SIB Standard Investment Bank

JULY 2026

GLOBAL MARKETS COMMENTARY

H1 2026 MANSA^{X} MARKETS REVIEW

H2 2026 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

Francis Macharia
fmacharia@sib.co.ke

Dan Murage
dmurage@sib.co.ke

Gerry Kiruthu
gkiruthu@sib.co.ke

Desmond Kinyua
dkinyua@sib.co.ke

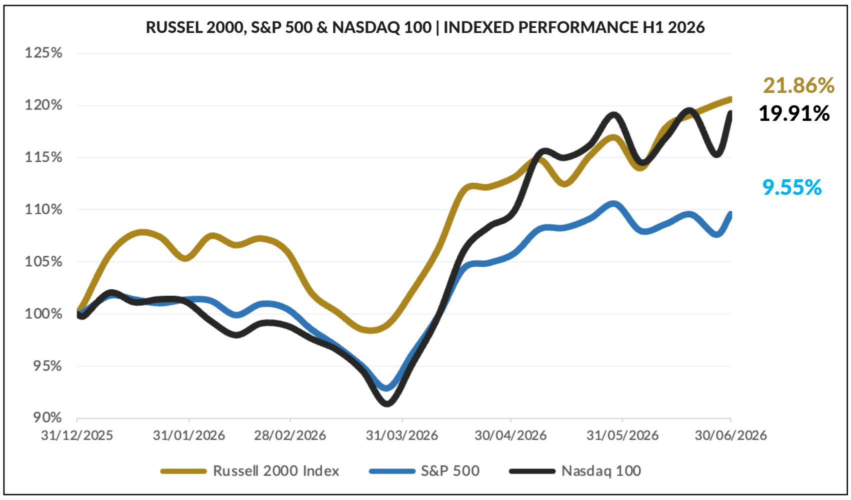
John Mungai
jbmungai@sib.co.ke

Farhan Abdi
fabdi@sib.co.ke

Khushal Bhawaan
kbhawaan@sib.co.ke

Seeing Through the Fog

The Bears make sense but the bulls make money. It is a Wall Street aphorism that has never felt more prescient than at the midpoint of 2026. If you were to look purely at the macroeconomic ledger for the first half of the year, one would be forgiven for being rattled & adopting a defensive stance. After a bruising first quarter, any rational observer might have looked at these geopolitical fault lines, the rising cost of capital, and the dizzying valuations of technology mega-caps, and conclude that caution was the only logical posture. And yet, the equity markets delivered a masterclass in resilience, climbing a wall of worry to build a smooth escalator to the stratosphere. The S&P 500 had its best quarter since 2020 to close the first half of the year up 9.55%, while the Nasdaq and the Russell 2000 posted staggering gains of approximately 20% and 22%, respectively. Not bad for a market that, just three months earlier, many had written off as heading for a prolonged downturn.

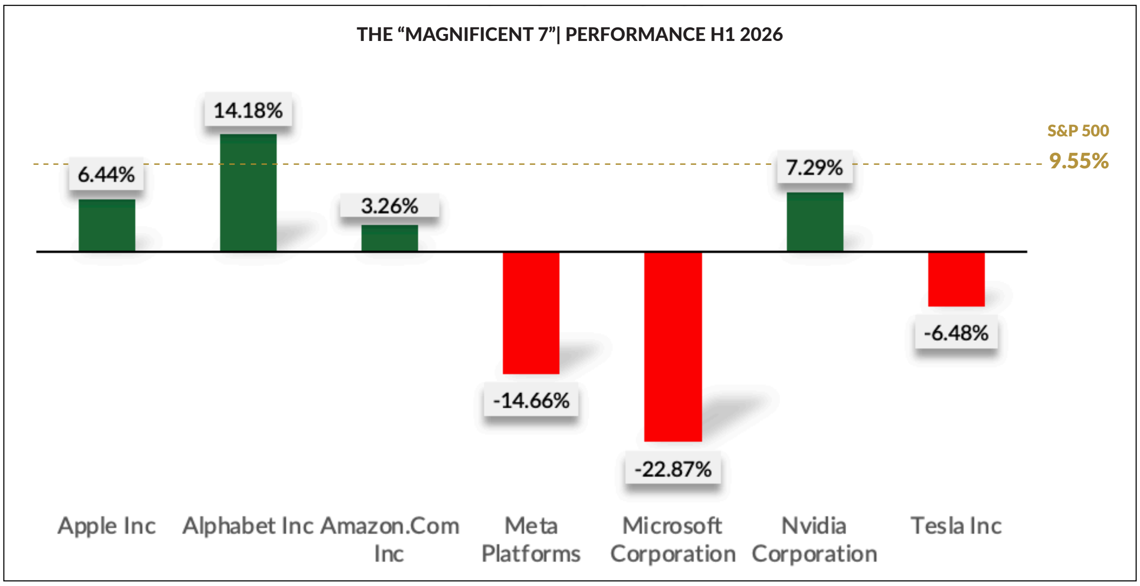


The S&P 500 closed the first half of the year up 9.55%, while the Nasdaq and the Russell 2000 posted staggering gains of approximately 20% and 22%

To understand the triumph of Q2, one must first appreciate the ordeal of Q1. The year opened with familiar tensions — Trump tariff threats, policy uncertainty, and a technology sector grappling with questions about the sustainability of its AI-fueled valuations. Markets were already on edge when, in late February, the US and Israel launched military operations against Iran, triggering a conflict that would define the first half of 2026. The Strait of Hormuz — a narrow waterway through which a significant portion of the world's oil flows — was effectively shut down, sending Brent crude surging above $100 a barrel for the first time since 2022. The Nasdaq 100 fell into correction territory, the S&P 500 logged its longest losing streak in four years, and some $6 trillion in global equity market value was wiped out in the span of a single week in March. Goldman Sachs' trading desk, never one to mince words, warned clients that "the only way up is down from here." It was, in short, the kind of period that makes market participants question their life choices.

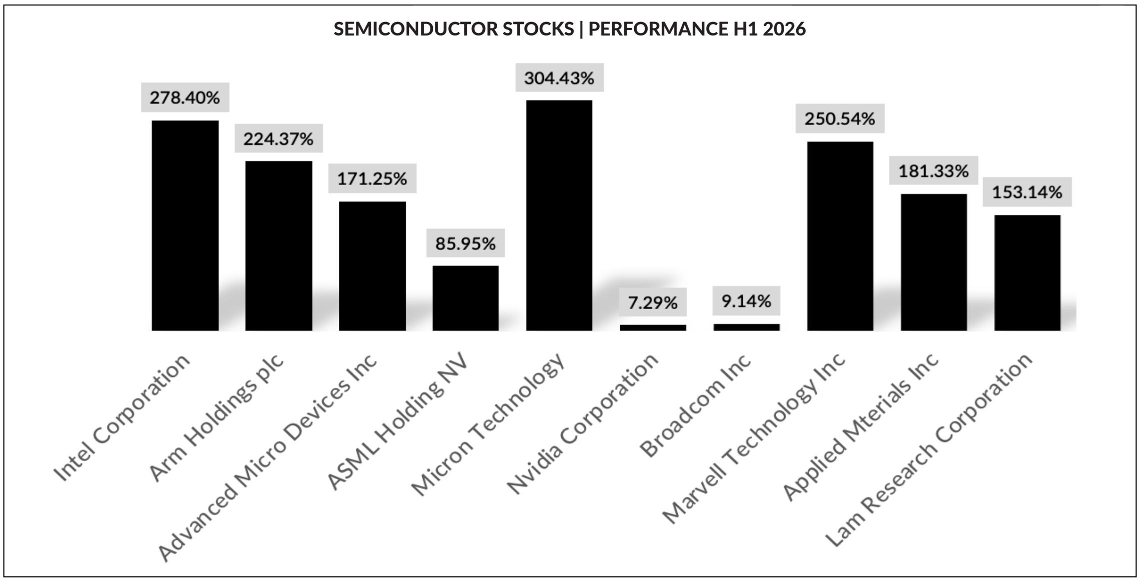
Even as the bombs fell and oil prices soared, something quietly remarkable was happening beneath the surface: Corporate America was making money — a lot of it. Earnings for Q4 2025 and Q1 2026 came in with extraordinary strength, with 83% of S&P 500 companies beating analyst expectations by the time the reporting season wound down — the highest beat rate since 2021. Industrial companies delivered the biggest earnings surprise of any sector, powered by defense demand, commercial aerospace, and AI-related capital spending. Morgan Stanley's Mike Wilson was among those noting that the profit boom was intact despite the war, with S&P 500 earnings expected to rise 20% over the next twelve months. The market, it turned out, had been listening to the earnings instead of the headlines.

