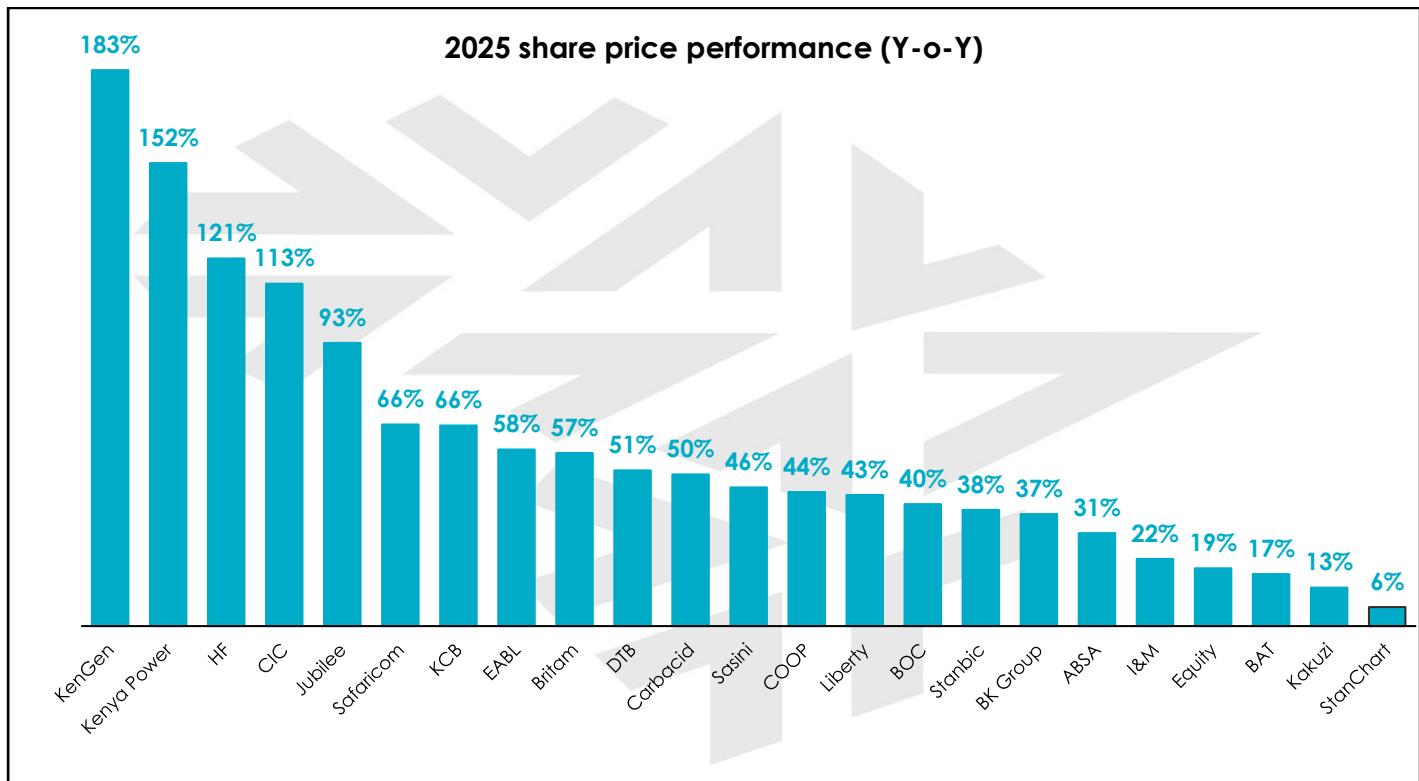


Macro tailwinds keep equities outlook positive in 2026

Equities extend rally into second consecutive year. Following a strong 2024 (+34% Y-o-Y), the equities market sustained its momentum in 2025 with the NASI gaining 51% Y-o-Y. Among the large-caps, Safaricom rallied 66% Y-o-Y while Equity and KCB gained 19% and 66% Y-o-Y, respectively. With regards to price return, energy sector stocks outperformed with Kengen surging 183% Y-o-Y and Kenya Power was up 152% Y-o-Y. Within banking, KCB, DTB (+55% Y-o-Y) and Co-op Bank (+43% Y-o-Y) outperformed peers. Kenya's banking stocks delivered a solid performance in 2025 supported by earnings growth expectations coming from rom margin expansion and lower risk charges.

