SIB Standard Investment Bank

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GLOBAL MARKETS COMMENTARY

Q3 2026 MANSA^{X} MARKETS REVIEW

Q4 2026 OUTLOOK

Contents

The Sequel is Always Harder 2

Eurozone..... 5

Asia..... 7

Fixed Income..... 10

Commodities..... 13

Nairobi Securities Exchange..... 16

Looking Ahead..... 17

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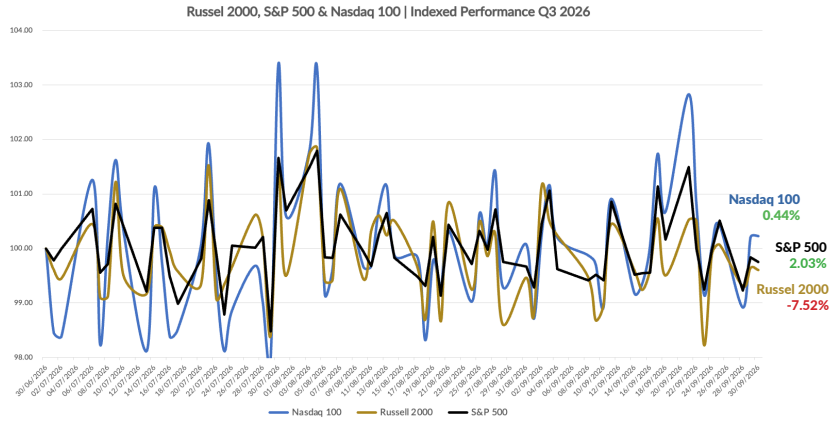
The Sequel Is Always Harder.

After the pyrotechnics of the first half — a war, a record IPO, a new Fed chair, and a semiconductor rally for the ages — the third quarter of 2026 had an almost impossible act to follow. And in many ways, it did not. What followed was a masterclass in market duality, a period demanding that the astute observer meticulously separate the signal of corporate resilience from the deafening noise of macroeconomic realignment. A casual glance at the headline indices might suggest a relatively serene summer on Wall Street. The S&P 500 eked out a price gain of just 2.03% for the quarter, the Nasdaq 100 - that AI- fueled locomotive of the first half - added a barely perceptible 0.44%, and the Russell 2000 — that small-cap darling that had so memorably outperformed in the first half — took a brutal 7.52% haircut. Beneath that calm surface, however, the engine room of the global economy was a cacophony of rotating leadership, soaring bond yields, and severe geopolitical friction.



The S&P 500 eked out a price gain of just 2.03% for the quarter, the Nasdaq 100 - added a barely perceptible 0.44%, and the Russell 2000took a brutal 7.52% haircut.

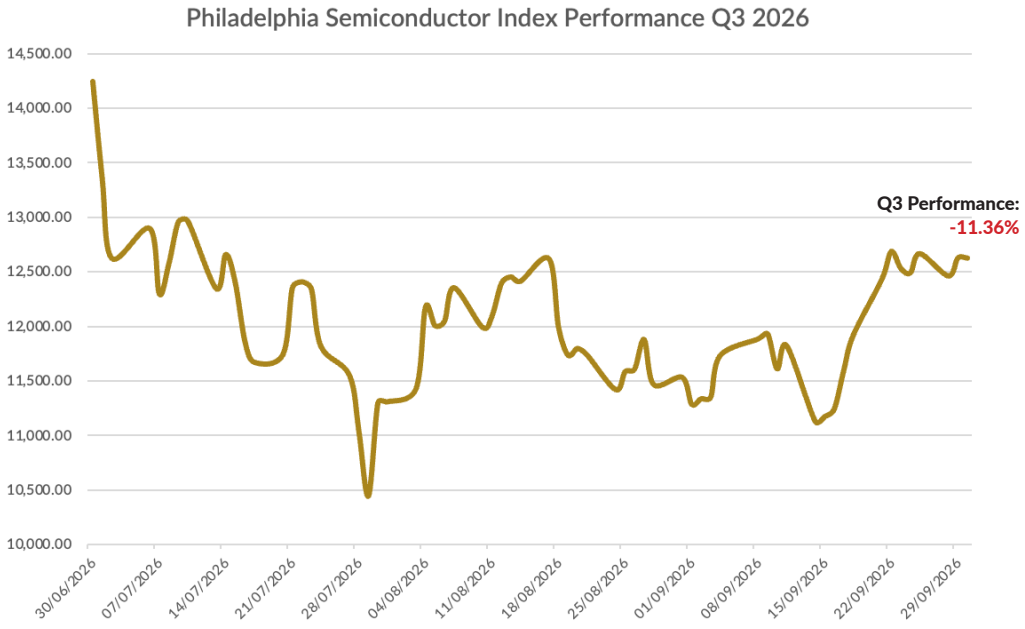
The tale of three distinct markets operating under the same macroeconomic roof was perhaps best illustrated by the equal-weighted S&P 500, which fell 2.29% over the quarter even as its cap-weighted sibling posted a modest gain. By late September, Goldman Sachs confirmed that market breadth had reached its lowest level since the dot-com bubble, with the median S&P 500 stock trading 16% below its 52-week high while the index itself sat within 1% of a record. The 10 largest firms in the index were responsible for over 40% of its market capitalisation. The market's rising tide was lifting only the mega-yachts — the dinghies were left stranded on the mudflats of a tightening credit cycle.

The true architect of this fractured equity landscape was not found in the coding sprints of Silicon Valley, but in the unforgiving arithmetic of the bond market. The US 10-year Treasury yield crossed the psychological threshold of 5% on September 14 for the first time since 2007, eventually closing the quarter at 5.29% — its steepest quarterly rise since the first quarter of 1994. The 30-year yield touched its highest level since 2004 before settling at 5.64% by quarter-end. This was not a gentle repricing; it was a violent recalibration of the fundamental discount rate underpinning all long-duration asset valuation. Small-cap companies, heavily reliant on floating-rate debt, were the immediate casualties — perfectly explaining the Russell 2000's grim trajectory. The SPDR S&P Bank ETF fell 7.33% for the quarter as the harsh reality of tightening credit conditions sank into the collective consciousness of the market. Beyond publicly traded debt, the shadowy corridors of private credit experienced their own silent reckoning, with the trailing 12-month private credit default rate tracked

by Fitch hitting a record 6.3% at the end of August — surpassing the prior record set just a month earlier.

The geopolitical backdrop provided no relief. The Iran ceasefire that markets had celebrated so jubilantly in June proved to be less a peace deal and more a pause for breath. By mid-July, the Strait of Hormuz had been declared closed once more, the US reimposed its naval blockade, and tit-for-tat tanker attacks resumed with alarming regularity all through to September. Oil prices climbed back above $100 a barrel, reigniting the inflation fears that had stalked markets all year and delivering what amounted to an unlegislated, highly regressive tax on the global consumer. Energy was the quarter's undisputed sector champion, surging 16.48% as supply disruptions underwrote a spectacular rally for oil producers. The consumer bore the cost — sentiment cratered under the weight of persistently high energy prices, with households pivoting decisively toward essentials over discretionary spending. Unfortunately, traditional yield-proxy sectors — Real Estate and Utilities — were flattened by surging bond yields, proving to be among the worst places to hide during the quarter's fixed-income turbulence.

Then came the great AI reckoning. Throughout the first half, merely invoking artificial intelligence in an earnings call had been the corporate equivalent of casting a magic spell. By the third quarter, the market underwent a slightly cynical maturation. Chip stocks — previously celebrated as the invincible picks-and-shovels of the technology gold rush — posted their worst monthly performance since the global financial crisis of 2008 in July, dragging the Philadelphia Semiconductor Index to a quarterly loss of 11.36%. Institutional capital suddenly demanded something more tangible than future potential: actual revenue and a sustainable funding model. BofA revised its forecast for investment-grade debt sales by hyperscalers to $330 billion for 2026, while JPMorgan saw total tech bond issuance exceeding $500 billion for the year — a staggering debt binge proving that even the largest balance sheets on earth required significant leverage to fund the AI arms race. Nvidia's forward valuation, once seemingly immune to gravity, began to lag its large-cap tech peers as investors demanded a clearer map of returns on colossal capital deployment.