The pivot from despair to euphoria came swiftly. April marked the beginning of a stunning reversal, as peace negotiations between the US and Iran gathered momentum and oil prices began their long retreat from triple-digit territory. Markets responded with the kind of relief rally that reminds you why staying invested through the noise is so often the right call. The S&P 500 hit fresh record highs, the Nasdaq soared, and the bears — who had made a very compelling case just weeks earlier — found themselves on the wrong side of one of the sharpest recoveries in years. What makes this performance extraordinary is the composition of the rally. For the better part of three years, the narrative of the U.S. stock market had been dominated by a singular, monolithic theme: the hegemony of the "Magnificent 7." These technology leviathans accounted for 63%, 55%, and 46% of the S&P 500's annual returns in 2023, 2024, and 2025, respectively, masking a sea of underperformance beneath the surface but also showcasing lesser dependence on the cohort as the years went on. The first half of 2026 then marked a profound, tectonic shift in this dynamic. The mega-caps underperformed the broader market, and yet the S&P 500 still delivered near double-digit returns because the remaining 493 constituents finally woke up. Nearly 45% of the stocks in the S&P 500 outperformed the benchmark in the first half of the year, creating a rich environment for fundamental stock selection.



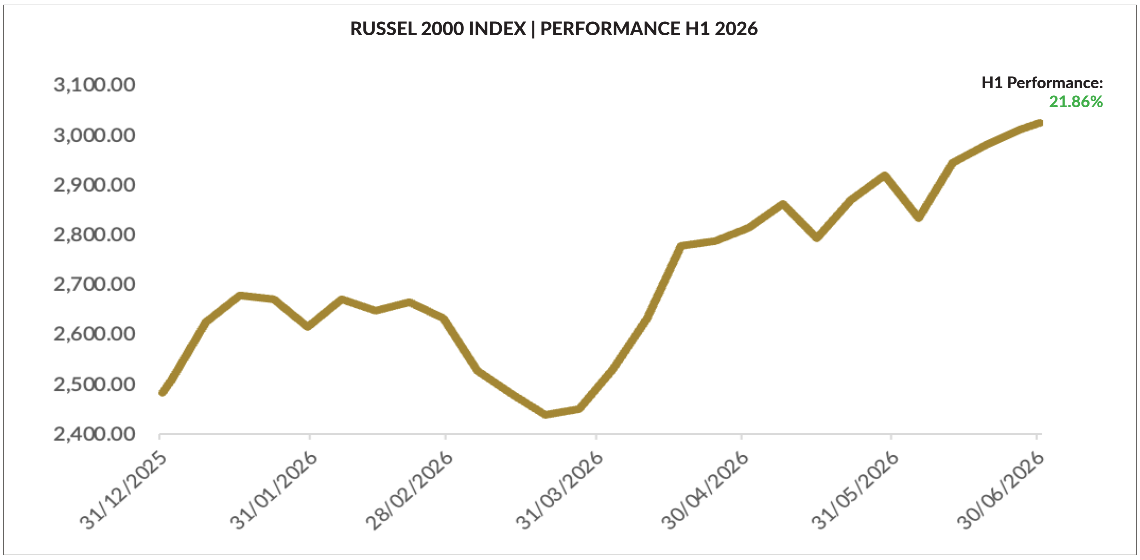
The mega-caps underperformed the broader market, and yet the S&P 500 still delivered near double-digit returns

The undisputed hero of this recovery were semiconductors. Chip stocks did not merely participate in the rally — they led it, defined it, and at times seemed to be carrying the entire market on their silicon shoulders. The AI infrastructure buildout, far from showing signs of fatigue, accelerated dramatically through April and May. Hyperscalers — Meta, Microsoft, Amazon, Alphabet & Oracle — continued to pour capital into data centers at a pace that left even optimistic analysts scrambling to revise their forecasts upward, with Meta alone flagging plans to spend as much as $135 billion in 2026. The result was a memory chip shortage that became one of the defining supply-demand stories of the year, with Micron Technology surging approximately 260% year-to-date by late June, and Sandisk posting a staggering 258% gain in Q2 alone. Micron's late-June earnings report, which guided for approximately $50 billion in revenue for its fiscal fourth quarter, served as the exclamation point on the semiconductor story — and a fitting crescendo to a quarter that the chip industry will be talking about for years.



Chip stocks did not merely participate in the rally — they led it, defined it, and at times seemed to be carrying the entire market on their silicon shoulders.

Yet for all the fireworks in chips and mega-cap tech, one of the more quietly significant stories of the first half was the rotation happening beneath the index level. The absolute explosion of the Russell 2000 — home to America's smaller, scrappier companies — outperformed the S&P 500 by nearly 14 percentage points in the first six months of the year, a gap that, if sustained through year-end, would be the largest small-cap outperformance in over two decades. Long viewed as highly sensitive to interest rates and crowded with unprofitable "zombie" companies, the conventional wisdom dictated that small caps were uninvestable. The conventional wisdom was spectacularly wrong as 10 out of the 11 sectors in the index were higher. The fundamental justification for this small-cap euphoria is rooted in forward earnings expectations. Bottom-up consensus estimates suggested the Russell 2000 was on track to deliver a staggering 43% year-over-year earnings growth over the forward twelve months, compared to the S&P 500's respectable, but smaller, 21% estimates. This was clearly not a market running on fumes from a handful of giants alone; it was a market where earnings momentum was broadening, cyclical sectors were finding their footing, and investors were beginning to look beyond the AI trade for opportunities. Easing oil prices, a softening dollar, and reduced rate pressure were cited as catalysts for a further broadening of the rally into more economically sensitive industries — and for once, the rest of the market was more than happy to pick up the baton.



The Russell 2000 outperformed the S&P 500 by nearly 14 percentage points in the first six months of the year

Then came the moment that stopped the entire financial world in its tracks as the most consequential, disruptive event to hit public market capitalism since the dot-com era: the initial public offering of Space Exploration Technologies Corp (SpaceX). On June 12, Elon Musk's rocket, satellite, and artificial intelligence company made its public market debut on the Nasdaq exchange, raising $75 billion in the largest IPO in history, more than double the size of Saudi Aramco's landmark 2019 listing. When the stock began trading, a cocktail of retail fervor and demand from sovereign wealth funds from the Gulf clamoring for a piece of the action, institutional giants like BlackRock targeting allocations of up to $5 billion combined with a severely restricted public float of just 4.2% pushed the stock to an intraday all-time high of $225.64—a 67% gain from its IPO price in just three trading sessions, temporarily pushing its valuation past $2.2 trillion as the offering had been more than four times oversubscribed. This turned Elon Musk into the world's first trillionaire. The deal was more than a capital markets milestone; it was a cultural moment, a signal that the era of mega-private companies staying private indefinitely was drawing to a close, and that public markets still had the appetite and the depth to absorb the very largest ambitions on earth. As we headed towards the end of the quarter, this Mega-IPO acted as a gravitational black hole, sucking liquidity away from the rest of the market.

SpaceX made its public market debut on the Nasdaq exchange, raising $75 billion in the largest IPO in history

Into this already euphoric atmosphere stepped a new sheriff at the Federal Reserve — and he arrived with a very different disposition than markets had hoped for. Kevin Warsh, sworn in as Fed Chair on May 22, wasted no time making his priorities clear. Where markets had spent much of 2025 pricing in rate cuts, Warsh arrived talking tough on inflation during his first FOMC meeting in June, engineering a dramatic, hawkish pivot. He issued a hyper-concise, 130-word policy statement that completely eliminated forward guidance, and he refused to submit his own personal rate projection to the Fed's 'dot plot'. The rest of the committee raised the median projected 2026 federal funds rate to 3.8%, effectively pricing out any guarantee of rate cuts in 2026 and bond traders listened as yields shot up with 30-year treasury yields touching the highest level since 2007. The Warsh doctrine represented a paradigm shift: equities must trade entirely on their fundamental earnings merit, without the crutch of imminent monetary easing. A hawkish Fed arriving precisely as the geopolitical relief rally was in full swing was the kind of cold shower that, in any other environment, might have derailed the party entirely. That it did not — and that equities closed the quarter at record highs regardless — speaks volumes about the underlying earnings momentum that has been the market's most durable anchor throughout this extraordinary half-year. Warsh did offer some late reassurance, noting at the ECB's annual forum in Sintra at the end of June that inflation risks had "come down" in recent weeks — a subtle but meaningful softening of tone that gave equity markets the permission they needed to close the books on a remarkable quarter.