Our View: While large-cap banks remain important, we expect incremental market returns from a wider set of sectors. We expect continued investor appetite into undervalued counters particularly in insurance and manufacturing sector. The positive macro backdrop including anchored inflation expectations in 1H26, stable shilling and the lower interest rate environment should sustain positive investor sentiment. However, fiscal policy risks remain key watchpoints.

For 1Q26, we expect bank's earnings season to drive activity on the NSE as investors take position on dividends and management FY26 guidance.



Source: NSE, NCBA IB Research

January 2026 stock picks

Counter	Current Price *6th January 2026	Target price	Upside	Trailing Dividend	Trailing Div. Yield	Recommendation
<u>Banking</u>						
ABSA	26.05	23.62	(9.33%)	1.75	6.72%	NEUTRAL
BK Group	42.80	46.80	9.35%	3.02	7.06%	NEUTRAL
COOP	24.75	19.76	-20.16%	1.50	6.06%	SELL
DTB	115.00	90.67	-21.16%	7.00	6.09%	SELL
Equity	69.25	61.94	-10.56%	4.25	6.14%	NEUTRAL
I&M	43.60	49.20	12.84%	3.00	6.88%	NEUTRAL
KCB	66.25	67.62	2.07%	3.00	4.53%	BUY
Stanbic	197.25	193.50	-1.90%	20.74	10.51%	NEUTRAL
StanChart	298.25	312.00	4.61%	45.00	15.09%	NEUTRAL
<u>Telecommunication</u>						
Safaricom	29.00	28.83	-0.59%	1.20	4.14%	NEUTRAL
<u>Manufacturing & Allied</u>						
BAT Kenya	463.00	493.57	6.60%	50.00	10.80%	NEUTRAL
BOC Kenya	127.00	116.00	-8.66%	6.15	4.84%	SELL
Carbacid	29.45	27.15	-7.81%	1.70	5.77%	SELL
EABL	266.25	221.55	-16.79%	8.00	3.00%	NEUTRAL
<u>Agricultural</u>						
Kakuzi	403.75	438.41	8.58%	8.00	1.98%	BUY
Sasini	18.00	18.10	0.56%	1.50	8.33%	SELL

*BUY –

Total expected 12-month return (incl. dividends) greater than 15%

*NEUTRAL –

Total expected 12-month return (incl. dividends) between 0%- 15%

*SELL –

Total expected 12-month return (incl. dividends) less than 0%

Our target prices are anchored on fundamental analysis. While the current market rally has lifted many counters closer to their fair value, much of the momentum appears sentiment-driven rather than based on underlying earnings growth.

For stocks rated Neutral, we recommend that investors consult with their financial advisors to evaluate their individual investment goals. Depending on their risk appetite and return expectations, clients may consider holding their positions or realizing gains where appropriate.

The banking sector remains a cornerstone for investors seeking a balance of capital preservation and income, underpinned by dividend yields and improved earnings momentum. However, despite sound fundamentals, most counters are rated **NEUTRAL save for KCB**. This is largely due to the market rally that has pushed share prices beyond our fair values, limiting additional upside in the near term.

Safaricom, presents a mixed story. While it has strong fundamentals and plays a key role in defensive positioning, a downside of **-0.6%** leads to a **NEUTRAL** recommendation at current market levels. However, it offers a trailing dividend yield of **4.14%**.

A key driver for the recent market rally is the decline interest rates which resulted in fixed-income investments less attractive pushing investors to search for higher earnings yields from the NSE. As a result, majority of our recommendations are **NEUTRAL** and **SELL**, signaling that while fundamentals remain intact, entry points are less attractive at current levels. We advise investors to focus on dividend strength, earnings resilience, and stock-specific catalysts to navigate the next phase of the market.

The equities market is currently trading at a P/E ratio of 8.01x representing a 40% discount to the historical average of 11.4x. The dividend yield stands at 6%, which is 1.3 percentage points above the historical average of 4.7%. Notably, the NASI PEG ratio is at 0.8x, suggesting that the market remains slightly undervalued relative to its expected earnings growth. Typically, a PEG ratio above 1.0x signals potential overvaluation, while a ratio below 1.0x implies undervaluation.

