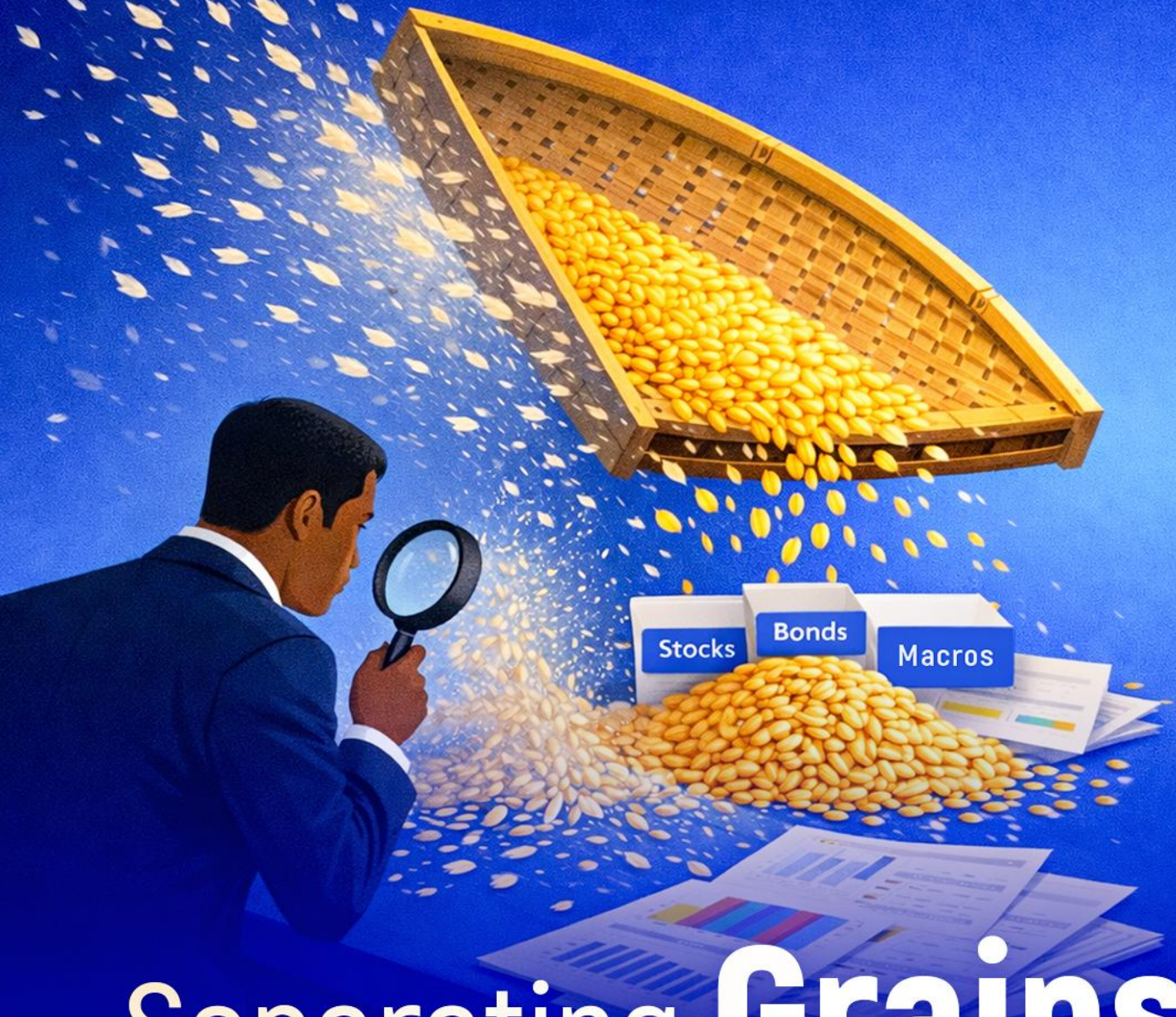


Investment Play 2026



Separating Grains From Chaff

STOCK BROKING



Treasury Bonds

Treasury Bills

Off-shore Investments



STOCKBROKING

As a licensed Stockbroker, AIB-AXYS Africa provides a platform for local and foreign investors to buy and sell shares of Companies listed on the Nairobi Securities Exchange. Our team of experienced Equities dealers act with integrity and professionalism at all times and in the best interest of our clients to assist them to make informed and timely investment decisions.