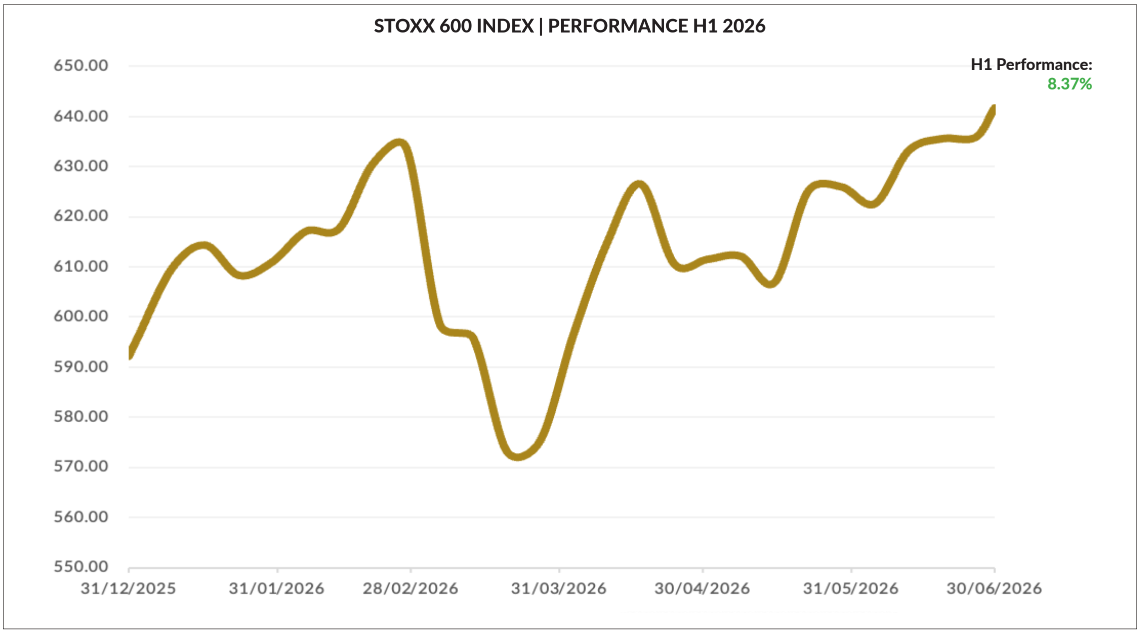
As the first half of 2026 closed the books, the S&P 500 stands on a solid footing by any historical standard, even if the headline gain masks the extraordinary divergence between AI-adjacent winners and the rest of the market. The earnings story remains the market's most durable foundation, with profit margins at their richest in at least 15 years. The geopolitical backdrop, however, remains unresolved — the Iran ceasefire is fragile, oil markets are volatile, and a new Fed Chair with a hawkish mandate who is still rearranging the furniture. The SpaceX IPO opened a new chapter for public markets, but it also raised the bar for what comes next. The second half opens with fresh uncertainty on every front. The bears, as always, will have their arguments ready. History, and the first half of 2026, suggest the prudent response is to listen carefully — and then remember who tends to make the money.

Eurozone

2026 has been quite the rollercoaster for European stock markets, demanding some serious fancy footwork from investors trying to navigate geopolitical drama, stubborn inflation, and a market that couldn't quite make up its mind. When the calendar flipped to April, few observers would have predicted that European equity markets would close the first half of 2026 at record highs, delivering their strongest quarterly performance in nearly six years. Yet that is precisely what unfolded — a story of resilience, reinvention, and a continent that refused to be defined by the headwinds thrown at it. From the war-scarred lows of early spring to the record-breaking euphoria of late June, Europe's markets wrote one of the more compelling chapters in recent financial history.

We kicked off the year feeling optimistic with European stocks having already strung together eight consecutive months of gains heading into February, buoyed by a broad-based rally that saw investors rotate across sectors with unusual confidence. But the second quarter began under a very different cloud as a conflict in the Middle East—and the resulting surge in energy prices—threw a wrench into everyone's interest rate predictions. But instead of throwing in the towel, European markets showed surprising grit clearing the February peak and setting a new all-time record. It was a moment that crystallized something important: European markets had not been fundamentally broken by the geopolitical storm. They had simply been waiting for it to pass. This resilience played out against a backdrop of a very different central bank strategy. Stubborn inflation forced the European Central Bank to bite the bullet in June, hiking its key rate to 2.25%—its first increase since 2023—even as the region's economy shrank slightly.

Despite these economic hiccups, the broader European market, measured by the STOXX 600 index, pulled off a rather impressive 10% gain by the end of June so while the Euro Stoxx 50 — the index of Europe's fifty largest companies — surged 13.6%, its largest quarterly point gain since the final months of 1999. But before we pop the champagne, it's worth taking a closer look under the hood. The headline-grabbing 15.3% jump in earnings looked spectacular, but it was essentially a mirage created by energy companies cashing in on those soaring oil prices while Technology continued its role as a great engine of the quarter's gains. European semiconductor and chip-related companies rode a global wave of enthusiasm for AI infrastructure spending, with French chipmaker STMicroelectronics nearly doubling its data center revenue forecast. Strip away these two segments, and the rest of the European market was barely crawling along with a meagre 6% earnings growth. Investors quickly caught on to this reality that domestic growth was stalling and pivoted hard toward the greener, more tech-heavy pastures of the Asian & US market.



The broader European market, measured by the STOXX 600 index, pulled off a rather impressive 10% gain by the end of June to close H1 at 8.37%

While the continent wrestled with its momentum, the United Kingdom added its own layer of complexity to the picture. Political turbulence around Prime Minister Keir Starmer's government rattled domestic investors in May, sending UK government borrowing costs — known as gilt yields — back above 5% for the first time since 2008. That kind of move in bond markets is significant: it signals that investors are demanding a higher premium to lend money to the government, which in turn raises borrowing costs across the economy. UK utility stocks bore the brunt of the anxiety followed by Britain's retailers who were simultaneously grappling with the fallout from Labour's tax increases, with the country's largest chains shedding nearly 18,000 jobs over the past year. Despite this, The FTSE 100 — London's flagship index of blue-chip companies — navigated this turbulence with characteristic steadiness, ultimately rising 3.2% over the quarter and 5.6% for the first half of the year. It was a more modest gain than its continental peers, but the UK market's composition — heavy in banks, healthcare, energy, and consumer staples — meant it acted as a genuine shock absorber when technology stocks came under pressure. Additionally, these heavy hitters in this index make nearly 80% of their money overseas, making them blissfully immune to local drama—even the shock resignation of Prime Minister Keir Starmer in late June. The market practically shrugged off the political chaos, focusing instead on booming defense contracts and fat bank margins. Meanwhile, the Bank of England opted to chill out, holding its rate steady at 3.75% as UK inflation cooled off to a 13-month low.

