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# CIO NEWSLETTER

I want to talk about **quantum physics**, specifically the concept of **entanglement of particles**. In quantum physics, you cannot know with certainty the exact state of a particle - for example, whether it is 0 or 1. However, you do know that once you measure one particle and observe its state, you can know with 100% certainty the state of the other particle. Physicists describe this as an **indeterminate but correlated state**.

What makes this even more bizarre is that the distance between the particles does not matter. One could be in Kisumu and the other in Wajir, and the result would still be the same. In other words, the correlation is **non-local**. Albert Einstein, one of the pioneers of quantum physics, called this **'spooky action'** and in his mind created a paradox that seemed to violate his theory that nothing moved faster than light; he believed physical processes must have local causes.

This sent me down a rabbit hole when thinking about **equity markets and what investors should do**. There is no doubt that Kenyan markets have been on a strong run since the shilling stabilized. In hindsight, investors should clearly have increased their equity exposure. The real question, however, is whether this should have been done through **an equity fund or via direct stock selection**.

Think of these as our **two entangled particles**: Kisumu represents **an equity fund**, and Wajir represents **direct investing**. At the start, both were in an **indeterminate but correlated state**, which is to say that you knew you would likely make a return, but you did not know how large that return would be. Spooky, perhaps?

The answer is actually no. In quantum physics, experiments, particularly **Bell's experiment**, showed that Einstein's concerns were unfounded. In our case, the equivalent experiment is the **performance of the NCBA Equity Fund versus the broader NSE** over the last two years.

What becomes clear is that **investors should have had exposure to the NCBA Equity Fund**. Unfortunately, in Kenya, equity funds are often overlooked in favor of "easier to understand" fixed income funds. Yet the performance speaks for itself: the **NCBA Equity Fund** returned **38% over 12 months, 85% over two years, and 70% over three years**.

As interest rates corrected over the last 24 months, investors would have earned capital gains in fixed income funds of roughly **20%**. While this is meaningful, and both fixed income and equity allocations make sense, it is **nowhere near what equities delivered**.

Looking ahead, with **interest rates expected to remain low** and **pension funds still under-allocated to equities** relative to historical levels, the outlook for equities remains attractive. Once again, we find ourselves in a **correlated but indeterminate state**. Our job is to help investors find the right allocation; one that protects capital while still capturing upside.

**MUATHI KILONZO**

**MANAGING DIRECTOR, NCBA INVESTMENT BANK**

**Dear Investor,**

We're excited to share this month's edition of the CIO newsletter with you.

We hope you find the insights valuable as you navigate the evolving investment landscape. As always, we're here to support your wealth creation journey.

**1. Review of Financial Markets' Performance****1.1. Equity Markets**

- Global equities ended January with strong monthly gains, as diverging themes within the regions reflected their performance.
- U.S. markets faced a volatile policy environment, from the Venezuela takeover to Greenland threats. Tariff fears resurfaced, causing selloffs across asset classes. The month closed with gains, upheld by specific sector outperformances (energy, materials and healthcare).
- Positive momentum was sustained across most European markets as cooling inflation data and strong earnings optimism effectively neutralized mid-month U.S. tariff anxieties.
- In Asia, performance was a tale of two drivers; stimulus-fueled optimism in Chinese equities and a yen-driven rally for Japanese exporters.
- Emerging market equities saw their strongest start in decades, attracting ~\$39 billion in inflows as investors pivoted towards select countries with positive local macro conditions, and similar AI opportunities to the U.S.

Global		
Index	Market	Jan-26
MSCI All Country	Global	2.92%

U.S. Market		
Index	Market	Jan-26
S&P 500	U.S.	1.37%
Nasdaq	U.S.	0.95%
Dow Jones	U.S.	1.73%

Europe		
Index	Market	Jan-26
STOXX 600	Europe	3.18%
FTSE 100	UK	2.94%
DAX	Germany	0.20%
CAC 40	France	-0.28%

Asia		
Index	Market	Jan-26
CSI 300	China	1.65%
Hang Seng	Hong Kong	6.85%
Nikkei 225	Japan	5.93%

Local		
Index	Market	Jan-26
NASI	Kenya	4.71%
NSE-25	Kenya	4.42%

- Kenyan equities sustained strong momentum in January, anchored by the landmark launch of the Kenya Pipeline IPO and robust half-year results from EABL, which included a strong year-on-year growth in dividend. Attractive

dividend plays, combined with efforts to deepen market breadth through new listings, continue to anchor investor confidence.