Our trading philosophy is anchored on precise and timely execution of clients orders while maintaining the highest standards of transparency, client confidentiality and independence.

BOND TRADING

Our Bond dealing desk offers investors' access to Fixed income securities such as T-bills, T-bonds, and Corporate bonds issued in the primary market and subsequently trading in the secondary market.

Our bond dealers command a combined experience of over 20 years in the Kenyan market with a solid track record of delivering value to Fixed income investors through regular insight on interest rates movements and market sentiment as well as first class execution of trades.

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Invest in global stocks, mutual funds, ETF's, commodity markets and fixed income (corporate and government bonds) spanning diverse global geographies.

- Capital protection
- Outperformance of local economic conditions
- Minimize exposure to currency risk



Welcome

Dear Clients,

2025 was a year in which the market rewarded investors handsomely, particularly those who boarded the train early. The ride was strong, as markets delivered one of their best performances in recent years, entering a full-steam recovery phase. Do we expect a repeat of this performance? Only investors who can “*separate grain from chaff*” are likely to continue reaping rewards, especially those willing to remain invested for the long term. While the broad market benefited from a strong bull run and most counters rode this wave, markets ultimately correct to fundamentals over time. Investors' portfolio positioning should remain firmly anchored on strong fundamentals.

As we enter 2026, we remain bullish on equities and see room for further upside through selective positioning. Key drivers include a lower interest rate environment and increased investor participation.

In this outlook, we review market performance in 2025 and share our perspectives on what to expect in the year ahead, helping you position effectively across equities and fixed income, while also highlighting diversification opportunities beyond the domestic market.

Warm regards,

AIB-AXYS Research Team

List of Abbreviations

AFDB	African Development Bank
CBK	Central Bank of Kenya
CBR	Central Bank Rate
EFF	Extended Fund Facility
EMDE	Emerging Markets and Developing Economies
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KES	Kenya Shilling
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
LCU	Local Currency Units
MPC	Monetary Policy Committee
NSE	Nairobi Securities Exchange
PMI	Purchasing Managers Index
RSF	Resilience and Sustainability Fund
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TTM	Trailing Twelve Months
USD	United States Dollar
VAT	Value Added Tax

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Global Macro Outlook

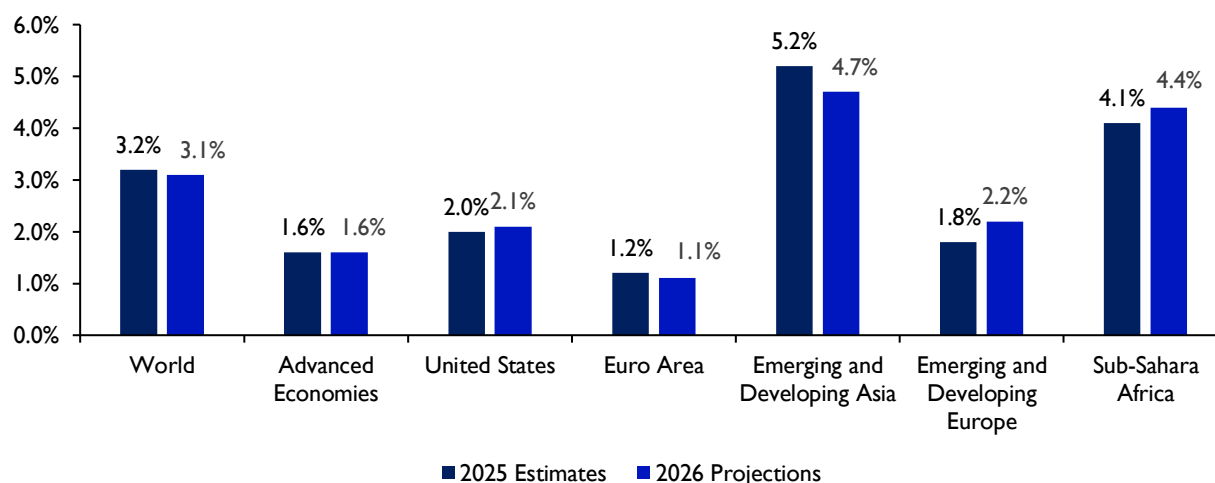
Growth: Repricing risk and opportunity

2025 was far from business as usual, and investors should brace for potential disruptions in 2026. Tariffs were the primary source of disruption in 2025, although their impact proved far less severe than initially feared. Businesses and households moved swiftly to front-load purchases to sidestep higher costs, particularly in the US, softening the anticipated shock. Artificial intelligence did much of the heavy lifting for the US economy in 2025, and this momentum is expected to persist into 2026. Firms are likely to continue front-loading investment in AI, positioning it as a key engine of growth. At the same time, monetary policy will remain a dominant theme. By the close of 2025, markets had priced in at least two rate cuts in the US, a view we believe will hold as inflation remains stubbornly above desired levels. Lower borrowing costs would provide a meaningful tailwind for businesses, further supported by fiscal stimulus.

