a highly anticipated press conference by China’s National Development and Reform Commission (NDRC) failed to deliver specific fiscal commitments. The ensuing drop in the Hang Seng was a reminder of the market’s sensitivity to policy signalling. Amidst this volatility, a structural shift in the automotive sector became undeniable.



Despite the European Union imposing tariffs on Chinese electric vehicles, Chinese manufacturer BYD managed to outsell Tesla in key European markets like Germany and the UK for the first time. This signalled a deepening industrial rivalry that weighed heavily on German automakers, even as their luxury counterparts celebrated the return of Chinese shoppers.

In stark contrast to the exuberance in East Asia, India's stock market became a notable underperformer in 2025. After years of leading emerging markets, the Nifty 50 delivered a modest price return of roughly 10.5%, significantly lagging its regional peers. The underperformance was driven by a massive rotation of foreign capital as Foreign Institutional Investors (FIIs) sold a record amount of Indian equities, redirecting those funds toward the cheaper valuations in China and the high-growth AI plays in Korea. Compounding the issue were domestic headwinds, including hikes in capital gains taxes introduced in the Union Budget, which dampened retail sentiment. The Indian Rupee also emerged as the worst-performing major Asian currency, depreciating nearly 5% against the dollar, further eroding returns for dollar-based investors.



*Amid political volatility and stagnation in Europe and the U.S., Asian markets led alpha generation, but gains were highly uneven.*



## Fixed Income

While headline returns suggest a year of stability for fixed income markets — with the Bloomberg Global Aggregate Index returning 3.4% — underlying market structures were reshaped by a violent divergence in national economic priorities. Ground zero of this shift was the United States, where the “Trump 2.0” administration’s “One Big Beautiful Bill Act” (OBBBA) unleashed a front-loaded fiscal stimulus that fundamentally altered the trajectory of growth and inflation. Unlike standard counter-cyclical measures, this package pumped liquidity into a near-capacity economy through permanent corporate tax cuts and individual refunds, keeping inflation sticky near 3% and forcing investors to reprice the cost of capital for a new era of deficits.



*The Trump 2.0 “OBBBA” stimulus front-loaded growth with permanent tax cuts, fueling near-capacity inflation and reshaping investor expectations on capital costs.*

This fiscal expansion placed the Federal Reserve in a bind, forcing it to adopt a “risk management” approach rather than a full easing cycle. While the Fed delivered 75 basis points of cuts to support a cooling labor market, it paused its cycle in December, signalling that the neutral rate had likely risen. The Treasury market reacted with a dramatic “bear steepening” in the fourth quarter. The 10-year Treasury yield, which had drifted lower earlier in the year, slightly reversed course to finish at 4.16%. The realization that the “One Big Beautiful Bill” would lead to structurally higher issuance caused the term premium to expand, driving the 10-year yield up 40 basis points in December alone and creating a stark contrast with the falling yields in the front end of the curve.