Chip stocks posted their worst monthly performance since the global financial crisis of 2008 in July, dragging the Philadelphia Semiconductor Index to a quarterly loss of 11.36%.

Conversely, software stocks — previously dismissed as the inevitable victims of AI disruption — staged a heroic counter-narrative comeback. The iShares Expanded Tech-Software ETF rallied 17.53% for the quarter, on the back of resilient earnings and the belated realisation that the widely forecast apocalypse for software-as-a-service models had been greatly exaggerated. The narrative shifted decisively: from unconditionally buying the builders of the infrastructure, to selectively buying the companies that could actually integrate the technology to widen their profit margins.

The Federal Reserve chose this particular moment of market fragility to make history. At its September 16 meeting, the Fed raised interest rates by 25 basis points — its first hike in more than three years — with Chair Kevin Warsh delivering the decision in what became the shortest post-meeting press conference on record for a sitting Fed chair. Warsh had spent the entire quarter making his intentions unmistakably clear, including in his keynote address at the Kansas City Fed's annual Jackson Hole symposium. After the hike, traders priced in

further tightening, and New York Fed President John Williams flagged that one additional increase before year-end may be appropriate.

And yet — and this is the part that would have seemed implausible in the depths of July's gloom — Corporate America remained almost defiantly resilient. A record number of S&P 500 companies issued third-quarter profit forecasts that exceeded Wall Street's expectations heading into earnings season, the most optimistic pre-season guidance on record. AI investment had accounted for nearly half of S&P 500 earnings growth in 2026, according to Goldman Sachs — the megacaps that dominated the index were, for now, still making the numbers work.

The third quarter of 2026 did not break the bull market. It stress-tested it — methodically, mercilessly, and without apology. The intense concentration of capital gains in a handful of titan equities masked a broad-based stealth correction happening just beneath the surface, tricking the casual observer into a false sense of security. With the 10-year Treasury yield establishing a decidedly higher plateau, and the capital-intensive reality of the AI buildout finally coming into sharp, expensive focus, the era of easy money was definitively archived. The quarter concluded not with a dramatic collapse, but with a sobering realisation: the equity market was no longer running on blind momentum and endless liquidity, but on the cold mathematics of yield, actual earnings generation, and the undeniable cost of capital. The bulls still made money — just considerably less of it, and with considerably more grey hair.



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Eurozone

The old continent's equity markets entered July riding a wave of post-peace-deal euphoria, only to discover that the forces they had briefly escaped had not gone away. They had merely regrouped. What followed was three months that separated the resilient from the vulnerable, and reminded investors that the most dangerous moment is often the one right after you believe the worst is behind you.

July began with a deceptive calm. The Stoxx Europe 600 hovered near its record highs, and the AI-driven momentum that had powered so much of the second quarter's gains was quietly losing steam. Investors grew more cautious about the valuations assigned to technology and semiconductor companies, and the rotation that had lifted those stocks began to reverse. The index found a second wind through the heart of summer, climbing to a quarterly peak of 660.51 on August 11 as a solid earnings season provided a welcome counterweight to gathering macro headwinds. But the defining shock arrived in September, when Brent crude broke decisively through $100 a barrel — peaking at $108.75 on September 15 as Middle East hostilities escalated once more. The inflation dragon, which many had assumed was slain, breathed fresh fire across the continent. Euro-area consumer prices were heading toward 3.7% by September's end, their highest level in nearly three years.

Forced into a corner, the European Central Bank played the role of enforcer, hiking its deposit rate by a quarter-point to 2.50% on September 10 — its second increase since the Iran war began. The Bundesbank's Joachim Nagel warned that rates might need to rise into "mildly restrictive territory" if energy prices remained elevated. Money markets went further still, pricing in four additional ECB hikes over the following twelve months. Across the Channel, the Bank of England opted for a more deliberate pause, holding rates at 3.75% for the entire quarter — though the 6-3 vote split at both its July and September meetings made clear that the hawks were circling. Governor Bailey warned publicly that it was getting "harder to maintain that stance" the longer energy prices stayed elevated.



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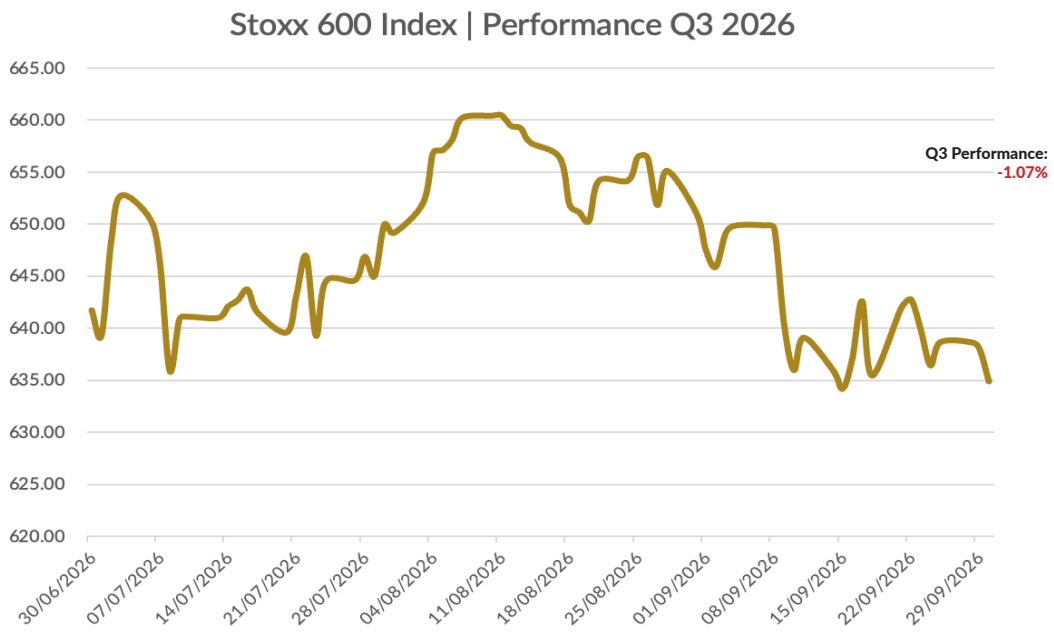
The continent's glittering luxury sector delivered one of the quarter's most sobering reality checks as luxury sales in Asia continued to drop. When global consumers tighten their belts, the five-thousand-euro handbag is rarely the last thing to go — it is frequently the first. While high fashion stumbled, high finance strutted. Throughout the quarter there were signals that Europe's banks, flush with capital and sustained by healthy interest margins, were actively rewriting the continent's financial landscape before rates eventually cycle back down.

When the final numbers were tallied, the Stoxx 600 ended the quarter down 1.07%. However, France offered the quarter's starkest sovereign warning — as political gridlock and a budget deficit running at 5.4% of GDP rattled bond markets. Scope Ratings downgraded France to A+ in September. The CAC 40 bore the full weight of that anxiety, falling 5.23% — the worst performance of any major European index. The United Kingdom, by contrast, emerged as the quarter's quiet safe haven. The FTSE 100 rose 1.04%, its seventh consecutive quarterly gain, buffered by its deep reserves of energy, mining, and financial stocks. More tellingly, the FTSE 250 — home to Britain's mid-sized companies — surged 6.63%, as investors rotated away from the mega-cap volatility that had defined the first half of the year. Europe had therefore not broken. But it had been reminded,

with considerable force, that the road from record highs to sustained prosperity is rarely a straight line — and that energy, inflation, and the spectre of French sovereign risk would define the continent's story well into the final quarter of the year.