In Europe, growth is expected to receive support from key markets. Germany's planned fiscal stimulus should provide a lift, alongside increased spending on infrastructure and defense. This comes even as the broader euro zone is expected to adopt a tighter fiscal stance, with several governments leaning towards austerity. In the UK, inflation remains sticky but is expected to cool. However, consumer spending is still historically weak, which could weigh on growth prospects.

China's economy is poised for growth, underpinned by resilient exports. Front-loaded activity supported momentum in 2025, and this trend is likely to continue. A weaker currency and competitive pricing should further bolster exports, although domestic demand remains subdued despite ongoing fiscal stimulus efforts

Chart I: Regional Growth Projections



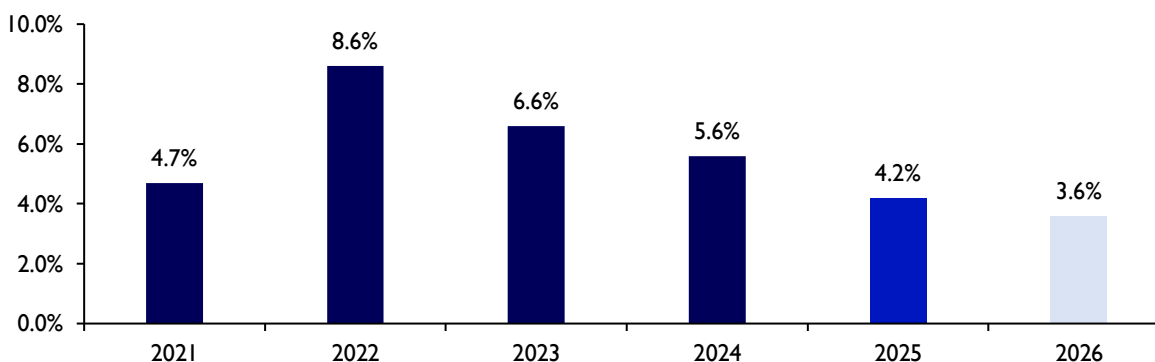
Source: IMF October 2025 World Economic Outlook, AIB-AXYS Research

Inflation: From peak pressures to fragile relief

According to the World Bank's October update, global headline inflation is projected to decline further in 2026 to 3.7%, from an estimated 4.2% in 2025. Throughout 2025, inflation moderated across global markets, albeit unevenly, and remained above desired levels in major economies. The main drivers of inflation were trade policies, particularly tariffs imposed by the US government, and heightened geopolitical uncertainty. Firms absorbed part of the inflationary costs; however, going forward, these costs are likely to be passed on to consumers.

In the US, inflation is expected to remain above target in 2026. In Europe, the Russia-Ukraine conflict continues to weigh on the outlook and remains a source of uncertainty; nevertheless, inflation is expected to gradually ease and converge towards the European Central Bank's 2.0% target. Notably, disinflation is expected to prevail in Japan, supported by government policies.

Chart 2: Global CPI Forecast



Source: IMF October 2025 World Economic Outlook, AIB-AXYS Research

Policy continuity meets fiscal strain

In 2025, central banks navigated a tightrope, balancing inflation control with the need to stabilise growth. As we move into 2026, central banks are expected to largely maintain the monetary policy direction adopted in 2025. In the US, the Federal Reserve is expected to implement two rate cuts. In Europe, the European Central Bank is expected to hold rates steady and only embark on a rate-cutting cycle once inflation falls within its target, while the Bank of England is expected to cut rates. In Japan, the Bank of Japan is expected to continue tightening, with two rate hikes anticipated in 2026. Across emerging markets, most central banks are expected to maintain a dovish stance.