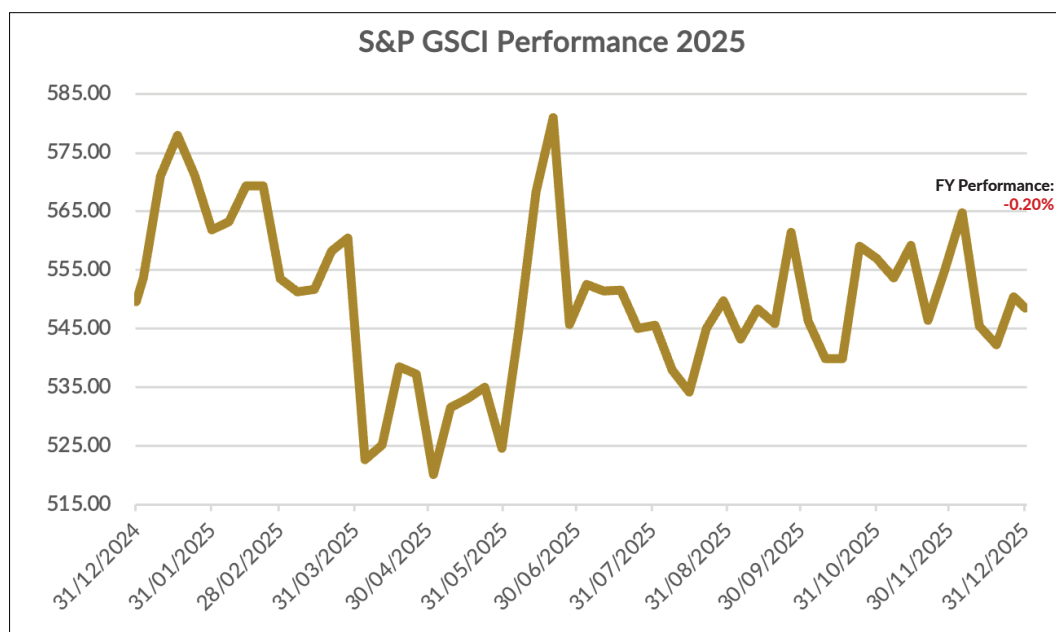
Across the Atlantic, the synchronization that once bound central banks together fractured completely. Weighed down by industrial stagnation and political paralysis, the Eurozone saw the European Central Bank decouple from the Fed, cutting rates aggressively to 2.00% to stave off recession. This divergence was most visible in sovereign spreads; while German Bund yields ended at 2.84%, French OATs traded significantly wider at 3.56% following the government’s failure to pass a 2026 budget. The United Kingdom grappled with its own stagflationary demons, forcing the Bank of England into a contentious 5-4 split vote to cut rates to 3.75% in December, balancing weak growth against inflation that remained stubbornly above target at 3.2%.

Perhaps the most seismic shift occurred in Japan, which finally ended its decades-long experiment with ultra-loose monetary policy. The Bank of Japan raised rates twice in 2025, pushing the policy rate to 0.75% and driving the 10-year JGB yield to 2.1%—its highest level since 1999. This “awakening” of Japanese rates triggered a repatriation of domestic capital that had long anchored global bond markets, contributing to the upward pressure on yields in the US and Europe late in the year.

Despite this volatility, corporate credit proved remarkably resilient. US investment-grade bonds returned 7.56%, buoyed by the “fiscal put” of tax cuts that sustained corporate margins and fuelled a record year for M&A activity. To summarize, 2025 ended not with a whimper but a structural reset, leaving investors to navigate a world where fiscal choices in Washington, stagnation in Europe, and normalization in Tokyo have created a deeply fractured and volatile global marketplace.