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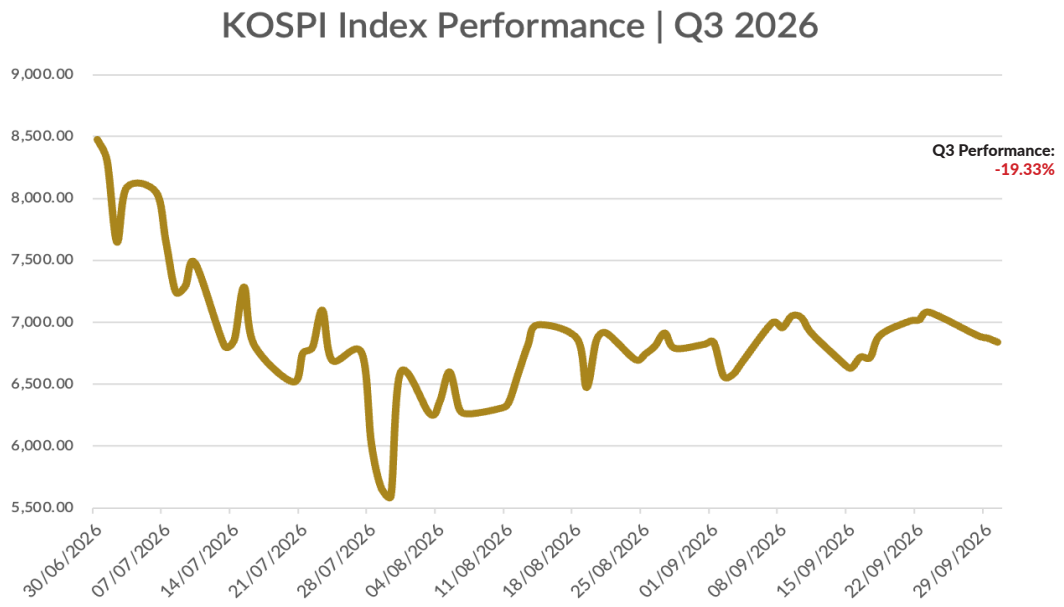
Asia

If the first half of 2026 was Asia's coming-out party for the AI trade, the third quarter was its brutal reckoning — a season in which the same forces that had minted fortunes in the first six months turned around and demanded them back, before ultimately, and grudgingly, offering a partial reprieve.

South Korea set the tone on the very first trading day of July. The Kospi plunged 7.9% on July 2, as investors who had ridden a 100% rally into the quarter suddenly questioned whether AI-fueled valuations could hold. The earnings season that followed crystallised the quarter's central paradox. Samsung reported a 19-fold surge in Q2 operating profit to 89.5 trillion won — a record by any historical measure — yet its shares fell more than 10% and briefly triggered a circuit-breaker, as the result still fell short of sky-high expectations. SK Hynix's July 29 results told the same story: record earnings, a $31 billion capital expenditure commitment, and shares that fell as much as ~19% intraday before closing down 9.6%. By quarter-end, the Kospi had shed 19.33% — the worst performance among major Asian markets. Yet Samsung and SK Hynix, bruised but unbowed, ended the quarter announcing record shareholder return programs — Samsung committing to between 90 and 110 trillion won in returns, SK Hynix following with a 40 trillion won buyback — signalling that the AI era was not over. It had simply grown up.



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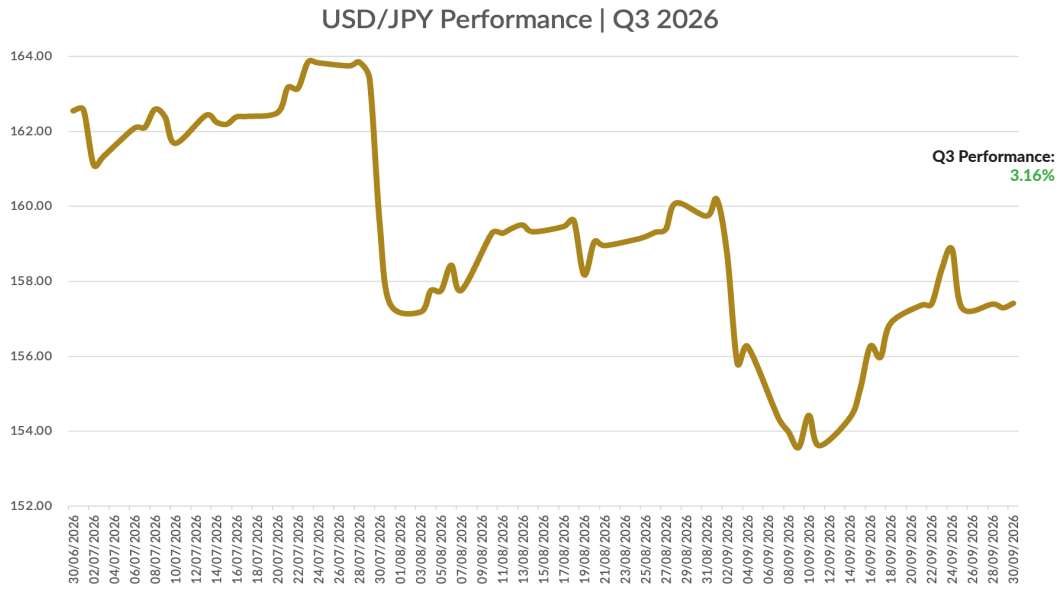
Taiwan navigated the same storm, albeit with considerably more composure. TSMC reported Q2 net income of NT$706.6 billion, comfortably beating the NT$623.7 billion consensus estimate, and raised its full-year revenue growth forecast to above 40%. Despite this, TSMC fell 4.5% on the day as investors fixated on costs over results — but the correction proved short-lived, and the Taiex ended Q3 up 3.93%. Asia is the uncontested manufacturing floor of the AI revolution, and the quarter confirmed it — with Southeast Asia emerging as the new frontier for digital infrastructure. Thailand's foreign direct investment applications surged 80% in the first half of the year, with data centres and AI projects accounting for 76% of the total, while Malaysia pressed ahead with plans for Silicon Island to entrench its role in the global semiconductor supply chain.

Japan remains the crown jewel of regional structural reform. The Tokyo Stock Exchange's landmark Topix revamp — earmarking 683 underperforming companies for removal under tougher inclusion rules — has forcefully redirected capital toward globally competitive enterprises, with listed Japanese companies paying record dividends of more than 20 trillion yen in the recent fiscal year. The Bank of Japan raised its benchmark rate to 1.25% in September, even as Tokyo deployed a record $96.4 billion in currency intervention between July 30 and August 26 to defend the yen. The Topix ended Q3 up 2.9% — a composed performance that reflected an equity market rewarding capital discipline over speculative momentum.



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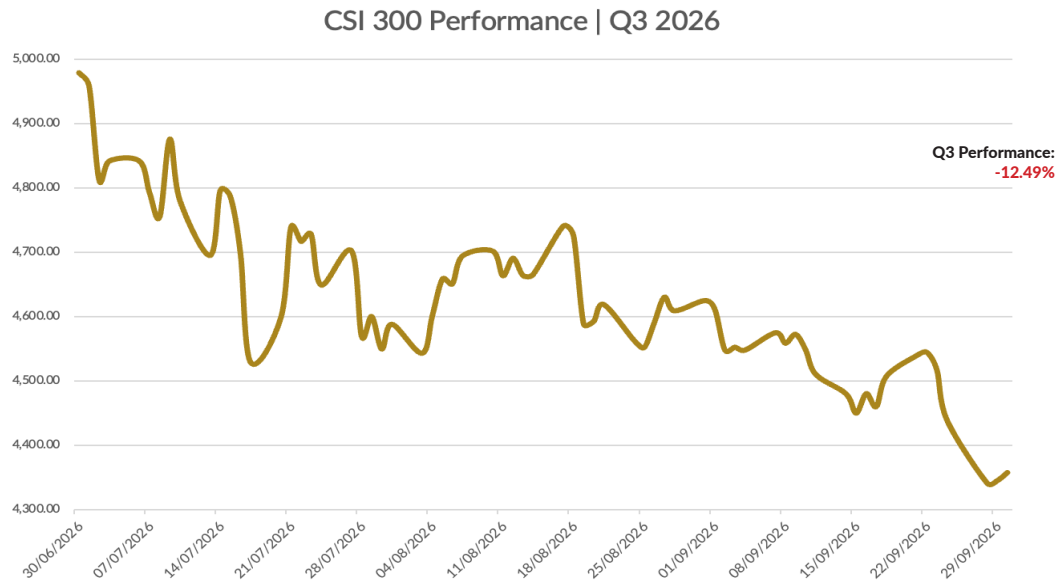
China's quarter was a study in painful mean reversion. The CSI 300 — the broadest and most representative benchmark of the mainland economy — fell 12.5% during the quarter, as the euphoria that had powered a record 62% surge in China's technology boards in Q2 gave way to a sharp reckoning with valuations that earnings could not yet justify. As has been the theme in other major developed markets, AI-related firms bore the brunt of the unwind, with Biwin Storage Technology and Moore Threads tumbling 61.12% and 45.02% respectively. Beijing responded with its biggest coordinated stimulus push since 2024, mobilising state-backed investors, insurers, and regulators to shore up confidence — though markets judged the package as calibrated to keep growth on target rather than engineer a genuine revival. A more tangible catalyst arrived late in the quarter: following the Trump-Xi summit, the US and China agreed to reciprocal tariff cuts on approximately $30 billion of imports from each side, easing geopolitical risk premiums across supply chains — and offering at least a hint of a floor beneath a market that had spent three months searching for one.