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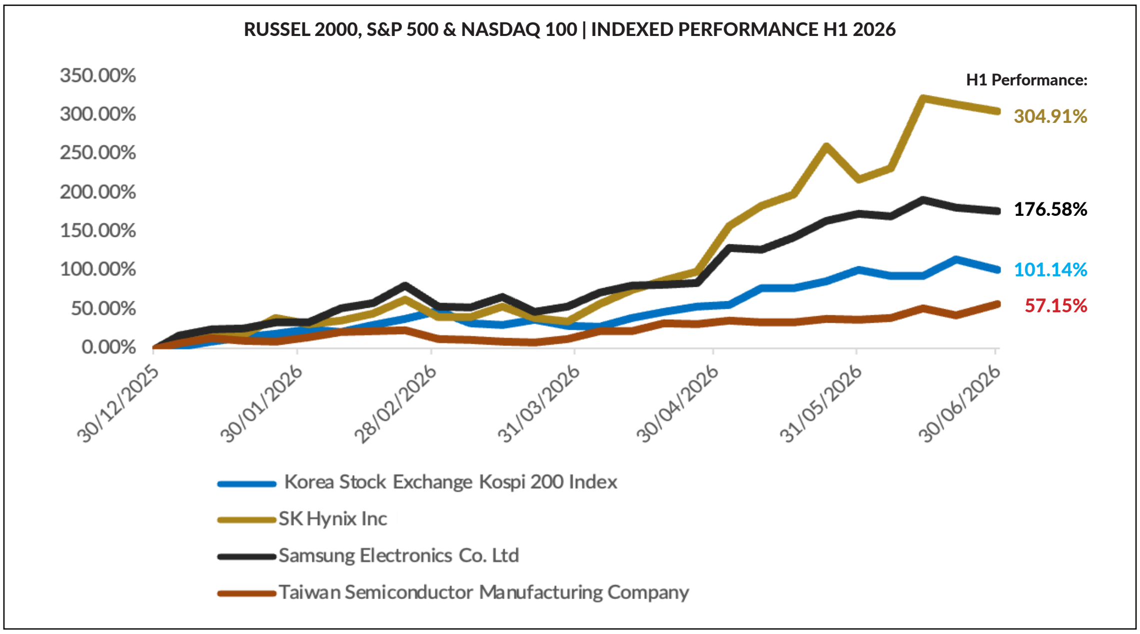
This public market winning streak in Europe was paired with an absolute frenzy of corporate matchmaking. While efforts to attract new listings worked wonders—IPO cash tripled! —UK companies were still trading at such a bargain that overseas buyers and private equity swooped in. This appetite for private buyouts echoed across the continent, proving that while European public markets might look a bit sluggish, there is plenty of action happening behind closed doors. In the end, 2026 has so far been a testament to a simple but often forgotten truth about equity markets: the darkest moments frequently precede the most powerful recoveries. Europe entered the year with questions about its resilience. It closed the half with answers.

Asia

The story of Asian equity markets in the first half of 2026 is, at its core, a story about artificial intelligence — who is riding its wave, who is being left behind, and what happens when a wave grows so large it begins to curl back on itself. Global investors entered 2026 with a decisive tilt toward Asia, drawn by compelling valuations, supportive government policies, and a rosy earnings outlook, particularly in China. Major investment houses from Goldman Sachs to Bernstein were publicly bullish on the region. But as the first quarter unfolded, the Middle East conflict injected a sharp dose of volatility into global markets, pushing risk-averse capital toward the safety of the dollar. Asia was not immune, and it tested investor conviction across the board.

Out of that turbulence emerged one of the most extraordinary stock market stories in modern financial history: South Korea. Supercharged by its two memory chip giants, Samsung Electronics and SK Hynix — both newly minted members of the trillion-dollar valuation club — the Kospi benchmark surged 100% in the year's first five months alone, eclipsing even the gains seen during the dotcom era. As the global AI buildout accelerated, the world's hyperscalers needed more memory, more chips, and more infrastructure. Korea was at the center of that supply chain, and investors poured in accordingly. By early June, South Korea had overtaken India to become the world's sixth-largest stock market, with total market capitalization soaring to $5 trillion. Taiwan told a similar, if slightly quieter, story. The Taiwan Semiconductor Manufacturing Company, which alone accounts for roughly 42% of the Taiex index, anchored a broader rally as the AI investing theme matured and broadened. Market observers noted that the Taiwanese market offered a favorable risk-reward balance relative to an increasingly stretched Korean rally, and by the end of the quarter, the Taiex was seen as well-positioned for further upside into the second half of the year. Even Malaysia's technology sector began drawing investor attention, benefiting from a weaker ringgit and the same AI rotation narrative that had lifted its larger regional peers.



India, by contrast, told a more complicated and ultimately more sobering story providing the clearest example of how drastically money was moving around the region. What began the year as the region's growth darling found itself navigating a perfect storm of external pressure and domestic anxiety. Foreign investors pulled nearly $22 billion from Indian equities in the year's first five months — a pace of outflows that drove overseas ownership of Indian stocks to a 14-year low, slipping below domestic institutional investors for the first time in over two decades, according to Goldman Sachs. The rupee fell to record lows, and ordinary Indians — long focused almost entirely on their home market — began moving money abroad in search of better returns, with overseas investments jumping 60% year-on-year. The pressure on India's external finances was so acute that Prime Minister Narendra Modi took the extraordinary step of appealing directly to citizens for voluntary austerity.

During a speech in May, he urged Indians to stop buying gold jewellery for at least a year, cut back on fuel use, and avoid unnecessary foreign travel — a remarkable ask in a country where gold is woven into the fabric of weddings, festivals, and savings. The government followed words with action, more than doubling import tariffs on gold within days of the appeal. India's gold demand is projected to fall by as much as 10% for the full year as a result, according to the World Gold Council. Fuel prices were raised for the first time in four years — four times in the span of ten days in May alone — as state refiners bled losses of an estimated 10 billion rupees a day. The episode laid bare the twin shock India was absorbing: a war-driven energy import bill it could ill afford, and a currency it was struggling to defend.

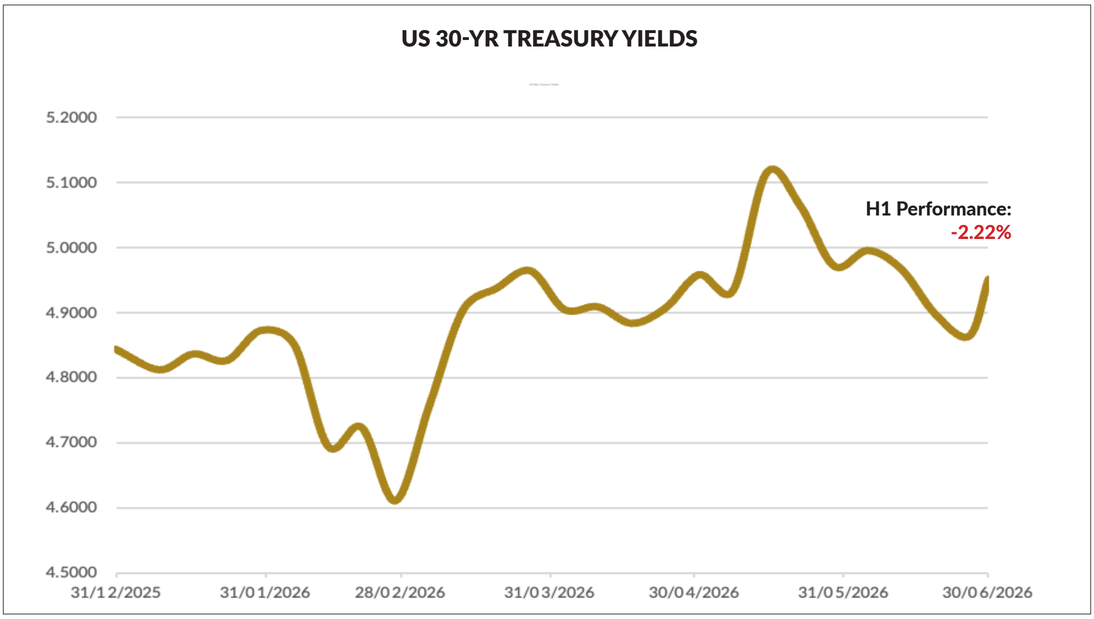
China, meanwhile, was the great divergence of the half-year. Despite the optimism that greeted 2026, the MSCI China Index tumbled approximately 15% — the worst performance globally among major markets — as Tencent and Alibaba, the index's two largest constituents, plunged more than 29%. The country's consumer and retail sectors struggled, and while Beijing's push to foster homegrown AI champions did produce a spectacular outlier - the gains were narrow and did not lift the broader market. China's factory activity showed a modest rebound in June, but economists cautioned it may have come too late to prevent a broader economic slowdown. Across the pond, Japan added its own subplot. The country's main stock market index quietly participated in the regional rally and leaped by an incredible 38% in just the second quarter, fueled by massive gains from technology and semiconductor giants. This impressive growth happened despite monetary policy divergence between Tokyo and Washington as Japan's central bank decided to raise interest rates to 1.0% in June, a move that typically cools down financial markets. As a result of these complex forces, the value of the Japanese yen dropped to a 40-year low. This weak currency acted as a double-edged sword: it helped Japanese companies sell their goods abroad much more easily, but it also made buying imported energy much more expensive for the country, pressuring Japanese households.