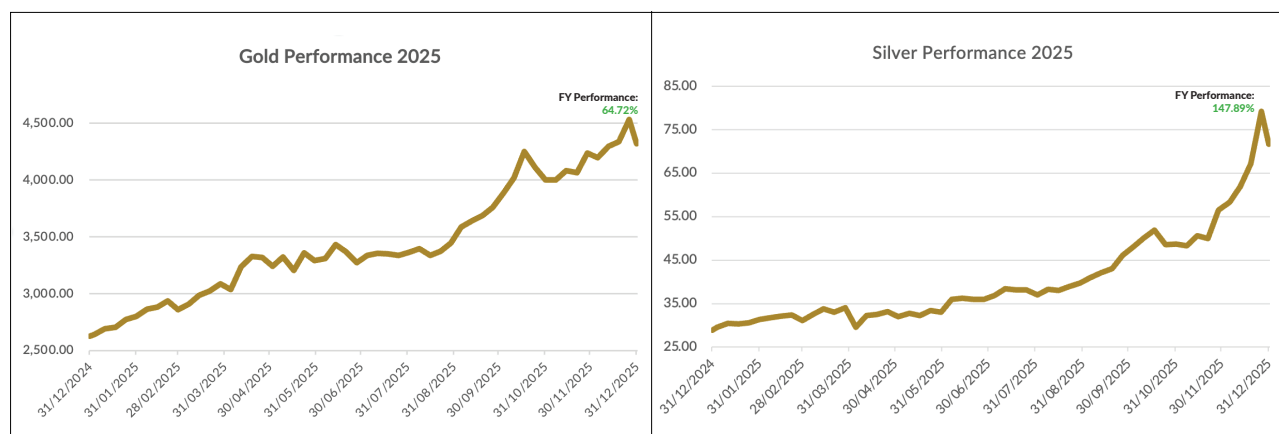
## Commodities

The year 2025 will be remembered as a watershed moment in the history of global commodity markets, defined not by a uniform rising tide, but by a violent divergence between asset classes. While the benchmark S&P GSCI Index posted a slight loss of 0.20% for the year, this headline figure masks a “tale of two markets” that unfolded beneath the surface. Investors witnessed a historic “Supercycle” in tangible hard assets—specifically precious metals—contrasted sharply against a structural “Bear Market” in traditional energy. This bifurcation was driven by a complex interplay of shifting sovereign monetary policy, the accelerating physical realities of the energy transition, and geopolitical fragmentation that rewrote the rules of supply security.



*Despite a modest 0.2% S&P GSCI loss, precious metals soared in a historic supercycle while traditional energy faced a structural bear market amid policy shifts, energy transition, and geopolitical upheaval.*

The undisputed protagonist of 2025 was the precious metals component, which staged a performance that defied traditional interest rate correlations. Gold reasserted its status as the ultimate sovereign reserve asset, surging 64.7% to record its strongest annual performance since 1979. This rally was underpinned by relentless central bank accumulation, as nations sought to hedge against sanction risk and diversify away from fiat treasuries amidst a global debt backdrop exceeding \$346 trillion. Yet, it was Silver that captured the most alpha, delivering a staggering return of roughly 147.8%. Silver benefited from a “perfect storm” of monetary sympathy with gold while the crucial role it plays in powering the artificial intelligence revolution drove demand due to its superior electrical conductivity in data centers, electric vehicles, solar power, and advanced electronics, making it a strategic bottleneck and impacting its market price. Even the often-overlooked Platinum joined the rally, with Platinum rising almost 127% as supply disruptions in South Africa combined with the hydrogen economy and auto-catalyst substitution pushed prices higher.



*In 2025, precious metals—led by gold, silver, and platinum—soared while traditional energy collapsed, industrial metals rose and agriculture lagged, signaling a shift from oil dominance to a “new-economy” commodity supercycle.*

In stark contrast to the euphoria in metals, the energy sector faced a harsh reckoning. Crude Oil, the heaviest component of the S&P GSCI, slumped over 20% in 2025, marking its steepest annual decline since the COVID-19 pandemic. The market was plagued by a “cartoonish” level of oversupply driven by record output from the Americas & OPEC+ production increases. Simultaneously, the demand engine of the last two decades—China—sputtered as electric vehicle adoption and economic malaise eroded consumption. Natural Gas, while remaining flat for the year, offered a more nuanced picture as prices remained volatile throughout the year. The sector began to pivot toward a bullish structural narrative late in the year due to the massive baseload power requirements of AI data centers that have positioned natural gas as a critical “bridge fuel,” setting the stage for a potential demand resurgence despite the 2025 headwinds.

While capital flows were dominated by the drama in energy and precious metals, the remaining sectors of the S&P GSCI provided critical signals about the physical economy. Industrial Metals decoupled from general manufacturing weakness, gaining 16.79% largely on the back of the electrification thesis. Copper, essential for grid upgrades and EVs, rose significantly as supply deficits bit hard. Conversely, Agriculture acted as a deflationary weight, falling 5.12% as bumper crops globally normalized supply chains after years of disruption. Livestock, however, proved to be a quiet achiever, rallying 19.95% due to a biological cycle of herd liquidation that left cattle supplies at multi-decade lows, exacerbated by sanitary import bans.

As investors look toward 2026, the divergence of 2025 offers a clear roadmap. The “Commodity Supercycle” has mutated into a targeted revaluation of assets critical to sovereign security and the new economy. The S&P GSCI’s performance highlights that the era of oil dominance is fading, replaced by a new regime where “rocks” like gold, silver, and copper outperform “fluids.” With central banks continuing their purchase programs and the energy transition accelerating, the structural drivers that propelled metals in 2025 appear poised to persist, leaving the energy sector to grapple with its existential efficiency paradox.