Debt levels remain a key concern for investors, particularly in fixed income markets, where rising debt has triggered volatility in yields. In the US, the debt-to-GDP ratio has continued to rise, with fiscal deficits remaining elevated. The IMF projects the US debt-to-GDP ratio will reach 143.0% by 2030. Other major economies are facing similar dynamics, as debt levels continue to climb due to increased government spending and ageing populations, which are contributing to a shrinking tax base.

Sub-Saharan Africa Outlook

Economic growth: Moderate growth continues as risks stay skewed to the downside

Economic growth across Sub-Saharan Africa remained resilient in 2025, with regional GDP expected to expand by 4.1%, despite a challenging global backdrop. The region continued to benefit from macroeconomic stabilization efforts and reform momentum in several large economies, notably Ethiopia and Nigeria, alongside solid performance in fast-growing frontier markets such as Rwanda, Côte d'Ivoire, Benin, and Uganda.

However, growth outcomes remained uneven. Resource-intensive economies and conflict-affected states continued to lag, weighed down by weaker commodity dynamics, fiscal constraints, and elevated exposure to external shocks. As a result, gains in per capita income remained modest, averaging about 1.0%, underscoring the region's ongoing struggle to translate aggregate growth into broad-based welfare improvements.

The external environment posed persistent headwinds throughout the year. While global growth held up better than initially feared, tight external financing conditions, elevated debt-servicing costs, and rising global uncertainty constrained investment and fiscal space. That said, the resilience observed in 2025 reflected improved policy frameworks, tighter monetary stances, and gradual rebuilding of macroeconomic credibility across several economies.

Looking ahead, GDP growth is expected to edge higher in 2026, supported by continued macroeconomic stabilization, easing inflationary pressures, and reform-driven confidence effects in select economies. Nevertheless, the outlook remains fragile and skewed to the downside. Elevated public debt, growing reliance on domestic financing, and a deteriorating global trade and aid environment pose material risks to sustained growth. In this context, growth quality will matter more than growth alone. Economies that advance domestic revenue mobilization, strengthen debt management, and safeguard macroeconomic stability are likely to outperform peers. Conversely, countries with limited buffers and delayed reforms remain vulnerable to shocks, risking a reversal of recent gains.

Inflation: Stabilization progress, but buffers still matter

Inflationary pressures across Sub-Saharan Africa continued to ease in 2025, signaling a combination of tighter monetary policy, lower global food and energy prices, and improving currency stability in several economies. Regional median inflation declined to around 4.0% by the end of 2025, down from elevated levels recorded in 2023, marking a meaningful step toward macroeconomic stabilization.

Structural vulnerabilities continue to complicate the inflation landscape. In several low-income and fragile states, weak external buffers, high import dependence, climate-related disruptions, and administered price adjustments sustained upward pressure on prices. Moreover, elevated debt servicing costs constrained fiscal flexibility, limiting governments' ability to cushion households against price shocks without exacerbating macroeconomic imbalances.

Looking ahead to 2026, inflation across Sub-Saharan Africa is expected to remain on a gradual downward trajectory, supported by continued monetary discipline, easing global financial conditions, and softer energy prices. However, the pace of disinflation is likely to slow, and risks remain tilted to the upside.

Renewed exchange rate pressures, climate-induced food supply shocks, and potential fiscal slippages particularly amid declining external aid, pose significant risks to price stability. Countries with weaker monetary credibility or limited policy space may face difficult trade-offs between supporting growth and containing inflation. As such, sustaining progress on inflation will require credible and independent monetary policy, alongside fiscal consolidation efforts. Overall, while 2025 marked a turning point in the region's inflation cycle, price stability in 2026 will depend less on global tailwinds and more on domestic policy discipline, structural reform, and the rebuilding of external buffers.

Currency: Stability returns, vulnerabilities remain

After the extreme volatility witnessed in prior years, Sub-Saharan African currencies entered 2025 with an improved footing, as tighter monetary policy, easing global inflation, and selective rebuilding of foreign exchange buffers helped restore relative stability across the region. Unlike 2024, when FX performance was defined by sharp swings, 2025 was largely characterized by consolidation rather than outright appreciation. Currency outcomes remained highly uneven. Economies that benefitted from strong external inflows, particularly remittances, commodity exports, and renewed portfolio interest, saw their currencies stabilize, while countries facing persistent trade imbalances, elevated debt service costs, and weak reserves continued to experience depreciation pressures.