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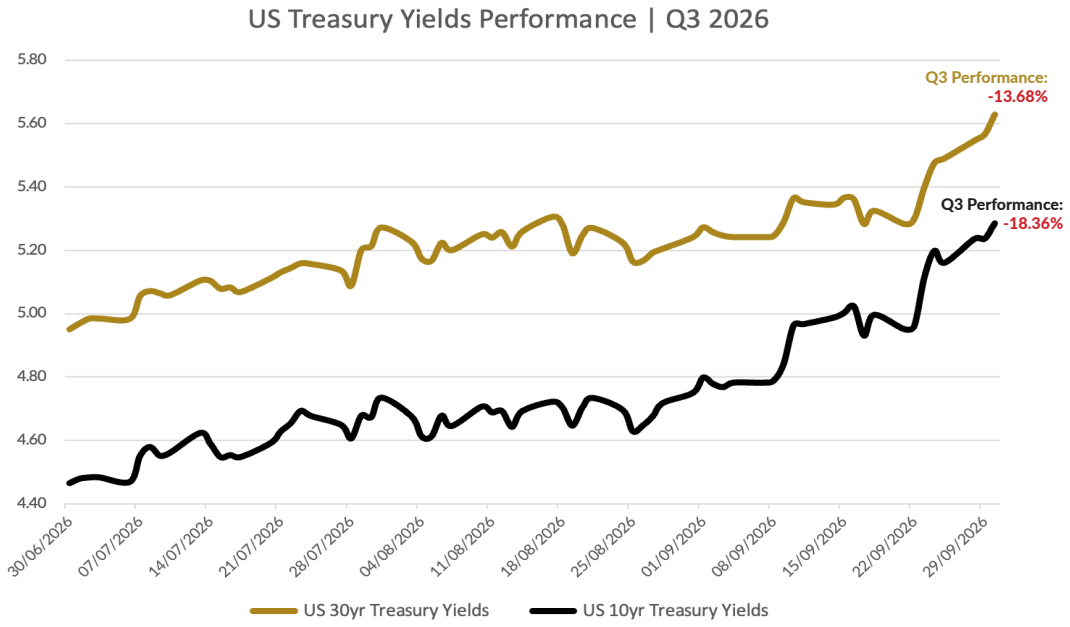
India faced a necessary, if uncomfortable, period of consolidation. Despite the OECD raising India's FY27 GDP growth forecast to 7.1% - a vote of confidence in the economy's structural trajectory even as its equity market navigated a difficult quarter with The Nifty 50 falling 5.2% over the quarter. But bright spots still existed: India's equity capital markets had nearly $10 billion of new sales in August, and foreign exchange reserves reached a record $729.33 billion by late August. But the quarter ultimately confirmed that outsized value in Asia is now reserved for those strategically positioned at the intersection of corporate efficiency, hardware dominance, and the relentless physical infrastructure demands of the AI age — and India's path to that intersection remains a work in progress.

Fixed Income

Relief, it turned out, was premature. The fragile diplomatic thaw that had allowed markets to exhale at the end of June lasted barely two weeks into July before the Strait of Hormuz — and with it, the entire complex — was once again at the center of the world's most consequential economic story. Thus, in the third quarter - the bond market declared war back. There was no ceasefire, no resolution, no clean narrative arc — only the grinding, relentless pressure of a conflict that refused to end, oil that refused to fall, and central banks that, one by one, concluded they had no choice but to act. This was not a transient phase of adjustment. It was the quarter in which the cost of capital was forcibly realigned with the true complexities of a fragmented, conflict-ridden global economy — and the bond market absorbed the consequences with brutal efficiency. Geopolitical tail risks, long treated as abstract probabilities in portfolio models, became active, daily drivers of sovereign bond valuations across every major market on earth.

The Federal Reserve, the European Central Bank, and the Bank of Japan each delivered rate hikes in September — a rare moment of synchronized tightening across the world's three largest monetary jurisdictions. Fed Chairman Kevin Warsh raised the benchmark rate as multiple officials, from Philadelphia's Anna Paulson to New York's John Williams, signalled further tightening remained on the table for late 2026. The 10-year Treasury yield pierced 5% intraday on September 15 — its first breach of that threshold since 2007 — before closing the quarter at 5.289%, an 81-basis-point rise from July 1. The 30-year Treasury bond lost 5.35% in price terms over the quarter, while the broader long-duration universe, proxied by the 20-year-plus Treasury ETF, fell approximately 10%. Treasury Secretary Bessent's attempt to engineer a "Treasury twist" by buying back long-dated debt only added to the turbulence when the operation purchased $5.19 billion — well short of the $6 billion maximum — sending yields surging anew.



The 10-year Treasury yield pierced 5% intraday on September 15 before closing the quarter at 5.289%, an 81-basis-point rise from July 1. Meanwhile, the 30-year Treasury bond lost 5.35% in price terms over the quarter, while the broader long-duration universe fell approximately 10%.

The ECB raised its deposit rate to 2.50% in September, having held at 2.25% in July, with Bundesbank President Nagel warning the ECB may need to venture into "mildly restrictive territory" if energy prices remained elevated. German Bund yields rose from 2.878% at the start of July to 3.586% by quarter-end. The Bank of England, navigating the same impossible triangle of slowing growth, sticky inflation, and fiscal fragility, held at 3.75% at both its July and September meetings by a 6-3 vote — though its most consequential move was structural: scrapping plans to sell long-dated gilts and retaining £120 billion of bonds maturing in 2049 or later, sending the 30-year gilt yield 12 basis points lower on the day of the announcement. The 30-year gilt nonetheless ended the quarter at 5.949%, up from 5.487% on July 1. In Japan, the BOJ raised its policy rate to 1.25% in September by a 7-2 vote — the fastest pace of hikes since 1990 — as the 10-year JGB yield touched 3% for the first time since 1996, closing the quarter at 3.065%.

The energy shock cleaved the emerging market universe into two distinct camps. Oil-exporting nations leveraged the windfall of rising crude prices to fortify their fiscal positions and reward sovereign bondholders. Oil-importing nations — including India, the Philippines, Thailand, and Hungary — saw their currencies and local debt markets come under severe pressure as the dollar strengthened and energy import bills swelled, with Thai bonds alone suffering $635 million in foreign outflows in September.

Within credit, the quarters most consequential and underappreciated story unfolded not in sovereign debt but in the credit default swap market — a corner of finance that, for most of the past decade, had been the exclusive domain of sophisticated institutional hedgers. A credit default swap is, at its simplest, an insurance contract on a company's debt: the wider the CDS spread, the more expensive that insurance — and the more the market is signalling concern about the underlying borrower's creditworthiness. For most of the post-pandemic era, the CDS spreads of the world's largest technology companies — Amazon, Alphabet, Meta, Microsoft, Nvidia, Oracle, and Broadcom — had been vanishingly tight, a reflection of their fortress balance sheets and seemingly limitless cash generation. In Q3 2026, that consensus was forcibly dismantled.