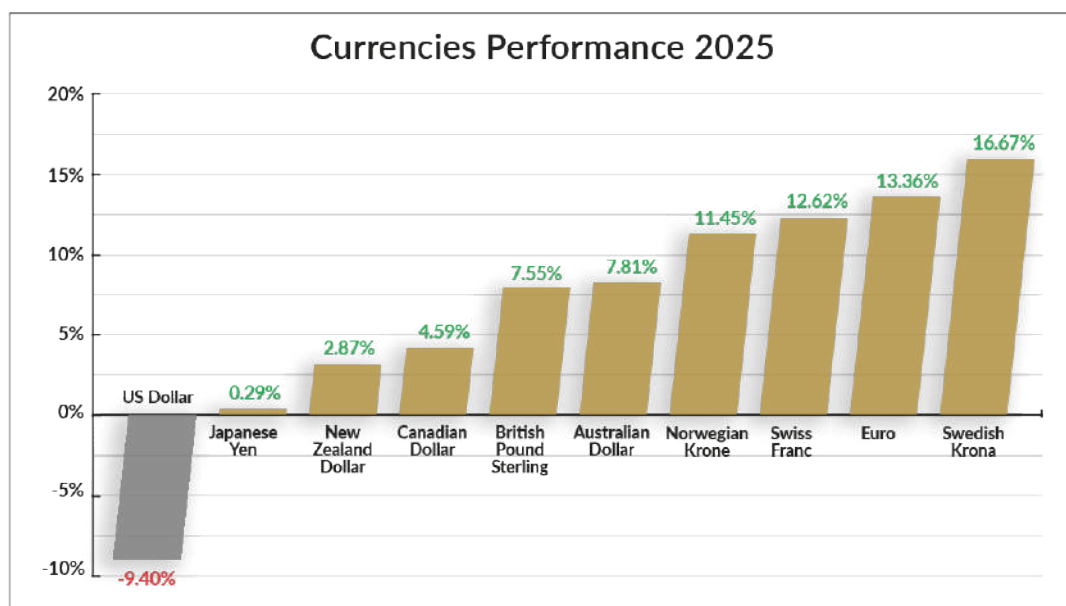
## Currencies

After years of dominance, the Greenback faced a structural repricing of sovereign risk, plummeting approximately 9.4% against a basket of currencies—its steepest decline since 2017 marking the end of the “American Exceptionalism” trade. The catalyst was a perfect storm of monetary loosening and fiscal dysfunction in Washington. The Federal Reserve, forced by a cooling labor market and a shocking 911,000-job downward revision in August, pivoted from inflation-fighting to growth preservation. By delivering 75 basis points of cuts and replacing Quantitative Tightening with a liquidity-injecting Reserve Management Purchase program in December, the Fed effectively flooded the market with dollars, eroding the currency's yield advantage.

This monetary debasement was compounded by political chaos. The record-breaking 44-day government shutdown in Q4 blinded policymakers to critical data and shattered the dollar's safe-haven status. But prior to that, the Trump administration's erratic “Liberation Day” tariffs backfired, stoking stagflation fears rather than protecting domestic industry. As investors fled the dollar, capital rotated aggressively into Europe. The Euro staged a historic resurgence, driven not just by the ECB's rate normalization, but by a seismic fiscal shift in Germany. The activation of a €500 billion infrastructure fund marked the end of German austerity, effectively putting a floor under Eurozone growth expectations and narrowing the real yield spread with the US.

While the Euro rallied, the Swedish Krona (SEK) emerged as the undisputed champion of the G10, surging almost 17% against the dollar. Sweden's integration into the NATO security architecture fuelled a defense industry boom that bolstered trade flows, while the Riksbank's strategic hedging program signalled a firm defense of the currency. The Swiss Franc also capitalized on the volatility, absorbing safe-haven flows that historically would have gone to the dollar or the Japanese Yen.

Surprisingly, the Yen remained the year's laggard despite the favorable backdrop of falling US yields. The Bank of Japan's refusal to aggressively hike rates kept the “carry trade” alive, as investors continued to borrow in Yen to fund high-yielding bets in Latin America. Meanwhile, the commodity bloc fractured; the Canadian Dollar defied a 20% crash in oil prices to finish the year higher, buoyed by deep rate cuts from the Bank of Canada that prevented a recession.