Reform-driven FX adjustments also played a key role. In some economies, greater exchange-rate flexibility helped correct misalignments, albeit at the cost of short-term volatility. Elsewhere, administrative controls and episodic FX interventions provided temporary stability but left currencies vulnerable to renewed pressure. Overall, 2025 marked a transition year: from disorderly currency adjustments to a more differentiated FX landscape, where policy credibility and external buffers increasingly determined outcomes.

Looking ahead, SSA currencies are expected to remain broadly stable in 2026, supported by expectations of lower global interest rates, moderating inflation, and continued macroeconomic stabilization in key economies. However, this stability remains fragile and highly conditional. Downside risks persist. Elevated external debt maturities, declining concessional inflows, and reduced donor support could reignite FX pressures, particularly in lower-income and fragile states. In addition, any resurgence in global risk aversion or sharp commodity price corrections would disproportionately affect currencies with thin reserve buffers.

Kenya Macro Outlook

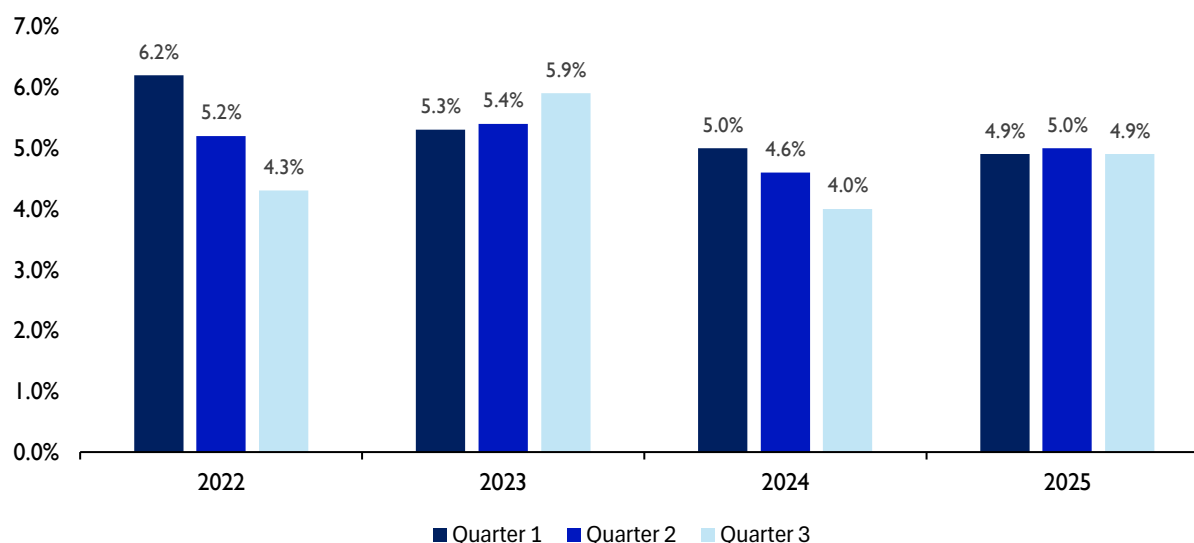
GDP Growth: Growth continues, but not broad-based

Kenya's economy maintained a steady growth trajectory through the first nine months of 2025, expanding by an average of just under 5.0%, supported primarily by a resilient services sector and a recovery in industrial activity. Growth improved from 5.0% in Q2 2025 before moderating slightly to 4.9% in Q3 2025.

Services remained the primary engine of growth, underpinned by sustained expansion in transport and storage, financial and insurance services, wholesale and retail trade, and accommodation and food services, reflecting improving mobility, credit conditions, and tourism activity. Meanwhile, construction and mining and quarrying rebounded strongly in 2025 following contractions in 2024, supported by easing financing conditions and a gradual pick-up in private sector investment. However, growth in manufacturing and agriculture remained uneven, with weaker performance in select sub-sectors including food manufacturing, sugar, tea, and coffee exports, underscoring continued cost pressures and export volatility.

Easing monetary conditions provided incremental support to economic activity, with the Central Bank Rate reduced to 9.0% in December 2025, contributing to lower borrowing costs and improved liquidity conditions. Nonetheless, the growth impulse remained tempered by fiscal consolidation, elevated tax burdens, and a widening current account deficit, which constrained aggregate demand and limited a more broad-based acceleration in output.