- The banking and manufacturing sectors remained primary drivers of index gains, supported by positive corporate actions and high expectations for the broader financial sector earnings season.
- Trading activity remained largely dominated by local investors, as foreign participation stayed limited during the month.

**1.2. Bond Markets**

- The global fixed income landscape shifted from rate-cut expectations to pricing in political risk premiums.
- With U.S. core inflation settling at 2.6% levels, and the nomination of Kevin Warsh as the next Fed Chair, rate cut expectations have shifted to H2 2026.
- Central bank divergence was noted; while the U.S., Bank of England, European Central Bank and Bank of Japan held rates steady, People's Bank of China cut rates to stimulate growth.
- U.S. treasury yields reflected market volatility, reflecting political risk premiums; rising with the geopolitical power moves on Venezuela and Greenland, Fed Chair Powell's increased scrutiny, as well as tariff threats, and shrinking from news of Warsh's nomination.
- In credit markets, a massive ~\$245 billion global issuance surge (much of it AI-driven), highlights strong demand, and supportive narrow spreads. Announcements around capping the cost of credit card debt has raised concerns about restricting access for subprime borrowers and slowing economic growth.
- Kenya's Eurobond yields declined modestly (~8 to 15bps on average), supported by the landmark Moody's upgrade to B3 in January. The upgrade, which cited reduced default risk and robust FX reserves, echoes the momentum seen following the S&P upgrade last August. That move successfully anchored investor confidence and paved the way for Kenya's return to the external markets with the October bond issuance, suggesting a similar window for opportunistic financing may be opening again.
- Local bond yield shifts were uneven; mid-tenor bonds softened, while long bonds ticked higher, reflecting the government's strategy to lengthen its maturity profile.
- The government has been proactive in liability management, effectively switching part of the August maturity bond into a longer paper. With limited bond maturities through the end of Q1, the Central bank has a clear window to maintain downward pressure on rates.

## 2. Performance of the NCBA Unit Trust Funds

The funds continue to post competitive returns while ensuring the underlying risks are consistent with the objectives of each fund as outlined below.

We believe these funds are well-positioned to deliver solid, sustained returns in comparison to their respective benchmarks.

### 2.1. NCBA (KES) Fixed Income Fund\*

The fund is a KES-denominated collective investment scheme that invests in a diversified portfolio of interest income earning assets, while ensuring low risk on the principal investment and access to funds on demand.

This fund is suitable for investors seeking a low-risk KES denominated fund that generates steady returns by earning and re-investing of interest income while ensuring safety of the principal.

Performance	Jan-26	3M	6M	1YR
<b>Fund</b>	0.76%	2.08%	4.48%	11.66%
<b>Benchmark</b>	0.64%	1.95%	4.00%	8.52%
<b>Fund Size</b>	KES 40.35 B			

\* - Benchmark – 91 Day Treasury Bill rate

The fund delivered an impressive performance in January, delivering positive returns boosted by valuation gains as lower yields improved on the value of existing government bonds.

We are proactively tightening duration, reducing exposure to long-term bonds that have come under pressure as GoK continues to front-load issuance at the long end and investor demand concentrates there.

Our shift toward shorter-dated securities is deliberate, aimed at protecting the portfolio from further rate volatility.

*With CBK's rate-management stance, we anticipate improved valuation stability and a more supportive environment for fixed-income performance.*

**Joseph K Thiga**  
Portfolio Manager  
NCBA Fixed Income Fund



### 2.2. NCBA (USD) Fixed Income Fund\*\*

The Fund is a USD-denominated collective investment scheme that invests in a diversified portfolio of interest income earning assets, while ensuring low risk on the principal investment and access to funds on demand.

This fund is suitable for investors seeking a low-risk USD denominated fund that generates steady returns by earning and re-investing of interest income while ensuring safety of the principal.