We maintain a bias towards value stocks with robust earnings growth and those trading below their intrinsic value.

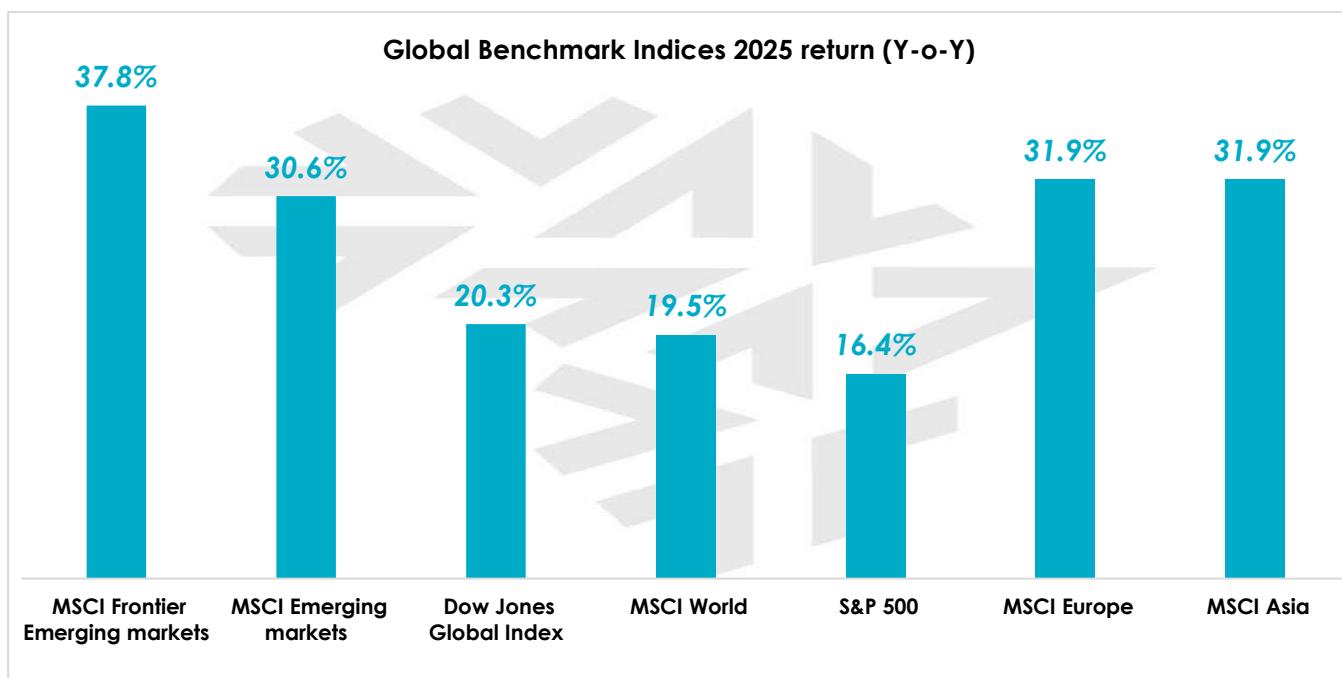
Global equities review – Asia outperforms in 2025

Global equities closed 2025 on a positive note supported by easing inflation, lower interest rates, and recovery in risk appetite. Earnings growth across large-cap technology, healthcare, and consumer sectors supported performance in developed markets. In the US, Artificial Intelligence (AI) was the dominant investment theme with technology stocks accounting for the bulk of the S&P 500's gains.

Europe: European equities also ended the year on a positive note driven by gains in banking and defence stocks. A combination of declining interest rates, Germany's commitment to fiscal expansion and investors diversification from U.S. technology stocks also drove gains on selective equities. Inflation cooled faster than expected raising expectations for further rate cuts in and room for selective equity re-rating.

Asia: Asian equities outperformed most regions driven by recoveries in manufacturing, technology, and trade. Markets such as India, Japan, and parts of Southeast Asia benefited from domestic demand and investor rotation toward growth-oriented sectors including AI-linked technology supply chains. South Korea was among the best performing markets globally supported by pro-market corporate governance reforms.

Emerging Markets: EM delivered mixed performance through the year reflecting uneven economic recoveries and varying policy decisions. Countries with stronger fiscal positions and robust export sectors particularly in Asia, while others continued to face currency pressures and tightening funding conditions. Nonetheless, improving global liquidity prospects and moderating US yields continue to set more constructive tone for EM flows going forward.