The final weeks of Q2 brought a sharp reminder that no rally runs in a straight line. A global tech selloff in late June — triggered in part by concerns over the sustainability of AI-driven valuations — sent Korean chipmakers tumbling more than 10% in a single session and dragged Taiwan and Japan lower, briefly rattling the entire region. Foreigners had already pulled over $10 billion from Korean markets in a single week earlier in June. Yet the resilience was equally striking: dip-buyers returned swiftly, Samsung and SK Hynix announced massive new investment plans, and the Kospi clawed back much of its losses. The speed at which billions of dollars were moving highlighted a rapidly changing world and summed up a half defined by the rewards of being on the right side of the AI trade, the pain of being on the wrong side, and the growing recognition that in a world being reshaped by technology — and rattled by geopolitics — Asia is no longer a monolithic block and sits at the very heart of the transformation, for better and for worse.

Fixed Income

When US and Israeli forces struck Iranian soil in late February 2026, the world's bond markets did not flinch — they convulsed. Within days, the calculus that had governed global fixed income since the 2024–2025 easing cycle was torn up and rewritten: oil surged, inflation expectations ratcheted higher, and the quiet consensus that the next major central bank move would be a cut evaporated almost overnight. What followed across the subsequent five months was one of the most consequential repricing episodes in sovereign debt markets since the post-pandemic inflation shock — a half-year defined not by the careful choreography of monetary policy, but by the raw, unpredictable force of geopolitics colliding with an already fragile fiscal backdrop across the world's largest economies.

Geopolitics reclaimed its seat at the head of the table, and bond markets had no choice but to listen. The conflict's most immediate transmission mechanism was oil. The closure of the Strait of Hormuz — through which a significant share of the world's crude supply flows — drove energy prices sharply higher, reigniting inflation fears that markets had largely put to rest. By mid-May, the average yield on sovereign debt maturing in a decade or more had climbed to its highest level since the global financial crisis of 2008, with US 30-year Treasury yields flirting with levels last seen in 2007. The bond selloff was broad, deep, and at times disorderly, as investors grappled with the uncomfortable reality that the next move from major central banks might not be a cut — but a hike.



Nowhere was this pivot more dramatic than in the United States. Entering the year, markets had been pricing in further Federal Reserve rate cuts as the legacy of 2025's easing cycle. By the time the Fed held its first meeting under new Chairman Kevin Warsh in June, the dot plot had shifted materially — the median 2026 rate forecast moved up to 3.75%, and traders fully priced in a rate hike by October. A resilient labor market, with May nonfarm payrolls surprising to the upside at 172,000, gave the hawks their ammunition. The 10-year Treasury yield oscillated in a wide range through the quarter, touching 4.58% at its peak in May before partially retracing as a fragile US-Iran ceasefire — subsequently declared "over" by President Trump in early July — briefly eased energy price pressures. JPMorgan, for its part, argued at quarter-end that the 10-year remained underpriced relative to the tightening risk ahead.

The European Central Bank made its most consequential move in nearly three years, raising its deposit rate by 25 basis points to 2.25% in June — its first hike since 2023 — concluding it could no longer wait out the inflationary consequences of the conflict. The decision was widely anticipated, though not without controversy; some economists warned the ECB risked repeating its 2011 mistake of tightening into a weakening economy.

By quarter-end, however, the calculus had already begun to shift: falling oil prices in the wake of the ceasefire prompted traders to pare back bets on a follow-up hike, and major banks including UBS and Deutsche recommended positioning for fewer ECB increases ahead. The ECB itself is acutely aware of the 2011 mistake of hiking twice before reversing course, and is signalling it will tread carefully — a lesson in institutional humility that bond investors would do well to heed. German Bund yields, which had surged alongside Treasuries through the heart of the selloff, began to retrace as the inflation impulse showed signs of fading.

UK gilts endured some of the most acute stress of any major sovereign market during the half. The 30-year gilt yield surged to its highest level since 1998, breaching 5.76% in May, buffeted by both the global energy shock and domestic political turbulence as calls for Prime Minister Keir Starmer to resign following local election losses rattled investor confidence in fiscal discipline. The Bank of England held rates at 3.75% throughout the quarter in a series of 7-2 votes, with Governor Andrew Bailey striking a notably dovish tone by quarter-end — acknowledging that the energy shock had frustrated what would otherwise have been a path toward two rate cuts this year. The internal debate, however, remained live, with Chief Economist Huw Pill and MPC member Megan Greene dissenting in favor of a hike at the June meeting.

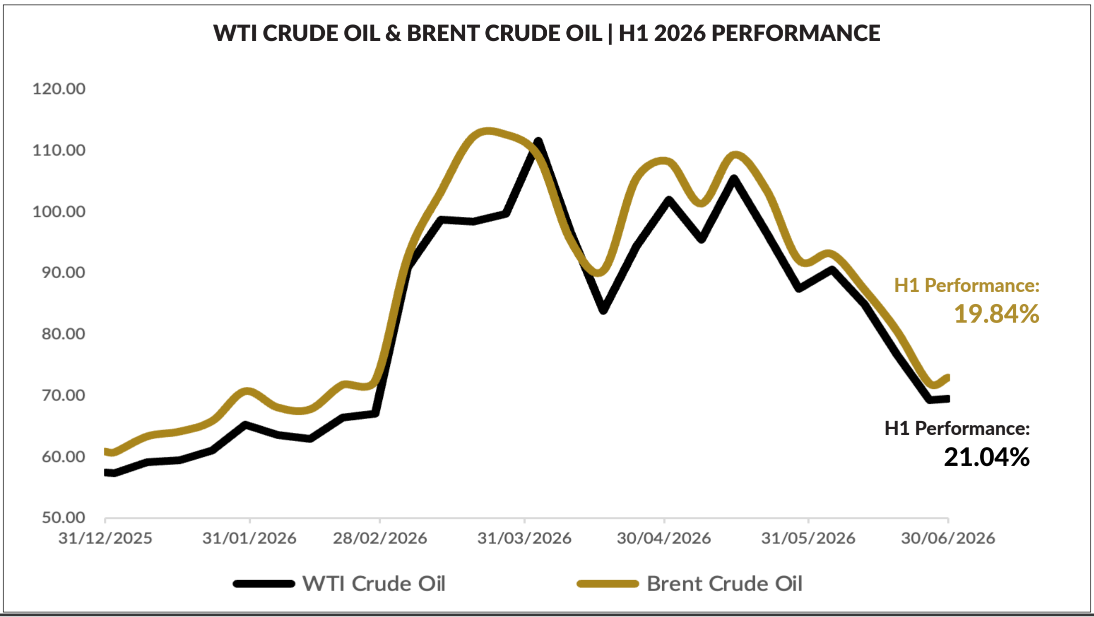
Japan's government bond market told a story of its own — one of structural transformation rather than cyclical reaction. The Bank of Japan continued its gradual balance sheet reduction, cutting planned monthly JGB purchases from ¥2.9 trillion in Q1 to ¥2.705 trillion in Q2, with a further reduction to ¥2.5 trillion announced for Q3. The long end of the JGB curve bore the brunt of the adjustment: 30-year yields surged as high as 3.95% as Prime Minister Sanae Takaichi's ¥370 trillion investment plan raised fresh concerns about Japan's fiscal trajectory, while foreign selling and weak private sector participation created a structural demand void that the BOJ's measured tapering pace struggled to fill. The BOJ did raise its policy rate to the highest level since 1995 during the quarter, signalling further increases ahead as underlying inflation approached its 2% target — a remarkable milestone for a central bank that spent decades fighting deflation. The yield curve steepened materially, with the 2-to-10-year spread widening in stark contrast to the flattening observed across the US Treasury curve.