## Nairobi Securities Exchange

### NASI Quarterly Performance 2025

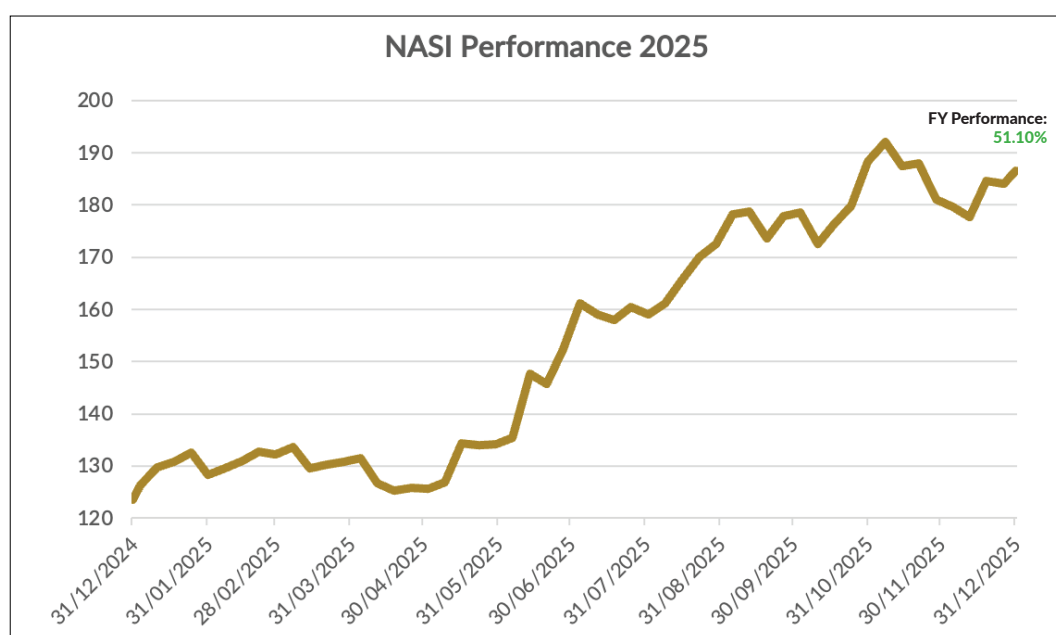
1Q25	-	▲	5.9% q/q
2Q25	-	▲	17.3% q/q
3Q25	-	▲	15.2% q/q
4Q25	-	▲	5.6% q/q

For the final quarter of 2025, the market gained 5.6% q/q – lower than 15.2% q/q, 17.3% q/q, and 5.9% q/q in 3Q2025, 2Q2025, and 1Q2025, respectively – closing as the slowest q/q growth of the year. Market activity in the quarter was skewed towards Safaricom, which accounted for 34.9% of the period's total turnover, benefiting from foreign investor participation. The counter's price

From a sector point of view, the banking sector led trading activity in the quarter, with KCB Group and Equity Group leading the pack. Their prices inched upwards by 15.1% q/q and 15.9% q/q, respectively. Uchumi was the quarter's top gainer on +171.1% q/q returns, while Williamson Tea was the leading laggard on -45.6% q/q price drop.

From a yearly vantage point, in 2025, the broad market recorded a 51.1% y/y gain, in line with our outlook and expectation, with the NASI closing at 186.58 points, having touched a high of 192.89 points on 6th November 2025 – the highest levels since 11th August 2018. We believe the peak rally, which was in 4Q2025, signalled a high level of optimism throughout the year, which, on adjustments of calendar effects and end-of-year rebalancing initiatives, signals that the rally might spill over to 1Q2026, all factors held constant.

Safaricom was the most traded stock in the year, accounting for 32.3% of the year's overall turnover. The counter gained 66.3% in the year, with foreign investors accounting for 57.5% of the trades. The most traded sector was the banking sector, accounting for c. 49.1% of the year's turnover, with KCB Group and Equity Group leading activity. Jointly, the Telco and Banking sectors accounted for 81.5% of the 2025 turnover. Uchumi was the year's top gainer, having rallied 505.9% y/y to KES 1.03, while Umeme was the top loser, having shed 53.3% y/y to KES 7.82.