The trigger was the sheer scale of AI-driven borrowing. Barclays lifted its 2026 US corporate bond supply forecast to $1.9 trillion — surpassing 2020's record of $1.66 trillion — as AI-related funding proved "much larger than expected," with hyperscalers issuing further out the curve and driving a structural shift in market composition. When Alphabet boosted its capital spending forecast in late July, technology CDS widened sharply across the board — five-year spreads for Oracle, Meta, Alphabet, and SpaceX each moved 5 to 8 basis points in a single session — as investors concluded that if Alphabet was accelerating, every other hyperscaler would follow. They were right. Nvidia's CDS surged by the most on record in a single session after reports emerged of the chipmaker backstopping more than $500 billion in AI infrastructure financing commitments, and derivatives tied to Nvidia became among the most actively traded in the entire US CDS market, with $6.9 billion of notional protection traded in the six months through September — up from just $640 million in the prior six-month period. Broadcom, meanwhile, sought more than $60 billion in debt for an AI chip financing deal, and its CDS widened 28 basis points through August alone — a larger move than either Oracle or SpaceX over the same period. Oracle's five-year CDS reached a near 18-year high of 203 basis points in July, compounded further in late September when the company cited force majeure on a massive New Mexico data centre project — a move Morgan Stanley warned would put loan and lease documents across the AI infrastructure universe under fresh scrutiny.

Company	5-Year CDS Spreads (bps)				
	30th June	31st July	31st August	30th September	Change (bps)
Oracle	178.00	189.48	176.14	171.75	-6.25
AMD	47.98	58.47	61.37	60.12	12.14
Broadcom	48.32	49.89	54.54	52.89	4.57
Meta	39.50	48.38	48.75	52.34	12.84
Amazon	45.43	43.97	45.82	44.99	-0.44
Alphabet	39.21	39.12	38.66	40.11	0.90
Nvidia	22.56	22.84	24.10	25.98	3.42

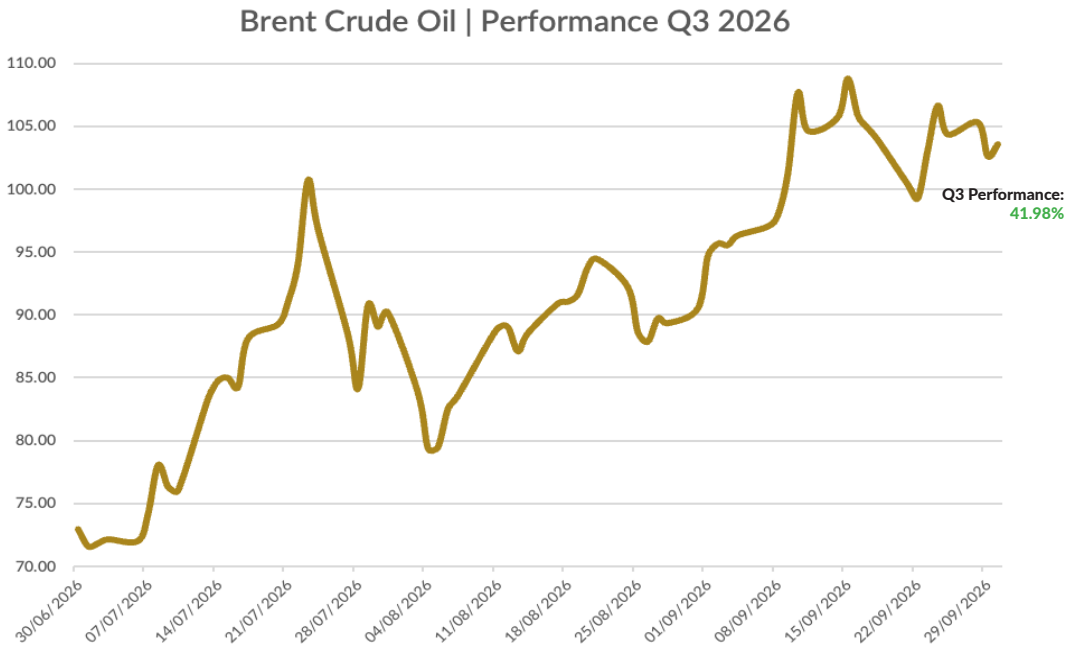
What made the episode structurally significant — rather than merely a sector-specific repricing — was its contagion. Observers argued publicly that the widening in hyperscaler CDS was not a technical artefact of dealer hedging, but a genuine fundamental repricing of AI capital expenditure risk, rising leverage, and negative free cash flow trajectories. BNP Paribas strategists noted that the flood of Big Tech bond supply was inadvertently pushing up CDS costs even for companies with no direct AI exposure, as competition for cash at the top end of the investment-grade market intensified. In a historic first, risk premiums on some emerging-market peers — South Korea's SK Hynix among them — fell below those of US tech giants, as bond investors began to view certain EM names as safer credits. Goldman Sachs launched a product allowing investors to trade a basket of AI high-yield bonds $250 million at a time, a direct response to the hedging demand the sector had generated. By quarter-end, Barclays noted that credit spreads had widened across investment-grade, high-yield, and convertible bonds amid the AI infrastructure borrowing surge, and that higher bond yields were outweighing strong earnings and lower valuations in the hyperscaler equity risk premium calculus. The AI debt machine had, in the space of a single quarter, transformed the hyperscalers from credit market anchors into its most closely watched source of systemic risk.

As September closed, Apollo's Torsten Slok captured the mood of a growing cohort of long-duration investors when he observed that "yield levels are starting to look juicy" — a sentiment that would have been unthinkable eighteen months prior. With global government bond yield cushions now at their most robust levels since 2007, the income buffer available to fixed income investors has been meaningfully restored. The fourth quarter inherits all of the same fault lines — a Fed still in tightening mode, an ECB with unfinished business, a BOE walking a tightrope, and a BOJ navigating the fastest normalisation in a generation. The bond market's verdict on who navigates it best will define the remainder of the year.

Commodities

Thirty-three kilometers. That is all it took — again — to reshape the trajectory of global commodity markets in the third quarter of 2026. The Strait of Hormuz, which had briefly reopened to commerce in June, slammed shut once more in July, and the Bloomberg Commodity Index spent the next three months telling the story of what that closure truly costs the world. Opening the quarter at 123.1774, the index surged to a quarterly peak of 147.54 on September 16 before closing September 30 at 141.79 — a price gain of approximately 15.11% in just three months, erasing the entirety of Q2's retreat and then some. The message was unambiguous: in a world defined by physical scarcity and geopolitical fragmentation, commodities are no longer a peripheral allocation — they are the epicenter of strategic asset allocation.

Nowhere was this scarcity more violently priced than in the global energy complex — and in the third quarter, the story extended well beyond crude oil into the refined products market, where a full-blown diesel crisis emerged. The fragile June ceasefire between the US and Iran unraveled almost immediately as July began. By July 7, three ships had been attacked in the Strait of Hormuz in a single day. Iran subsequently declared the strait closed "until further notice" on July 11, halting a cargo ship that attempted to transit despite warnings. Brent, which had opened Q3 at $73.44 per barrel, surged relentlessly — reaching $88.10 on July 17 — before Goldman Sachs warned on July 21 that Brent could exceed $120 per barrel in the fourth quarter if the Hormuz closure persisted. The International Energy Agency compounded the anxiety in August, warning that the world faced an oil supply shortfall of 1.8 million barrels per day — more than double earlier projections. The quarter's defining energy moment arrived in early September: US forces destroyed five Iranian crude oil tankers on September 8-9 in response to two Iranian ballistic missile attacks on a US Navy warship. Then, on September 11, Saudi Arabia was forced to shut its critical East-West pipeline after multiple drone attacks launched from inside Iraq, sending Brent to its quarterly high of $109.97 that same day. Brent closed September 30 at $103.53 — a quarterly gain of approximately 41%, the largest since Q1 2026.