Performance	Jan-26	3M	6M	1YR
<b>Fund</b>	0.71%	1.92%	4.54%	8.35%
<b>Benchmark</b>	0.32%	0.96%	2.06%	4.27%
<b>Fund Size</b>	USD 47.29 M			

\*\* - Benchmark – Secured Overnight Financing Rate

The fund delivered a strong performance in January supported by valuation gains from our Eurobond exposures as yields declined with ongoing liability-management efforts and stable external liquidity flows.

Our allocations to offshore fixed-income instruments and structured solutions provided constructive stability, supporting performance relative to the benchmark.

*The fund continues to diversify its holdings to strengthen returns. With the US dollar interest rates trending lower, deposit rates are likely to adjust lower, therefore, we are actively locking in attractive offshore yields to bolster income and further support bond valuations.*

**David Kiruri**  
Portfolio Manager  
NCBA Dollar Fixed Income Fund



### 2.3. NCBA (KES) Equity Fund\*\*\*

The fund is a KES-denominated collective investment scheme that aims to generate total returns by investing in a diversified portfolio of equity securities, providing long-term capital growth through dividends and capital gains.

The fund, an index tracker, classified as a medium-high risk investment, allocates at least 60% of the market value of its assets under management to locally listed equities, equities listed in other regulated exchanges, or unlisted equities.

This fund is suitable for investors seeking long-term capital growth through investing in a diversified pool of local equity investments.

Performance	Jan-26	3M	6M	1YR
Fund	2.04%	3.40%	16.41%	38.18%
Benchmark	2.91%	4.71%	18.41%	34.86%
Fund Size	KES 305.86 M			

\* - Benchmark – 60% NSE 25 and 40% 91-day TBill

The fund delivered a strong performance, slightly underperforming the benchmark, supported by robust performance in the banking sector which led a broader market rally. The NSE All Share Index rose 4.71% over the month, while the NSE 25 advanced 4.42%, reflecting improved sentiment and sustained earnings momentum.

The rally was driven by corporate announcements and earnings releases particularly within financials and manufacturing where the fund maintains exposure.

Market activity during the month was largely driven by sustained participation from local investors as foreign investor involvement remains limited.

January 2026	Fund	NSE 25
P/E (Price-to-Earnings) Ratio	10.57	10.14
P/B (Price-to-Book) Ratio	2.72	2.42
Dividend Yield	5.86%	5.46%

*Looking ahead, we expect continued strong investor participation to support the market, even as some price softening in select large-cap counters emerges with easing profit-taking. We remain flexible in adjusting allocations as opportunities arise amid evolving market conditions and valuation considerations.*

**Kenneth Mugira**  
Portfolio Manager  
NCBA Equity Fund



#### 2.4. NCBA Global Equity Special Fund\*\*\*\*

The Fund is a USD-denominated collective investment scheme that invests in a diversified portfolio of global equity funds and securities, offering investors efficient exposure to global equities and long-term capital growth.

This fund is suitable for investors seeking long-term capital growth through investing in a diversified pool of global equities while diversifying the local currency risks.

The fund invests in USD-denominated exchange-traded funds and mutual funds with allocation in U.S., Europe, Emerging Markets, China, Asia Pacific and Japan, using strategic allocation and security selection to outperform its benchmark.

Performance	Jan-26	3M	6M	1YR
Fund	3.25%	4.23%	12.67%	24.77%
Benchmark	2.92%	3.78%	12.33%	20.16%
Fund Size	USD 5.26 M			

\* - Benchmark - MSCI All Country World Index

The Fund delivered a return of 3.25% in January, outperforming the MSCI ACWI, primarily driven by active regional allocation and positioning.

Emerging markets contributed positively, aided by a weaker U.S. dollar and strong investor inflows into markets with improving macro fundamentals. Asia-Pacific and European markets continued to provide positive regional diversification from the U.S., which experienced political volatility and tech-led friction over the month.

*We continue employing disciplined portfolio construction and effective rotation toward sectors and regions with stronger near-term growth and policy support.*

#### 2.5. NCBA Global Fixed Income Special Fund\*\*\*\*\*

The Fund is a USD-denominated collective investment scheme that invests in global fixed-income exchange traded funds and mutual funds sourced from global financial markets to generate sustainable medium-term returns.

This fund is suitable for investors seeking to earn steady growth in their investment through a globally diversified pool of interest earning assets.