Commodities

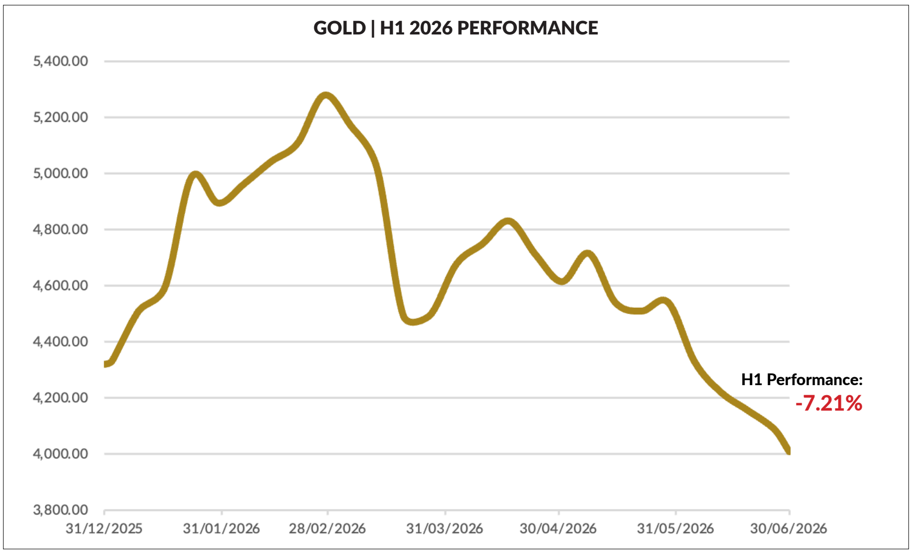
Commodities don't lie. And in the first half of 2026, they told a story of a world under profound stress — one where the fragility of global supply chains, the hunger for safe-haven assets, and the irreversible demands of a new industrial age collided with extraordinary force. The Bloomberg Commodity Index (BCOM), which tracks the broad performance of these essential raw materials, captured this environment in full: opening the year at 109.69, surging dramatically to a peak of 134.56 by early April as global pressures intensified, before settling back to close the half at 123.18 — a solid year-to-date gain of approximately 12.5%. For business leaders and strategic planners across all sectors, the commodity markets became the ultimate gauge of the world's stress points, reflecting a highly delicate balance between physical supply constraints and unpredictable geopolitical events. This dramatic arc highlighted an overarching theme that would define the entire period: an economy caught between strict physical limits on what the world can produce and a consumer landscape still battling stubborn inflation and prolonged high interest rates.

To properly understand the driving forces behind these shifts, one must first look at the energy sector, which was the undisputed center of the half-year's economic shockwaves. The conflict involving Iran sent immediate and violent shockwaves through the Persian Gulf, threatening the free flow of energy through the Strait of Hormuz — the world's most critical chokepoint for oil and liquefied natural gas. Tanker traffic through the strait largely halted, with insurers withdrawing war-risk coverage for vessels entering the Persian Gulf. The disruption threatened approximately a fifth of the world's oil and large volumes of LNG, injecting a massive wave of anxiety into global markets. Brent crude, which had opened the year near $60.75 per barrel, surged relentlessly through March closing Q1 at $118.35 per barrel, a near-doubling in just three months. Prices remained elevated well into April and May, with Brent touching a secondary intra-quarter high of $118.03 on April 29, raising widespread concerns about the rising costs of global shipping, logistics, and aviation. Natural gas told a parallel story of its own: the sudden restriction of LNG flows through the strait forced a rapid and expensive scramble to redirect supply across Asia and Europe, and even as crude began its retreat in the back half of Q2, natural gas proved more resilient — rising approximately 16% over the quarter as elevated power demand and persistent supply tightness kept a firm floor beneath prices.

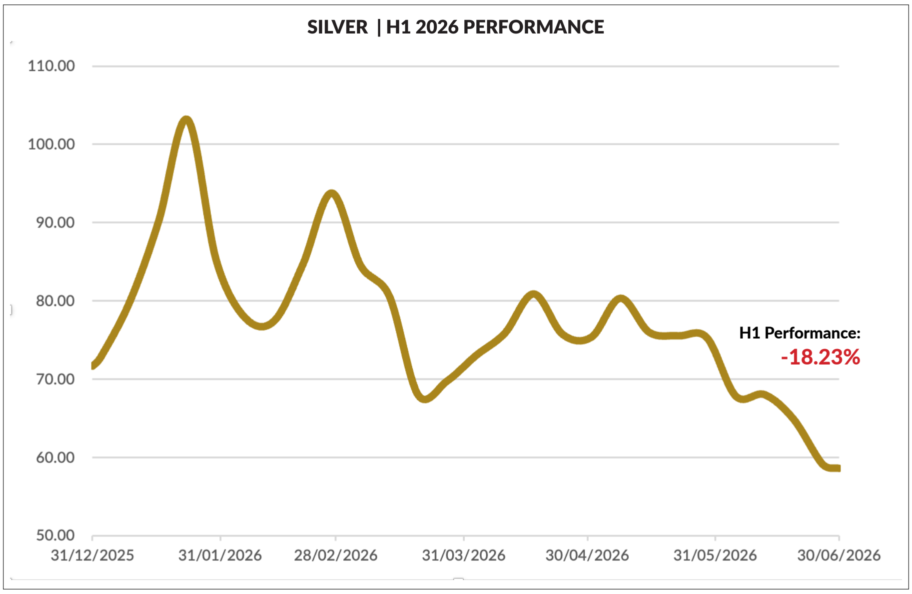
However, as the quarter drew to a close, a fragile but consequential diplomatic breakthrough began to take shape. In mid-June, the US and Iran announced a deal to reopen the Strait of Hormuz, with President Trump declaring the agreement complete and authorizing the toll-free opening of the waterway. The agreement, though tenuous, allowed oil and LNG carriers to begin transiting the strait once more, and Brent crude retreated sharply from its highs — falling to close June 30 at $72.92 per barrel, a decline of approximately 38% from its Q1 peak. The energy complex's dramatic reversal was the single largest driver of the BCOM's pullback from its May highs, underscoring just how efficiently price signals can reallocate supply once the acute fear premium begins to fade.



While energy drove the most extreme short-term volatility, the precious metals sector revealed a deeper and, in many ways, more structurally significant transformation in the underlying global economy. Gold continued its historic rise through the first two months of the year, driven by record-breaking purchases from central banks — including China's PBOC, which extended its gold-buying streak to 20 consecutive months by June, and Poland's central bank, which accumulated 82 tons in the first half of the year alone. The yellow metal reached an extraordinary intraday high of $5,595 per ounce in January before cooling sharply as the half progressed, ultimately closing June 30 at $4,008 per ounce — a decline of approximately 28% from its peak, and a full-half decline of 7.5%. The retreat reflected a painful collision between gold's structural bull case and the reality of a Federal Reserve shifting towards hawkish territory — a stronger US dollar and the fading of the acute geopolitical fear premium combining to produce a relentless grind lower through Q2.



Yet it was silver that truly stepped into the spotlight during this period, proving that it is no longer simply a secondary financial asset or a purely monetary metal. Driven by a remarkable confluence of safe-haven demand and explosive industrial appetite — from AI data center infrastructure to solar panel production and the rapidly expanding electric vehicle market — silver surged to an all-time intraday high of $121.65 per ounce in January, before suffering one of its most dramatic reversals in modern market history. By June 30, silver had closed at $58.60 per ounce — a decline of approximately 52% from its peak, and a full-half decline of 18.2%. The severity of the reversal reflected not a collapse in the underlying industrial demand story, which analysts broadly affirmed remained intact, but rather the unwinding of a speculative frenzy that had briefly disconnected prices from fundamentals. The structural case — silver as an indispensable building block of the future economy — remains very much alive beneath the surface.



Looking beyond energy and precious metals, the broader commodity complex offered important signals about the health of the real economy. Copper, the essential wiring for the global transition and the bellwether of industrial activity, was a standout performer. The red metal hit an all-time high of $14,261 per metric ton in January, driven by supply disruptions at major mines in Indonesia and the Democratic Republic of Congo, combined with booming AI-related infrastructure demand. Copper closed the first half at $13,365 per metric ton — a gain of approximately 6.9% for the H1 period — reflecting a market that understood the structural supply-demand imbalance ahead, with S&P Global warning that the copper deficit could reach 10 million metric tons by 2040 if mining investment fails to keep pace. In the agricultural space, markets were largely overshadowed by the energy and metals drama, though Hormuz-related disruptions to fertilizer flows and renewed trade tariff concerns introduced pockets of volatility in freight-sensitive soft commodities.