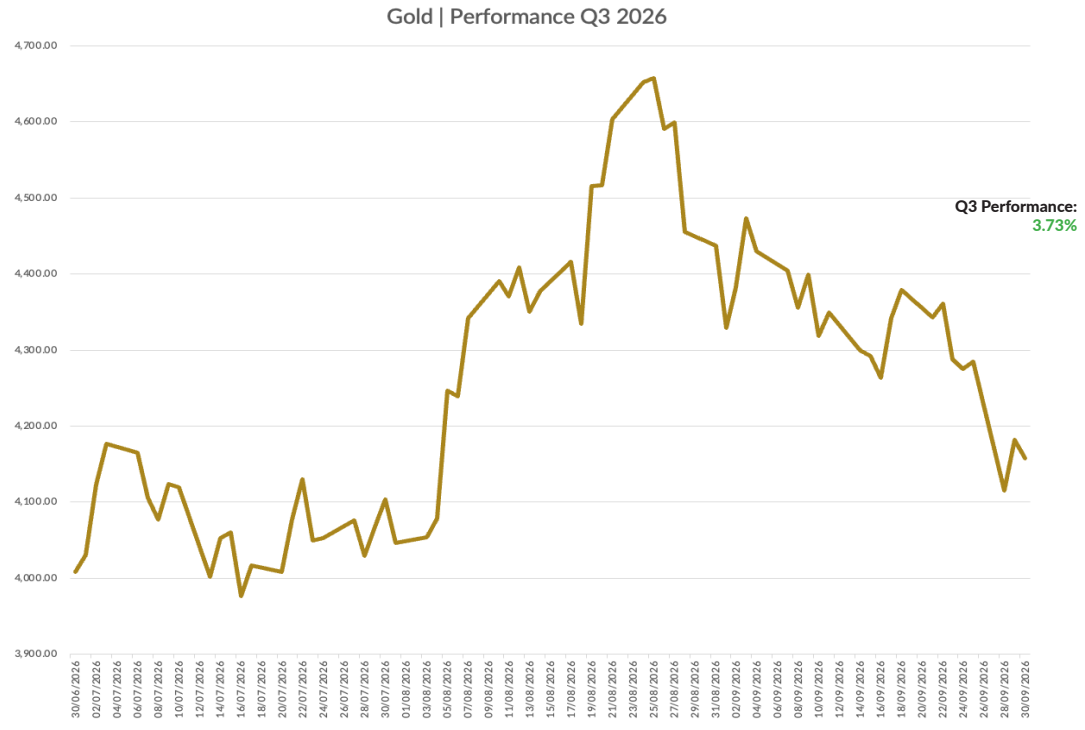


Brent closed September 30 at $103.53 — a quarterly gain of approximately 41%, the largest since Q1 2026.

But the crude oil headline masked an even more acute crisis unfolding one step downstream. The global diesel market — the workhorse fuel of the real global economy, powering everything from freight trucks and farm equipment to power generation and home heating — entered a state of genuine emergency during the quarter. The squeeze came from two directions simultaneously. In the Middle East, the Hormuz closure choked the flow of crude into the region's refineries, slashing the supply of refined distillates available for export. Simultaneously, Ukrainian drone strikes on Russian oil refineries — including the Kirishi facility near the Baltic coast in late August, Lukoil's Perm refinery in September, and Russia's largest refinery in Omsk — were, according to the IEA, having a cumulative and degrading effect on Russia's entire refining system, one that patchwork repairs could no longer offset. Russia responded by extending its ban on diesel exports, removing a critical source of global supply at precisely the wrong moment. The result was a supply crunch of historic proportions. US

distillate inventories fell below 100 million barrels for the first time since 2003, per the US Energy Information Administration's September Short-Term Energy Outlook. US retail diesel prices crossed $6 per gallon for the first time in history on September 11 — the same day Brent crossed $100 — with California prices approaching $8 per gallon. European diesel hit $167 per barrel in mid-August, nearly double the level of a year earlier. The profit margins for turning crude into diesel told the same story with equal force: the 10-day moving average for the diesel-WTI crack spread surged above $98 per barrel, while the gasoil-Brent crack spread exceeded $73 per barrel — both setting all-time records. Hedge funds slashed bearish bets on European diesel to a two-year low, stacking up fresh bullish wagers in anticipation that the crunch would persist well into winter. TotalEnergies CEO Patrick Pouyanne captured the severity of the moment at a September conference: "The amount of refined products out of the market is too much. We are beginning to say to our governments — be ready to draw on strategic inventories." Apollo's chief economist Torsten Slok warned the Federal Reserve that record diesel prices posed a greater inflation threat than it may appreciate, given how directly diesel costs flow into core CPI through transportation and logistics. By quarter-end, the White House was actively debating a 90-day ban on US diesel exports — a policy that, if enacted, would have introduced yet another shock into an already fragile global supply chain.

Precious metals delivered the quarter's most nuanced narrative — a story not of one direction, but of two distinct acts separated by a remarkable August inflection point. Gold opened July at $4,008 per ounce and initially continued its retreat, touching a quarterly low of $3,959.84 on July 17 as ETF outflows persisted and the dollar held firm. The reversal, when it came, was swift and multi-layered. A disappointing US jobs report in early August dented Federal Reserve rate hike expectations, triggering gold's strongest weekly performance since February. Tame July CPI data on August 12 extended the rally above $4,400 per ounce. Then came the catalyst that truly broke gold free: Treasury Secretary Bessent announced a "Treasury twist" — buying back long-term US debt while selling short-dated securities — reviving deep-seated concerns about dollar credibility and fiscal sustainability. China's PBOC extended its gold-buying streak to 21 consecutive months in July, adding approximately 20 tons in its largest single-month accumulation since October 2023. Gold reached a quarterly high of $4,696.83 on August 25 before a global bond rout in September sent yields sharply higher with the dollar rebounding, leaving gold to surrender a meaningful portion of its gains — closing September 30 at $4,157.41, a quarterly gain of approximately 3.73%. Silver mirrored gold's journey in shape if not in magnitude, opening the quarter at $58.57 per ounce and closing at $60.43 — a price gain of approximately 3.12% — as the enduring structural demand story tied to AI infrastructure, solar energy, and electric vehicles continued to provide a fundamental floor beneath the price.



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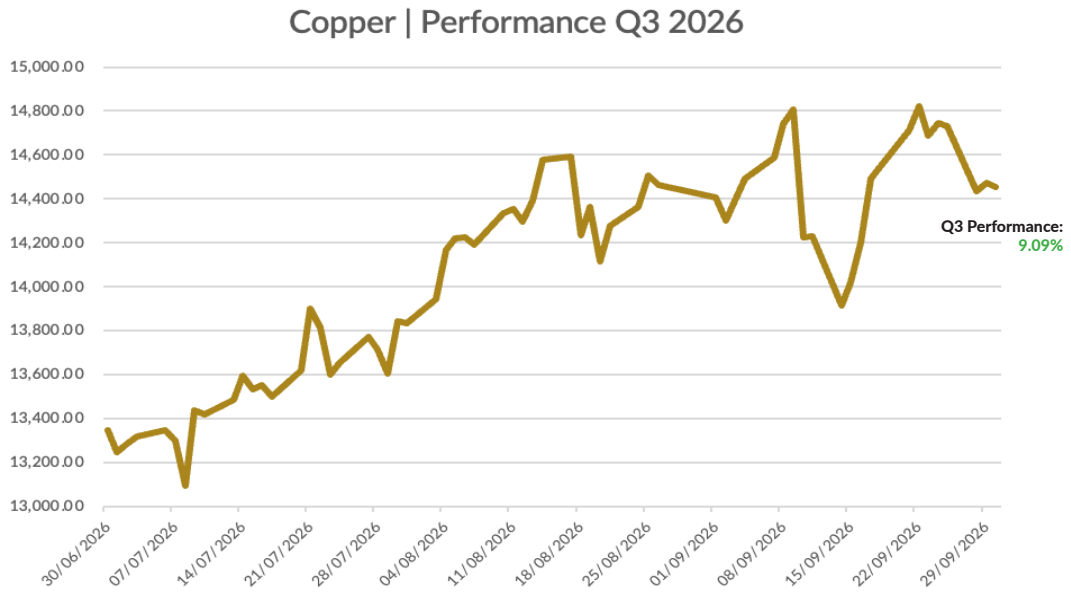
Beyond energy and precious metals, copper was the standout performer of the quarter — and perhaps the clearest expression of its overarching investment thesis. The red metal gained approximately 9.12% — as supply disruptions at major mines and aggressive buying from US and Chinese consumers competed for an increasingly scarce pool of available metal. In the agricultural space, markets remained broadly secondary to the energy and metals drama, though Hormuz-related disruptions to fertilizer flows and elevated freight costs introduced pockets of volatility in supply-chain-sensitive soft commodities.