Source: Bloomberg, NCBA IB Research

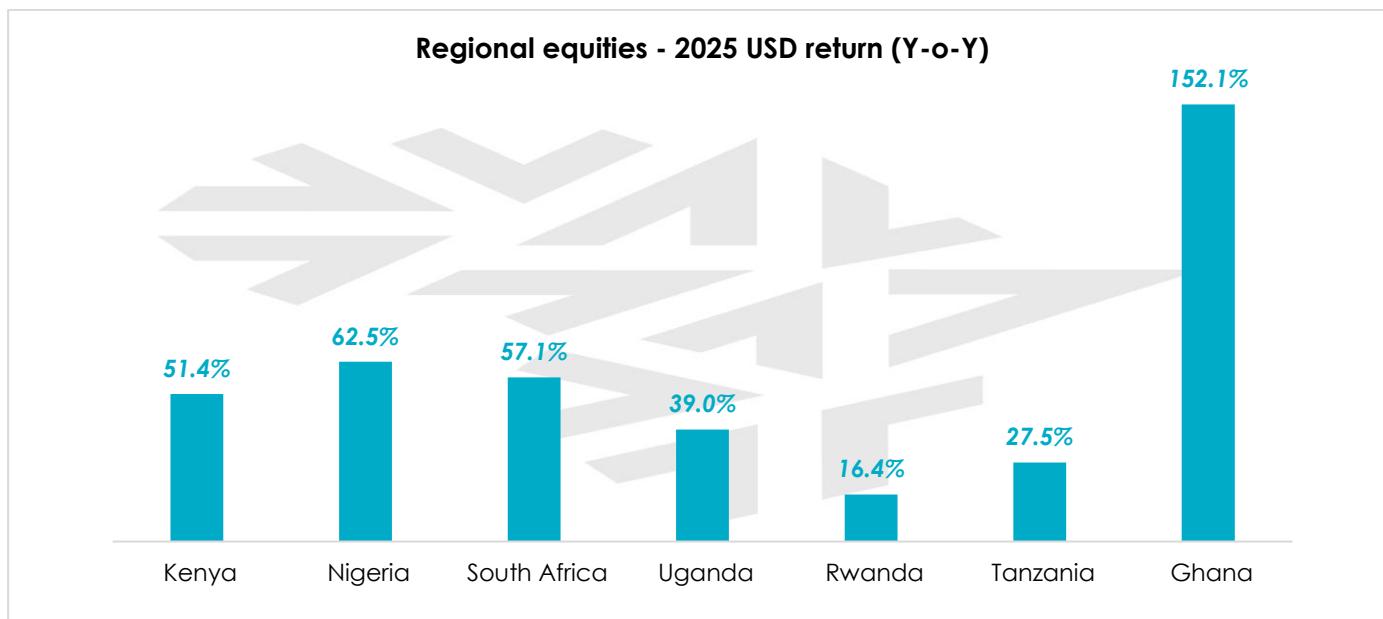
Regional equities review – Ghana tops USD return in 2025

Regional equity indices recorded a strong positive performance with Ghana recording the highest USD return in 2025 of 152% Y-o-Y. The cedi's 40% appreciation against the USD drove outperformance against other African markets. Higher global gold and cocoa prices improved Ghana's balance of payment position and boosted FX reserves. Improving macro conditions including disinflation triggered aggressive policy rate cuts. Furthermore, better-than-expected GDP growth in 2Q25 and 3Q25 created positive investor sentiment for corporate earnings.

Nigeria followed with a 63% Y-o-Y USD return on improved macro stability, government reforms and easing inflation which prompted the first policy rate cut in five years. Furthermore, the CBN lowered banks cash-reserve ratio from 50% to 45% increasing banks liquidity to drive credit growth. South Africa delivered a 57% Y-o-Y dollar return on a stronger rand from higher metal prices.