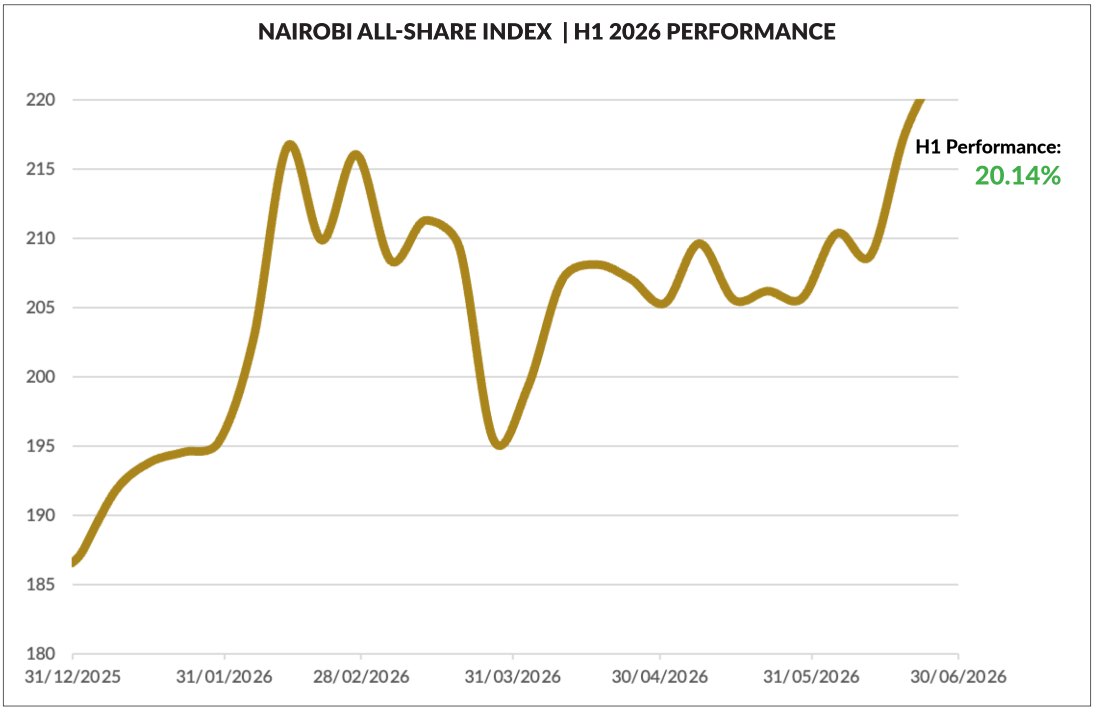
Nairobi Securities Exchange

NSE Performance Q2 2026

NASI	▲	+15.1% q/q
N10	▲	+18.7% q/q
NSE 20	▲	+9.4% q/q
NSE 25	▲	+14.6% q/q

The market closed the month of June on a bullish note with the broad market returning +9.0% m/m. The N10, NSE 20 and NSE 25 advanced by 11.8% m/m, 6.9% m/m, and 9.7% m/m, respectively. This strong June performance anchored a robust Q2 2026, pushing quarterly returns to +15.1%, a resilient outcome despite the fuel shock and its subsequent ripple effects during the period. Likewise, the N10, NSE 20, and NSE 25 inched upwards by 18.7% q/q, 9.4% q/q, and 14.6% q/q, respectively.

From a market turnover perspective, Safaricom was the quarter's most heavily traded counter, accounting for 82.3% of total market activity. This dominant volume was bolstered by a block trade on 30th June 2026 involving Vodacom's 15% acquisition of GoK (Government of Kenya) shares. Excluding this block trade, Safaricom accounted for 21.2% of quarterly activity, ranking as the second most traded counter behind Equity Group, which had a 29.8% share to the turnover. After snapping a 10-month streak of outsized net outflows, foreign investors remained bullish in June, for the second consecutive month as signalled by their net flow activity of USD 4.0Mn.



One of our four key themes for the Kenyan Equities Market in 2026 was the prevailing risk around global tensions. We opined that the mounting global tensions and polarization, marked by ongoing major power rivalries, military escalations, and proxy conflicts across multiple regions, remain a concern. In our view, further escalation may adversely affect foreign flows as investors (with exposure to major asset classes) shift portfolio flows to safe-haven global equities, precious metals, and commodities – which may result in frontier market equities seeing heightened outflow pressures, that may in turn affect price discovery. We continue to believe that remaining agile in uncertainty while focusing on fundamentals will heavily shape 2026 performance.

Looking Ahead

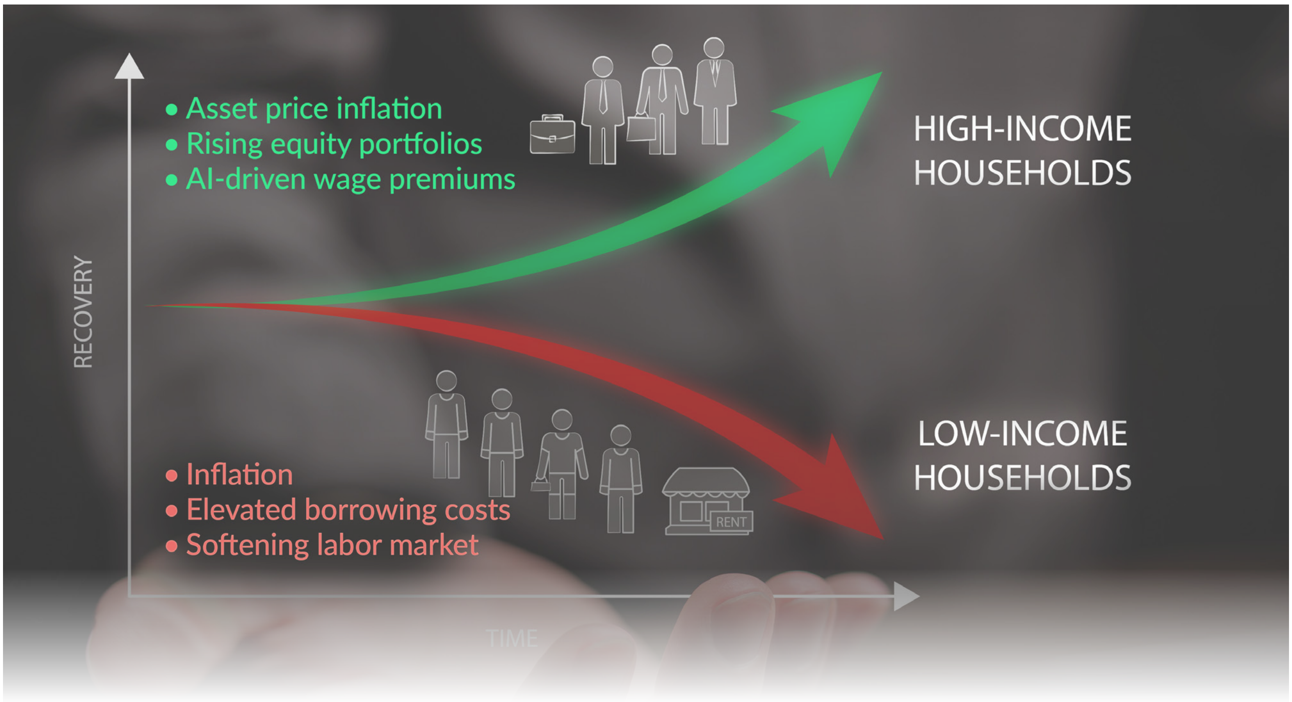
As the calendar flips to the back half of 2026, investors find themselves standing at one of those rare crossroads where the optimists and the pessimists are both, in their own way, completely right, leaving the markets in a high-stakes tug-of-war. The first half was nothing short of a thriller — war in the Middle East, oil prices that doubled before collapsing, and interest rate expectations that swung like a pendulum in a hurricane. Yet despite all this, our diversified portfolio approach had one of its strongest first-half returns, shrugging off one shock after another. If the first half was about survival, the second half is about something altogether more nuanced: figuring out whether the rally has genuine legs, or whether markets have simply been running on adrenaline. "The stock market is a device for transferring money from the impatient to the patient." The second half of 2026 will test that patience in ways both familiar and entirely new.