Copper was the standout performer of the quarter — and perhaps the clearest expression of its overarching investment thesis, gaining approximately 9.12% in Q3

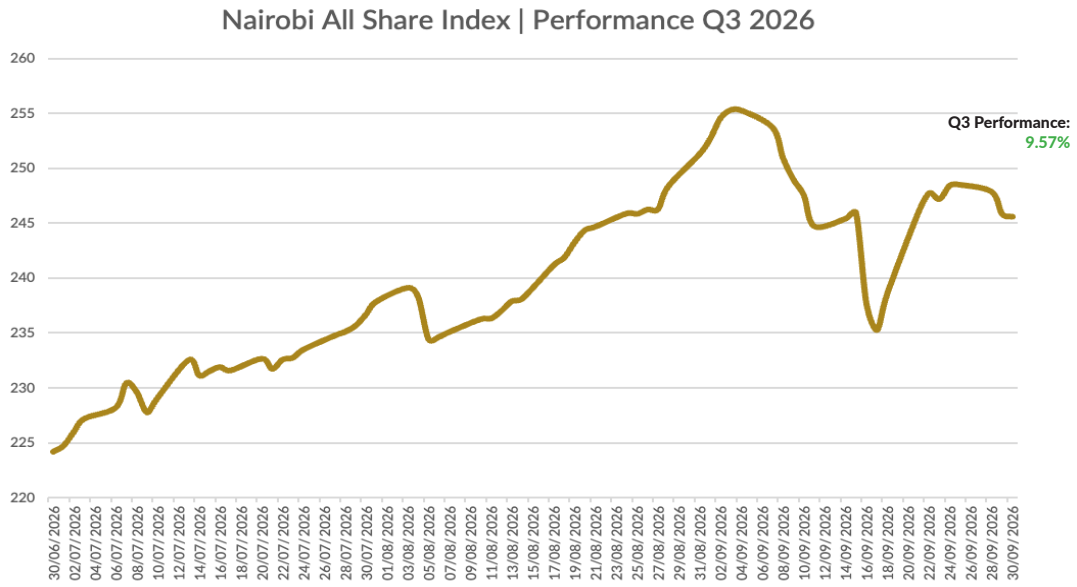
Stepping back, the third quarter of 2026 delivered a verdict that investors in commodity markets would do well to internalize: the post-Hormuz recovery narrative was premature — and the diesel crisis that emerged in its wake served as a powerful reminder that the consequences of supply disruption do not stop at the wellhead. The Bloomberg Commodity Index's climb was not a story of broad-based reflation, but of a world still hostage to a single waterway, a five-year-old war in Eastern Europe, and the geopolitical forces that control them both. As the fourth quarter begins, the third quarter served as a forceful reminder that capital flows follow scarcity — and in a world where the energy transition, the AI buildout, and geopolitical fragmentation are simultaneously straining the same finite pool of raw materials, the commodity complex deserves a permanent and prominent seat at the investment table.

Nairobi Securities Exchange

NSE Performance Q3 2026

NASI	▲ +9.6% q/q
N10	▲ +13.5 q/q
NSE 20	▲ +15.0 q/q
NSE 25	▲ +12.4 q/q

The bourse closed September on a bearish note, with the broad market contracting 2.3% – a sharp reversal from the +5.7% and +6.1% gains recorded in August and July, respectively. Other key indices delivered mixed results: while the NSE 20 fell by 0.2%, the N10 and NSE 25 posted modest gains of 0.5% and 0.2%, respectively. For the quarter, benchmark indices delivered robust quarterly capital gains. The NSE 20 accelerated its momentum — advancing 15.0% to outpace its performance from prior quarters in the year. Conversely, while the NASI (+9.6%), N10 (+13.5%), and NSE 25 (+12.4%) posted strong quarterly growth, their expansion trailed the peak levels reached during the 2nd quarter of this year. Profit-taking emerged as a dominant theme throughout the quarter, as investors continued to lock in returns following the bull run in prior quarters. In line with expectations, foreign activity remained net-negative, recording net capital outflows of USD 75.7Mn during the quarter.



While the NASI (+9.6%) posted strong quarterly growth, its expansion trailed the peak levels reached during the 2nd quarter of this year

Safaricom was the top traded stock in the quarter, accounting for 22.3% of the overall turnover, with banking stocks topping the majority of the top traded list – activity being concentrated on KCB Group, Equity Group, and ABSA. Africa Mega Agricorp was the quarter's top gainer, soaring 218.4% to KES 354.25. Home Afrika, on the other hand, shed 20.7% to KES 1.07, closing as the top loser.

Looking ahead, we anticipate the final quarter of the year to close on a bullish note – with profit-taking activities being salient as investors rebalance their books. That said, geopolitics remains a prevailing risk, which may thaw bullish sentiments, in the case of an advancement. From a corporate action vantage point, November takes centre stage in the quarter, with banking sector 3Q25 and Safaricom 1H27 earnings expected in the month.

Looking Ahead

Every great market cycle has its defining obsession — the railroad boom, the dot-com frenzy, the mortgage machine. The obsession of this cycle is artificial intelligence, and like all great obsessions, it has made its believers fabulously right and dangerously complacent in almost equal measure. And yet, somewhere between the S&P 500 flirting with all-time highs and a fast-food franchisee filing for bankruptcy, the real story of Q4 is hiding in plain sight: the economy has not broken — it has split, and the distance between those riding the AI wave and those drowning beneath the weight of $105 oil and 5.24% Treasury yields has never been wider or more consequential. As John Templeton once observed, "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria." The question worth asking, with cold-eyed honesty, is which of those four stages best describes the room we are currently standing in — and whether the market has fully reckoned with what is coming down the horizon. The answer, encouragingly, is that this bull market — now approaching its fourth anniversary having advanced 117% since October 2022 — still has more than a few cards left to play.



> ***Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria.***
>
> **~ John Templeton**

The AI trade has entered a new and more demanding phase — one where the market is no longer willing to pay for the promise of monetization, but is beginning to insist on the evidence of it. The Q3 earnings season will be the most consequential audition this technology has ever faced. Companies that can demonstrate genuine AI-driven revenue growth will be rewarded; those that cannot will find the market considerably less forgiving than it was a year ago. The early evidence, however, is more encouraging than the bears would have you believe. BofA strategist Savita Subramanian expects S&P 500 Q3 earnings to grow 32% year-over-year — well ahead of the 27% consensus estimate — noting that corporate guidance heading into this season has been "unusually robust" and that estimates were actually revised up 1% over the last three months, a rare feat in this environment. ASML beat Q3 estimates and raised the lower end of its full-year sales outlook, generating €11.7 billion in quarterly sales as accelerating AI investment pushed customers to expand equipment plans beyond 2028. Nvidia partner Hon Hai Precision reported quarterly revenue of NT$3.03 trillion ($95.4 billion), up 47% year-over-year, signaling that spending on global AI infrastructure remains elevated and real as OpenAI reportedly expects to reach or exceed $70 billion in annualized revenue by year-end — a figure that, if achieved, would go a long way toward silencing those who argue the AI revenue story is more narrative than substance.