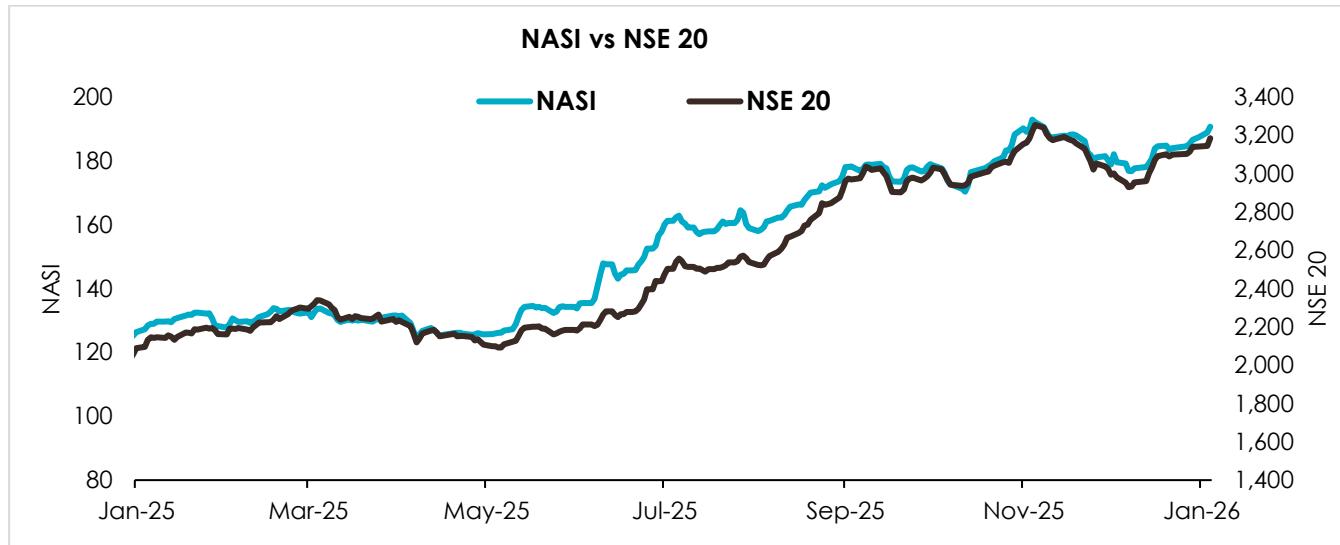
East Africa: Within East Africa, Kenya recorded the highest USD return in 2025 at 52% on improving macro conditions including stable inflation and currency which drove policy rate cuts. In Tanzania, banking stocks (CRDB and NMB) drove equity market performance (+27.5% Y-o-Y) while gains on Stanbic Bank Uganda and MTN Uganda drove the USE's performance.

Kenya: Kenyan equities strengthened further in 2025 supported by the stable shilling, easing inflation and improving earnings momentum in banks and select blue-chip counters. Local institutional investors remained the primary source of liquidity as foreign participation stayed cautious but gradually improved alongside macro stabilization. With valuations still discounted and policy conditions steadier the market enters the new year with a more constructive tone.

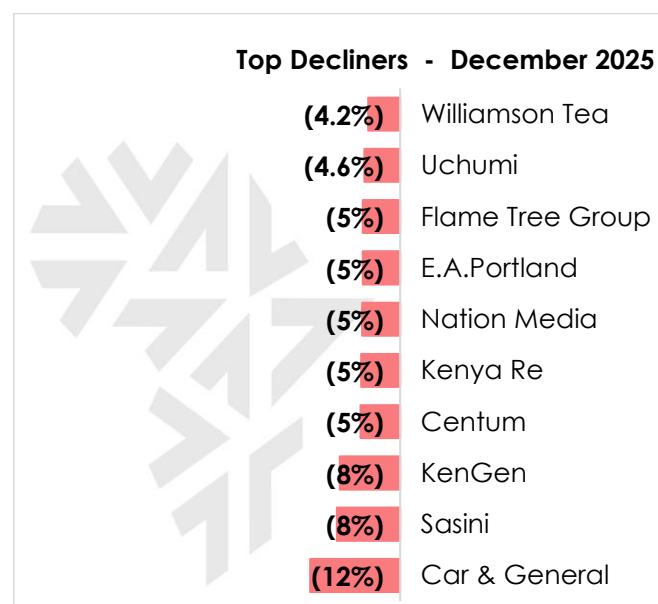
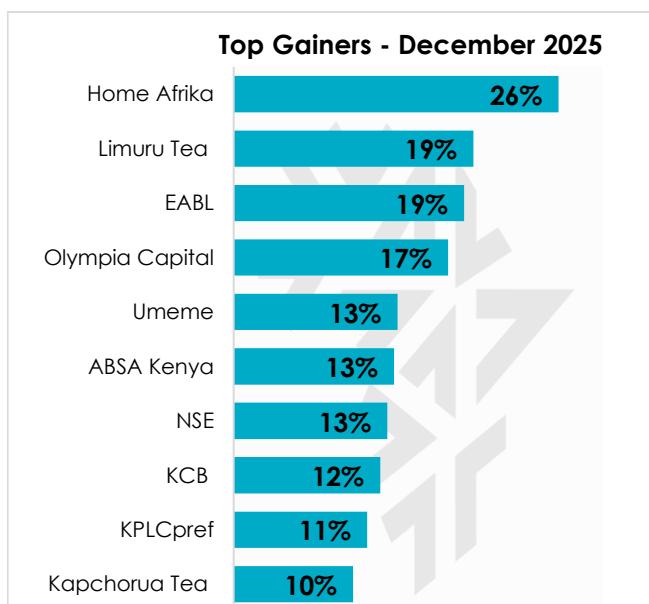