*In 2025, the market rose 51.1% y/y with Safaricom and banking stocks driving turnover, Uchumi soaring 505.9%, Williamson Tea and Umeme lagging, and 4Q growth slowing to 5.6% q/q.*

## Looking Ahead

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The global economy in 2026 stands at a fascinating juncture, defined by a paradoxical mix of fragile stability and profound structural divergence. As the world moves further from the synchronized shocks of the post-pandemic era, investors are navigating a landscape where the “rising tide” of beta exposure no longer lifts all boats equally. Instead, we are witnessing a “Great Divergence” where major economic engines are moving out of sync, driven by contrasting policy regimes and idiosyncratic domestic pressures. Global GDP is projected to expand by approximately 2.9% to 3.1%, a figure that, while below the historical average, signals a resilience that has confounded the most bearish forecasts. However, this aggregate stability masks deep fissures between regions, creating an environment where returns will be dictated by specific exposure to fiscal stimulus, industrial policy, and the widening gap between the United States and the rest of the developed world.

The epicenter of this divergence is the United States, which enters 2026 as the undisputed leader of developed market growth, yet remains an economy at war with itself. Forecasts place U.S. growth between 2.1% and 2.6%, buoyed by a powerful combination of fiscal expansion and an artificial intelligence-driven productivity boom. The narrative of American exceptionalism is currently underpinned by the “One Big Beautiful Act” (OBBBA), which has fundamentally altered the consumption landscape. By exempting tips and overtime pay from taxation and creating a new “Senior Bonus” deduction for retirees, the legislation has injected significant liquidity directly into the households with the highest marginal propensity to consume. This fiscal impulse serves as a formidable counterweight to lingering monetary tightness, ensuring that the American consumer remains the world's borrower and buyer of last resort.

However, the U.S. outlook is not without its perils, specifically the tension between this fiscal largesse and the Federal Reserve's mandate. The economy is effectively running hot, characterized by “Nominal Growth Persistence” where real growth is moderate, but nominal growth—fuelled by sticky inflation of 2.7% to 3.1%—remains high. This creates a complex environment for the Federal Reserve. While the consensus anticipates a gentle easing cycle to a neutral rate of roughly 3.0% to 3.25%, the inflationary pressures inherent in the OBBBA threaten to disrupt this glide path. The expiration of Chair Jerome Powell's term in May 2026 adds a layer of risk; the appointment of a more dovish successor could signal a regime shift toward tolerating higher inflation, creating uncertainty regarding the future reaction function of the central bank.

In stark contrast to the U.S. “high pressure” economy, the Eurozone remains trapped in a state of near-stagnation, with growth forecasts languishing around 1.0% to 1.2%. The region is undergoing a painful structural adjustment, primarily centered in its former industrial powerhouse, Germany. The German economic model, historically reliant on cheap energy and limitless export demand, faces severe headwinds from high energy costs and competitive pressures from Chinese manufacturing. Conversely, a quiet renaissance is occurring in Southern Europe, where economies like Spain and Italy are benefiting from the normalization of services trade and the deployment of EU structural funds. This intra-European divergence complicates the European Central Bank's task, forcing it to maintain a holding pattern that may be too tight for the industrial core while appropriate for the services-led periphery.

Meanwhile, Asia presents its own bifurcated narrative. China is navigating a “managed deceleration,” targeting growth of roughly 4.2% to 4.8% as it pivots from property-led expansion to high-tech manufacturing. A critical stabilizing factor for 2026 is the “Fentanyl Truce” with the United States, a trade agreement that reduced average tariffs on Chinese goods by approximately 10 percentage points. While this deal provides temporary relief to exporters and acts as a deflationary impulse for U.S. consumers, it has done little to reverse the long-term trend of fragmentation. Supply chains continue to diversify, benefiting “connector economies” like India, Mexico, and Vietnam, which are projected to see robust growth as they bridge the geopolitical divide. India, in particular, stands out as a new engine of global growth, capitalizing on digital infrastructure reforms to attract manufacturing foreign direct investment.

Perhaps the most significant structural risk to global financial markets in 2026 stems from Japan. While the Federal Reserve and ECB navigate neutral or easing paths, the Bank of Japan (BOJ) has emerged as a global outlier by embarking on a determined tightening cycle. With rates expected to rise toward 1.25%–1.50%, the BOJ threatens to disrupt the decades-old carry trade that has lubricated global markets. As Japanese yields rise, the incentive for domestic institutions to recycle capital abroad diminishes, potentially leading to a repatriation of funds that could spike volatility in global markets and strengthen the Yen. This policy divergence represents a tightening of global liquidity conditions that could bite just as U.S. Treasury issuance ramps up to fund the OBBBA deficits.