What makes this moment particularly charged however, is that the very architects of the AI boom spent September publicly calling for its slowdown. Anthropic's Dario Amodei, OpenAI's Sam Altman, Elon Musk and Demis Hassabis of Google DeepMind each endorsed a coordinated deceleration in frontier model development — a statement that sent chipmakers tumbling, with the Philadelphia Semiconductor Index erasing $1.6 trillion in market value over six days. That is the bear case stated in its most visceral form. But Nvidia CEO Jensen Huang promptly declared he expects chip sales to double next year, and Marvell Technology raised its fiscal year 2028 revenue guidance to $20 billion — representing approximately 67% year-over-year growth — sending its shares up as much as 11% on the day. The regulatory tide is turning in ways that cannot be so easily dismissed — New York's Governor has imposed a moratorium of up to one year on the construction of hyperscale data centers drawing 50 megawatts or more of power — but the demand signal from the supply chain is unambiguous. The bull and bear cases for AI are not mutually exclusive; they are simply operating on different time horizons. The near-term monetization story is strengthening even as the long-term regulatory and valuation questions remain genuinely open. Meanwhile, HSBC strategists see scope for a broader market rally this earnings season, noting that positive surprises in less-favored sectors — beyond semiconductors and energy — could lift the entire index rather than just its most crowded corners.

Industrial companies, for their part, are expected to raise full-year guidance as demand remains strong and broad-based, according to Truist Securities, with a recent selloff in the sector having created what the firm describes as a constructive setup ahead of quarterly results.

Lurking alongside the AI reckoning is a confluence of macro forces that investors appear to be underpricing with remarkable serenity. The most immediate is diesel. The IEA warned recently that global diesel supplies will remain constrained well into 2027, with supply having fallen by 1.7 million barrels per day in Q3 as the Iran war curtailed flows through the Strait of Hormuz and Russia simultaneously cut supply. Soaring freight rates are now threatening to force European and Asian oil refineries to cut production runs this quarter, which would exacerbate an already acute shortage. Goldman Sachs estimates a $24 per barrel risk premium is currently embedded in Brent, which rose to $106.06 following an attack on a Saudi Aramco building and fresh tanker strikes around the Strait of Hormuz. The IEA notes that freight markets may remain elevated even if the security situation improves, given persistent supply chain inefficiencies and vessel shortages caused by supertankers racing to the Middle East to cash in on record shipping fees. President Trump has sought relief by announcing that Putin agreed to release 6 million barrels of diesel into global markets across October and November, but Bank of America analysts say this provides relief "only at the margin" and that any price pullback in distillates remains a buying opportunity given how tight inventories are. For investors, the diesel story is not merely an energy trade — it is an inflation story, a Fed story, and a consumer story all wrapped into one barrel. The silver lining, and it is a meaningful one, is that energy companies themselves are printing extraordinary earnings in this environment, and the sector's contribution to S&P 500 earnings growth in Q3 is expected to be among the largest of any sector — a reminder that in markets, every headwind has a beneficiary.

Then there is the event that the market appears to be treating as a footnote but which history suggests deserves considerably more respect: the US midterm elections on November 3rd. The final week of October into the first week of November is shaping up to be the single most compressed volatility window of the year — a Federal Reserve meeting, Big Tech earnings and the midterms all converging within the space of seven days. Bookmakers currently put the probability of a Democratic sweep of Congress at 62%, a result that would carry profound implications for technology regulation, healthcare policy, energy permitting and the trajectory of the AI governance debate that has been simmering all year. JPMorgan's derivatives team notes that healthcare stocks historically follow a "dip-then-rip" pattern around midterm cycles, while technology faces ongoing dispersion given the live debate around AI development speed. The market's current calm around this event is not confidence — it is complacency, and the two are very different things. That said, history also offers a more reassuring read: US equity markets have delivered positive returns in the twelve months following every midterm election since 1946, regardless of which party prevailed. The uncertainty, in other words, tends to be worse than the outcome.

The Federal Reserve adds its own layer of suspense to an already crowded calendar. Having hiked in September, officials are now publicly divided on what comes next — some calling for an additional 50 basis points or more, others seeing no urgent need for further action. What this dissonance of Fed voices tells the market is that the hiking cycle is not definitively over, and the October meeting is likely to be a hold rather than a hike. New York Fed President John Williams recently opined that he sees no need for a rate hike in 2027 at all, and that just one more hike is appropriate this year — a statement that sent Treasury yields briefly lower and the S&P 500 higher on the day. Fed Governor Christopher Waller added that the surge in long-term yields is already doing the work of tighter monetary policy by cooling demand in interest-rate-sensitive sectors like housing and autos — which, if true, reduces the need for the Fed to act further.

The bond market itself may indeed be doing the Fed's job for it, where the 10-year Treasury yield sits at 5.24% and the 30-year at 5.60% — levels not seen since 2002. Real yields on the 10-year have risen 98 basis points year-to-date to reach 2.91%, a number that makes the equity risk premium look increasingly thin for anyone doing the arithmetic honestly. And yet, the recent 30-year auction drew solid demand at a yield of 5.618% with a bid-to-cover ratio of 2.54 times — well above the one-year average — suggesting that at some level, yield is finally becoming its own argument. Goldman Sachs's rates strategist William Marshall is sticking by his call for yields to decline by year-end, arguing that worries about inflation and swelling government debt loads have run too far and could set the stage for a meaningful bond rally into December. For the patient fixed income investor, the entry point being offered by the current selloff may look, in retrospect, like one of the more attractive of the decade. The case for cautiously extending duration into year-end is becoming harder to dismiss.

In credit markets, the stress that has been quietly building all year is becoming harder to ignore. There is, as one Bloomberg analyst put it, "a fire in the basement of global credit markets" — CCC-rated corporate debt has slid further into distressed territory across leveraged loans and bonds, and the high-yield ETF is now in the red for 2026. The AI debt machine is a particular locus of concern: Wall Street banks and Blackstone are reportedly raising $60 billion of debt to buy AI chips, adding to a $626 billion worldwide debt binge financing the AI arms race, while CoreWeave's bonds have tumbled under scrutiny into distressed territory, raising red flags about the broader market for AI-linked high-yield paper. In private credit, Moody's has found that the headline default rate of 4% among the borrowers it tracks rises to 5.8% once payment-in-kind amendments and maturity extensions are included — meaning stress is being actively masked rather than resolved. PIMCO observes that the market is splitting in two: newly originated loans carry stronger lender protections, while legacy portfolios — many of them concentrated in enterprise software buyouts underwritten at near-zero rates in 2021 and 2022 — remain acutely vulnerable. Goldman Sachs and UBS are among the banks now pulling back from financing private credit funds,

focusing their lending on only the largest and most established managers. When the banks start getting selective, it is rarely a sign that everything is fine. The counterpoint, however, is that this selectivity is itself a healthy market signal — capital is being repriced, not destroyed, and the managers who survive this cycle with their underwriting discipline intact will emerge with a structural competitive advantage that could define the asset class for the next decade.

Beyond American shores, the overlooked risk hiding in plain sight is France. Nearly €215 billion of French corporate bonds now trade as if they were safer than the French government's own debt — an almost 18-fold increase since the start of 2026 — as the spread between French and German 10-year yields hit its widest since 2011. Commerzbank has warned that French debt troubles carry greater systemic risks than the Greek crisis did, given that public debt across the eurozone now averages around 90% of GDP. The ECB has signaled it has instruments to stabilize markets if required. But the more encouraging European story is unfolding in Germany, which more than doubled its 2026 growth forecast to 1.3% — the fastest expansion since 2017 — buoyed by robust exports and a surge in government spending. Morgan Stanley expects European companies to deliver stronger Q3 earnings than the previous quarter, raising its MSCI Europe target implying 12.4% upside, with the strongest earnings surprises expected from semiconductor makers, banks, energy and industrials.

The final quarter of 2026, then, arrives not as a clean slate but as a reckoning — a moment when the market must reconcile the optimism baked into equity valuations with a horizon that is considerably more crowded with risk than the VIX is currently suggesting. The tools available to the disciplined investor have not changed: quality over momentum, genuine earnings power over narrative, and a healthy respect for the bond market's increasingly loud opinion about where the cost of capital is headed. The AI trade, the diesel crunch, the midterms, the French sovereign wobble, the private credit unmasking — none of these are black swans. They are visible, documented, and in most cases already underway. But neither are they foregone conclusions. Corporate earnings are proving more resilient than even the most optimistic view, the AI infrastructure buildout is generating real revenue for real companies, bond yields are attracting genuine demand at levels not seen in a generation, and the global economy — battered as it is — has refused, quarter after quarter, to deliver the recession that the pessimists have been promising.

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