Chart 5: Kenya Quarterly GDP Growth



Source: Kenya National Bureau of Statistics, AIB-AXYS Research

Looking ahead, we expect economic growth to remain positive but selective in 2026, with GDP expansion anchored around the 5.0% mark. Growth is likely to remain services-led, supported by continued monetary easing, stable inflation, and recovery in construction and industry. Growth, however, is capped by fiscal rigidity, external financing needs, and uneven sectoral productivity, reinforcing the need for greater selectivity in investment and policy execution.

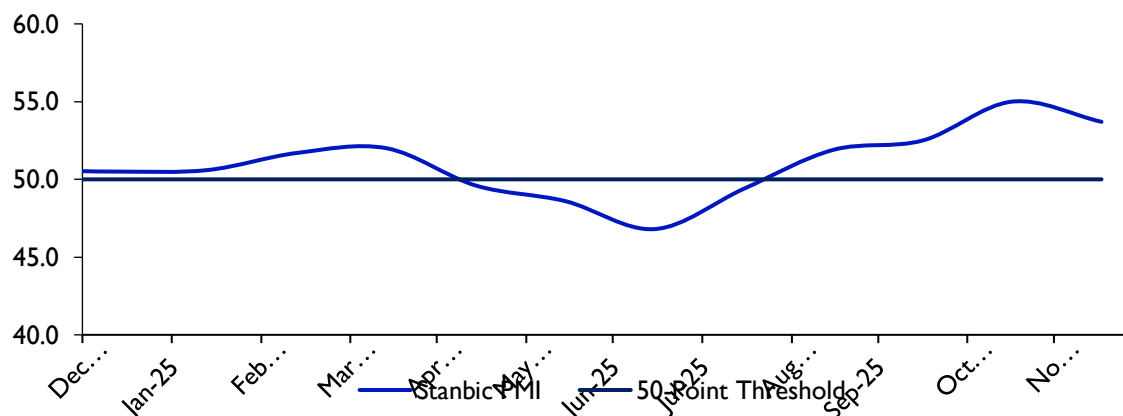
Business Environment: From contraction to expansion

Businesses experienced a two-speed performance in 2025, with the first half of the year characterized by subdued business conditions amid weak demand, elevated cost pressures, and protest-related disruptions, before a clear and broad-based recovery emerged in the second half. PMI readings spent much of H1 in contraction territory, pointing to strained household purchasing power and cautious corporate activity. However, conditions began to stabilize from Q3 and strengthened decisively into Q4, culminating in multi-year highs by November and December, supported by recovering sales, improved supply chains and easing inflationary pressures.

The late-year recovery was driven primarily by a rebound in new orders and output, which in turn supported stronger employment growth and a renewed expansion in purchasing activity. Importantly, supply-side conditions improved materially, with delivery times shortening to the fastest pace in several years, signaling reduced bottlenecks and stronger vendor competition.

Looking ahead, PMI trends point to a constructive but measured expansion in 2026. Improved business confidence, rising employment, inventory rebuilding, and easing supply-chain constraints should support continued growth in private sector activity. However, the pace of expansion is likely to be moderated by lingering cost pressures, tax-related risks, and cautious consumer spending, especially if inflation reaccelerates. Overall, PMI dynamics suggest that 2026 should see sustained expansion rather than a sharp rebound, anchored by demand recovery, policy support, and improving operating conditions.

Chart 4: Stanbic Bank Kenya Purchasing Managers Index



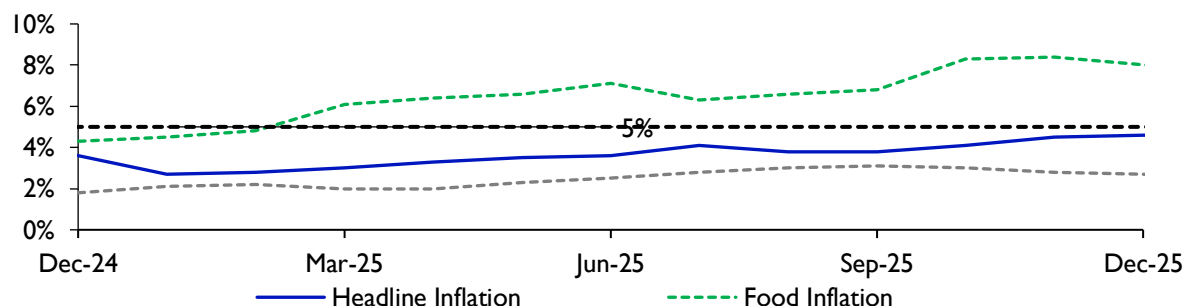
Source: Stanbic Bank Kenya, AIB-AXYS Research