Local market performance

In Kenya, the NASI maintained upward momentum with gains across a decent number of counters.



NSE stock performance



Source: NSE, NCBA IB Research

Stable macro in 2025

Currency: The Kenyan Shilling remained stable against the US Dollar in 2025 with a marginal Y-o-Y appreciation of 0.23%. This stability is expected to be sustained by the Central Bank of Kenya's interventions through Open Market Operations along with support from diaspora remittances and tourism inflows.

Currency Performance			
Period	USD/KES	GBP/KES	EURO/KES
Dec-25	129.01	173.65	151.43
Y-o-Y	(0.23%)	7.06%	12.40%

Source: CBK, NCBA IB Research

Inflation: Headline inflation remained unchanged in Dec-25 at 4.5%. Overall consumer price Index ticked up by 0.6% to 148.02 in December.

Looking ahead into 1H26, we expect inflation to remain below central bank's midpoint target on stable FX, lower global oil prices and increased food supply.

Statistic	Dec-25	Nov-25	Change (bps)
CBR	9.00%	9.25%	(25.00)
Inflation (CPI)	148.02	147.08	63.91

Source: CBK, NCBA IB Research

Liquidity conditions: Liquidity conditions eased during the month. Indicatively, the overnight interbank rate declined by 15.3bps month on month to close at 9.09%.

Statistic	Dec-25	Nov-25	Change (bps)
Average Kesonia Rate	9.09%	9.24%	(15.25)