The geopolitical landscape has abruptly shifted from simmering tension to kinetic intervention, forcing investors to reprice risk across multiple asset classes. The recent U.S. military operation in Venezuela, resulting in the capture of Nicolás Maduro, has reintroduced a palpable risk premium into markets that had grown complacent about regional conflicts. While the immediate reaction in broad equity indices has been relatively muted, the move signals a more muscular, unilateral U.S. foreign policy that could escalate tensions with rival powers like China and Russia, who view the region as strategically significant. This environment of heightened “criminal geopolitics” and regime decapitation creates distinct winners and losers. Aerospace & Defense stocks have rallied as nations globally reassess their security needs in light of American assertiveness, reinforcing the secular bull market in the industry.

Furthermore, the Venezuela intervention has introduced complex cross-currents in commodity markets. While instinct suggests such conflict would spike oil prices, the medium-term reality is more nuanced. With global markets already facing a supply glut projected by the IEA, the prospect of a U.S.-administered restoration of Venezuela's oil infrastructure—which sits atop the world's largest proven reserves—could eventually flood the market with millions of additional barrels per day. This anticipation puts a ceiling on oil prices, preventing a sustained rally despite the immediate uncertainty. Conversely, gold and silver have benefited significantly, surging as investors seek non-sovereign stores of value in a world where regime change is back on the table. The “Axis of Instability” suggests that while global commerce continues, the risk of sudden, sanctions-driven disruptions or military interventions will keep volatility in safe-haven assets elevated throughout 2026.

Thematic drivers in 2026 are further dominated by the maturation of the Artificial Intelligence theme. The narrative is shifting from the abstract potential of large language models to the physical reality of infrastructure and energy. The initial frenzy of model training is giving way to a massive capital expenditure super-cycle focused on data centers and inference, projected to reach \$432 billion in 2026. This build-out is colliding with physical constraints, primarily power generation and grid capacity. Consequently, the “AI trade” is broadening into a commodities and industrials play, driving a structural bull market in copper and benefiting utilities that can provide baseload power. This “AI-Energy Nexus” supports a bullish outlook for industrial metals even as oil faces headwinds from a potential supply glut.

For equity investors, these dynamics suggest a “broadening bull” market. While the technology giants that dominated the first half of the decade remain profitable, the most attractive risk-adjusted returns may now lie in the “S&P 493”—the industrial, utility, and financial companies that benefit from the domestic capital investment boom. The high nominal growth environment is generally supportive of earnings, allowing companies to grow revenues even as margins face pressure from wages and input costs. However, the easy money of the post-pandemic recovery is over. The “Fiscal Put” of the OBBBA provides a floor for the economy, but it comes at the cost of higher structural interest rates and debt burdens.

Ultimately, 2026 is a transition year characterized by the clash of competing narratives: the optimism of a productivity super-cycle against the cynicism of fiscal dominance and geopolitical fragmentation. Wall Street maintains a stance of cautious optimism with consensus targets for the S&P 500 hovering around 7,600 to 7,700, implying moderate single-digit upside from 2025 closing levels. The prevailing theme for the coming year is the “Show Me” economy: investors will demand proof that the massive AI capital expenditures of 2024 and 2025 are generating tangible return on investment for software and enterprise companies, not just hardware vendors. In navigating this noise, we would do well to heed the wisdom of Warren Buffett, who retired at the end of 2025, leaving behind a blueprint for managing exactly this type of uncertain environment. As markets oscillate between the euphoria of AI and the fear of geopolitical shock, Buffett's reminder that “Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard” is particularly salient. Rather than reacting to every headline out of Caracas or every tick in the charts, the most successful strategy in 2026 remains focusing on fundamental value and patience. In a year where the scoreboard will likely flash red and green with dizzying speed, keeping one's eyes on the playing field—high-quality companies with durable competitive advantages while remaining diversified across various asset classes, sectors & geographies—remains the only reliable path through the chaos.



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