The fund invests in benchmark-tracking fixed income funds, using strategic allocation and security selection to outperform its benchmark.

Performance	Jan-26	3M	6M	1YR
Fund	0.71%	1.83%	4.25%	9.85%
Benchmark	0.21%	1.12%	4.86%	9.29%
Fund Size	USD 13.23 M			

\* - Benchmark – Blended Benchmark reflecting the investment style.



The Fund delivered a return of 0.71% in January, outperforming the benchmark's 0.21%, supported by active exposure to higher-yielding credit and selective sovereign allocations.

Strong contributions came from Global High Yield Corporate Issues and Africa Eurobonds, while developed market government bonds also added positively as rates moderated.

Although emerging market bonds detracted on account of volatility in Latin America and fiscal policy concerns in Japan, the overall performance highlights the effectiveness of the Fund's exposure to quality, high grade instruments where spreads remain compensatory.

*We remain well placed to tap improving sentiment around emerging market debt, with the recent waves in rating upgrades, and continued flows into the region. With global monetary policy rates anchored in the near-term, and spreads at historically slim levels, we are keen on balancing instruments with attractive risk-return, and duration profiles.*

**Daniel Ndung'u**  
Portfolio Manager  
NCBA Global Special Funds



## Our Markets focus this February

Geopolitics and uncertain policy moves from the U.S. remain the key risk across markets and asset classes.

Into the month of February, we expect:

### On the global stage

- **The "Warsh" Factor:** We're closely watching U.S. Treasury yields as the market prices in the nomination of Kevin Warsh. If his "supply-side" optimism leads to a stronger dollar, it could slow down the recent decline in Kenya's Eurobond yields.
- **Tech Paradox:** The ongoing tech sell-off is on fears of some U.S. tech heavyweights spending too much on AI, while others not enough. We look to see at what level markets perceive as the balance.
- **Tariff De-escalation & more TACO trades:** After India, and Trump walking back increased European tariffs, we're keen to see who else locks in a deal with Trump.

### Back Home - Kenya Outlook

- **Growth-Focused Policy Stance:** The Monetary Policy Committee delivered yet another 25bps rate cut in their recent meeting. We continue to watch how this plays out in overall market liquidity, private sector credit growth and that outturn on overall GDP.
- **Kenya Pipeline IPO Outcome:** Participation looks largely retail-led, as foreign and institutional investors expressing caution over the valuation. We are keen to see the participation seeing how money has kept chasing opportunities in the market.

*As your investment manager we are agile to ensure your investment in the NCBA Unit Trust Funds stay aligned to the above themes.*

*If you'd like to explore how these insights and opportunities fit into your investment strategy, feel free to reach out. We're always happy to discuss what works best for your investment goals.*

Yours Sincerely,

**Paul Gicheru**  
Chief Investment Officer



\* **NCBA Fixed Income Fund** invests in a diversified portfolio of interest-earning assets, with a focus on preserving capital, maintaining liquidity, and delivering stable income over time. The fund invests in high-quality interest earning securities such as treasury bills and bonds, bank deposits, commercial paper, and corporate bonds, ensuring both safety and accessibility of investor funds.

\*\* **NCBA Dollar Fixed Income Fund** invests in a diversified portfolio of interest-earning assets, with a focus on capital preservation, liquidity, and consistent income generation. The fund invests in high-quality interest earning instruments, including bank deposits, Eurobonds, money market securities and mutual funds, and other fixed income assets.

\*\*\* **NCBA Equity Fund** is focused on long-term capital growth through a diversified portfolio of equity securities, targeting both dividend income and capital gains. Classified as a medium-to-high risk fund, it invests at least 60% of its portfolio in listed or unlisted equities, locally or across regulated markets. The remaining portion is held in cash or cash equivalents for liquidity and risk management.

\*\*\*\* **NCBA Global Equity Special fund** is a USD-denominated collective investment scheme that provides investors with exposure to global equities through a diversified portfolio of global exchange-traded funds (ETFs) and mutual funds, targeting medium- to long-term capital growth.

\*\*\*\*\* **NCBA Global Fixed Income Special fund** - is a USD-denominated fund investing in a globally diversified portfolio of USD-denominated fixed income ETFs and mutual funds, aiming to deliver sustainable, medium-term returns.

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