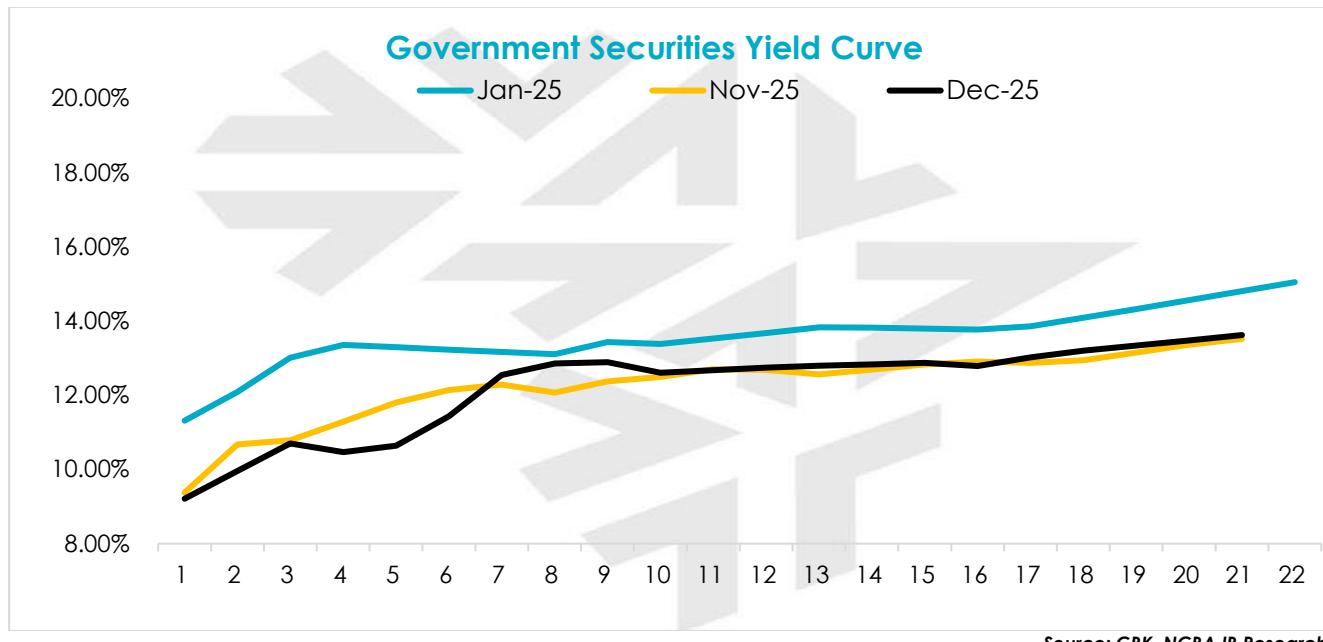
Source: CBK, KNBS, NCBA IB Research

Interest rates: Short-term rates continued their downward trend with the 91-day and 364-day papers declining m/m. Going forward, we expect the pace of decline to be more gradual compared to the aggressive easing observed in 2025.

Prevailing rates	Dec-25	Nov-25	M/M change (bps)
91 Day	7.78%	7.78%	0.32
182 Day	7.80%	7.80%	-
364 Day	9.21%	9.38%	(16.86)

Source: CBK, NCBA IB Research

Yields on longer-dated government securities were also on a downward trajectory. Overall, we anticipate a continued downward trend in the yield curve albeit at a slower pace. However, we expect the curve to tick upwards in the medium term given the fiscal pressures to cover the budget deficit.



Notable themes in 2025

- **Significant changes in shareholding structure:**
 - In Dec-25, Safaricom announced that Vodafone Kenya will acquire the government's 15% shareholding which will see Vodacom SA emerge as the majority shareholder in Safaricom. The government's partial divesture is part of the broader SOE privatizations aimed at raising revenue amid high fiscal pressures.
 - Diageo also announced the sale of its 65% shareholding in EABL to Asahi Group marking a further step in its strategy to exit the beer business in Africa. Diageo has been offloading beer assets across several markets including Guinness Ghana Breweries, Guinness Nigeria, and Meta Abo in Ethiopia. Asahi Group has a wide international footprint with operations in multiple countries across Asia and Europe.
- **Corporate issuances surge:** Safaricom launched a KES 40Bn Medium-Term Note (MTN) Programme re-igniting activity in Kenya's corporate debt market. EABL also returned to the bond market early in the year. Rising investor appetite for high-grade corporate credit reflected stronger confidence in issuers.

- **State-linked counters stay active:** Government-driven actions were notable:
 - Follow-through on the privatization Programme kept counters like KenGen, KPLC, EAPC in play.
 - Periodic government communication triggered trading spikes.
 - Investors speculated around valuation resets, debt restructuring and governance reforms.
- **Macro environment turned from headwind to stabilizer:** Kenya's macro environment in 2025 was a tailwind for equities in almost three years driven by shift in monetary and external position. With inflation firmly within target and FX pressures muted, the CBK initiated a gradual policy-rate reduction lowering yields on medium-term government paper and slowly redirecting liquidity back toward equities and corporate bonds. The shilling remained far more stable than the volatility seen in 2023-2024. Global rate-cut cycles by the Fed and ECB also revived appetite for frontier-market exposure.

Furthermore, softer global oil prices reduced import costs and improved the current account position. Overall, these dynamics combined strengthened investor confidence and significantly enhance foreign demand for Kenya's risk assets.

- **Rare surge in new listings:** 2025 saw a spike in IPOs/listings with three new firms listed - the highest number in a decade. Among them: Shri Krishana Overseas (SKL) and an infrastructure-asset backed security tied to construction of a national stadium.
- **Roll-out of new sector index:** The NSE launched a dedicated Banking Sector Index in late 2025 to track all major listed banks, aiming to improve transparency for sector-focused investors and pave way for potential ETFs or index-linked instruments.

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