Wall Street, as ever, sits at the center of the story. The S&P 500 surged since the end of March, powered in no small part by the artificial intelligence buildout—arguably the apotheosis of the digital age—which is proving to be a genuine catalyst for expanding corporate margins and driving real-world productivity. The upcoming second-quarter earnings season, would be the single most important data point of the summer. The 12-month forward earnings per share growth forecast for the US benchmark now sits at approximately 21% — well above the 6% level recorded at this time last year and above the sub-16% projections at the start of the year — figures that speak to remarkable corporate resilience in the face of tariff uncertainty and Middle East turbulence. The bull case, in short, is compelling: corporate balance sheets are healthy and more importantly - the massive scale of the physical buildout required to support the AI technological leap is real. The biggest tech titans in America are slated to spend roughly $800 billion this year solely on capital expenditures, a figure that Morgan Stanley projects will skyrocket to a vertiginous $1.16 trillion by 2027. We are talking about private corporate investments approaching 1.5% of the entire US gross domestic product. This is a modern-day industrial revolution. Unlike the dot-com bubble of the late 1990s, where billions of dollars were spent on highly speculative ventures, this boom is backed by highly resilient profit growth. With the broader US economy tracking a solid 3% annualized growth rate heavily supported by this private-sector spending spree.

But anyone navigating these markets knows that staring exclusively at the stars is the easiest way to miss critical risks. Earlier in the year, pessimists pointed to extremely narrow market breadth, noting that at one point a mere 17% of the individual stocks in the S&P 500 were actually outperforming the index itself. However, this terrible breadth argument was definitively negated by the end of the second quarter. By the close of the first half, over 45% of S&P 500 stocks were outperforming the index. Furthermore, the S&P 500 Equal Weight Index reached new all-time highs, jumping 12.1% and actually outpacing the capitalization-weighted benchmark. This broad participation provides the advance with a much firmer base, proving the rally is no longer hostage to the tiny handful of mega-cap tech names - the magnificent seven - has gone essentially nowhere in 2026 as a group, even as the AI boom they are bankrolling has continued to propel other technology and industrial names around them.

Investors enter H2 2026 balancing compelling growth opportunities against persistent global uncertainties.

Beneath the surface of these market dynamics lies a more uncomfortable truth — one that no amount of index-level optimism can fully paper over. The US economy is increasingly K-shaped, meaning that while the top of the income distribution (the upward arm of the "K") is thriving, buoyed by asset price inflation, rising equity portfolios and AI-driven wage premiums, the bottom half is quietly buckling under the weight of persistent inflation, elevated borrowing costs and a labor market that is softening in precisely the sectors that employ the most people. Consumer credit delinquencies are rising, savings rates have compressed, and discretionary spending among middle and lower-income cohorts is showing cracks that the headline retail sales numbers tend to obscure. For equity investors, this bifurcation is not merely a social concern — it is a portfolio signal. Companies exposed to the aspirational consumer, the premium spender, and the enterprise technology buyer are likely to outperform those reliant on the stretched middle and lower-income consumer, whose purchasing power is being quietly eroded from multiple directions at once. With the market remaining priced for unyielding perfection, any sudden turmoil could trigger a cascading correction.



The US economy is increasingly K-shaped. While the top of the income distribution is thriving, the bottom half is quietly buckling under economic pressures

That same K-shaped dynamic has, perhaps counterintuitively, been one of the most powerful tailwinds for private credit — the $2 trillion asset class that has quietly become one of the defining financial stories of the decade. But to call it simply a lending story is to miss what it has really become: in large part, a technology story. A significant share of private credit deployment over the past three years has flowed directly into middle-market and smaller technology firms — companies too small or too early-stage for the public bond markets, yet too capital-hungry to wait for a public equity window that has remained stubbornly narrow. These borrowers have absorbed floating-rate debt at yields that looked manageable when venture optimism was running hot, but which now sit uncomfortably against a backdrop of slowing revenue growth, compressed valuations and a higher-for-longer rate environment that shows little sign of relenting. The cracks are beginning to show. A number of high-profile private credit funds have moved to limit investor withdrawals and redemptions in recent months — a development that, in the polite language of fund management, is described as "protecting long-term investors," but which in plain English signals that the underlying assets are not liquid enough to meet the exit demand that is building. When the gates go up, it is rarely a sign that everything is fine. For now, this represents a normalizing credit cycle rather than a systemic crisis but the stress could be a leading indicator for broader credit deterioration. When the gates go up, it is rarely a sign that everything is fine and the longer they stay up, investors needing liquidity are forced to sell assets in more liquid markets to raise cash which would create indiscriminate selling pressure in equity and commodity markets that is disconnected from underlying fundamentals.

The Federal Reserve adds its own layer of suspense. Fed minutes from June revealed that officials broadly agreed they would need to raise interest rates if inflation stays elevated, but could hold steady if price pressures fade — and more officials are now pointing to the AI build-out itself as a source of persistent inflation pressure. Economists continue to suggest that the repercussions of the Iran conflict have shifted the path for global interest rates higher for years to come, though falling oil prices — following a partial reopening of the Strait of Hormuz — have helped keep inflation expectations in check, and June employment data challenged the most aggressive rate-hike scenarios. For equity investors, the playbook continues to be one of precision rather than a broad brush: quality companies with genuine AI monetization — not just AI adjacency — are where the durable returns are most likely to be found.

Beyond American shores, the global equity picture is more nuanced but arguably more interesting than it has been in years. European stocks had a strong run and the earnings momentum is now accelerating in a way that has caught many investors off guard. A Citigroup index shows that European analyst upgrades of profit estimates have exceeded downgrades for ten consecutive weeks, the longest such streak since mid-2024. Morgan Stanley has raised its European earnings growth forecast to 12.5% for 2026 arguing that European earnings are “misunderstood and underappreciated,” with the region benefiting from inflation exposure through its heavy weighting in real assets and banks. Deutsche Bank has also raised its year-end Stoxx 600 targets, citing dropping energy prices, an improving rates outlook and robust macro data. The risks, however, are real: Middle East tensions continue to weigh on sentiment, and companies with heavy China exposure remain under structural pressure.

Commodities & Fixed Income rarely make the front page until they absolutely have to but for now, they continue to act as vital shock absorbers while quietly writing their own compelling chapter for the second half. In the fixed-income world, the agonizing wait for deep central bank rate cuts is officially over; “higher for longer” is the global reality and with the Federal Reserve stubbornly on an extended pause, the era of making quick capital gains on bonds has passed for now. Oil is the commodity that everyone is watching but nobody can predict with confidence. Brent crude has been whipsawed by the Middle East conflict, briefly spiking above $80 per barrel before retreating as ceasefire hopes emerged, only to flare again as the Strait of Hormuz situation remained fluid. Meanwhile, the most fascinating theater is gold, which is currently trapped in a paradox. Gold suffered a technical breakdown in the first half of the year, plunging below the vital $4,000 psychological floor as investors realized high interest rates were sticking around. However, underneath this recent technical weakness lies a bedrock of immense fundamental support driven by soaring western government deficits and relentless buying by central banks attempting to de-dollarize their national reserves. Precious metals traders responded to a shifting macro-outlook at the beginning of this half — the prospect of a Fed rate cut later in the year, however slim, is providing a quiet tailwind for bullion & Silver.

The second half of 2026, then, is not a market for the passive or the reckless. It should reward us if we can hold two ideas simultaneously — that the structural case for equities remains intact, while also acknowledging that the margin for error has narrowed considerably as valuations have expanded and expectations have risen. As the old market adage goes, “It’s not the things you know that hurt you; it’s the things you know for certain that just ain’t so.” The IMF, for its part, has kept its global growth forecast largely unchanged, noting that the AI boom is helping offset the fallout from the Middle East conflict — a quietly encouraging verdict from the world’s most cautious forecaster. The path through H2 is not a straight line — it never is — but by boldly anchoring our path in being disciplined, diversified, and just a little bit humble about what we think we know, the second half of 2026 has more opportunity in it than the headlines might suggest.

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SIB Standard Investment Bank

Headquarters

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

Regional Office

1st Floor, Nyali Centre,
along Links Road,
Mombasa, Kenya.

Telephone:

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

Email:

clientservices@sib.co.ke