Inflation: Price stability prevails in Kenya

Inflationary pressures in Kenya remained well contained throughout 2025, with headline inflation consistently within expectations for the year and comfortably inside the policy target range. Annual inflation averaged in the mid-4.0% range during the second half of the year, closing December 2025 at 4.5% y/y, showcasing a stable price environment aligned with our baseline projections. This outcome was supported by easing core inflation and improved exchange rate stability, underscoring effective macroeconomic coordination over the year.

Inflation dynamics were largely driven by non-core components, particularly food and fuel prices. Food and Non-Alcoholic Beverages inflation remained elevated, contributing approximately 2.4–2.7% points to headline inflation throughout 2025, pointing to weather-related supply constraints and seasonal pressures. Transport inflation firmed toward year-end following fuel price adjustments and higher passenger transport costs, while housing and energy-related costs posted modest but persistent increases. In contrast, core inflation followed a clear disinflationary path, easing steadily to 2.0% by December 2025, signaling subdued demand-side pressures and well-anchored inflation expectations.

Chart 5: Kenya's Inflation



Source: Kenya National Bureau of Statistics, AIB-AXYS Research

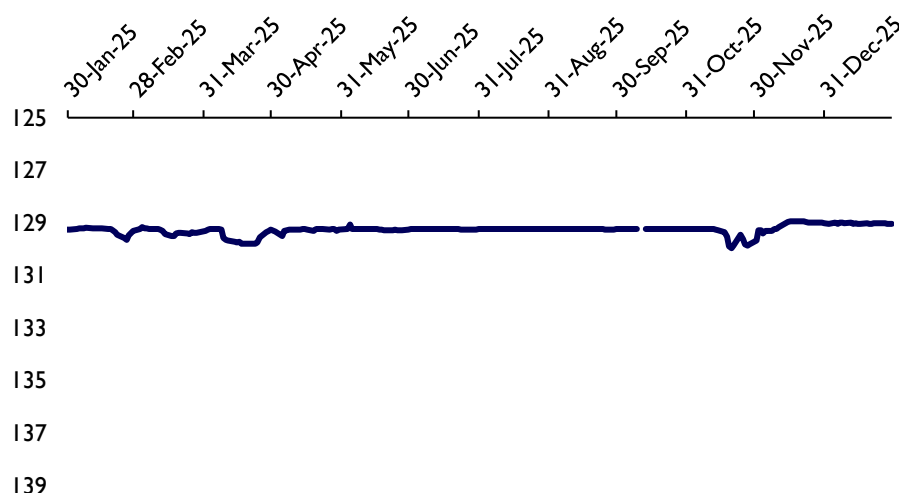
Looking ahead to 2026, inflation is expected to remain broadly within projected ranges, averaging between 4.3% and 5.1%, supported by subdued core inflation, stable exchange rate dynamics, and a relatively accommodative monetary policy stance following the reduction of the policy rate to 9.0%; we anticipate further cuts in the year. Risks remain tilted toward food- and energy-driven volatility rather than broad-based price pressures, given climate sensitivity and global oil price uncertainty. While core inflation is likely to stay contained amid restrained consumer demand and improved policy transmission, headline inflation is expected to be stable but uneven, reinforcing the need for continued vigilance against supply-side shocks.

Exchange Rate

The Kenya Shilling (KES) remained relatively stable against the US Dollar (USD) throughout 2025, trading within a narrow range for most of the year. The shilling opened the year at approximately 129.3 KES/USD and maintained this level through Q1, supported by steady foreign exchange inflows from exports and diaspora remittances. Between April and June, the shilling experienced minor strengthening, trading near 129.25 - 129.30 KES/USD, aided by Central Bank interventions aimed at smoothing market volatility.

From July to September, the currency remained largely unchanged at around 129.24 - 129.26 KES/USD, signaling stable import demand and controlled inflation levels. In the final quarter of the year, October to December, the shilling exhibited slight depreciation, trading mostly between 129.24 and 129.66 KES/USD, influenced by higher import payments and increased demand towards year-end.

Chart 6: Kenya Shilling Performance against the US dollar



Source: Central Bank of Kenya, AIB-AXYS Research

The Kenya Shilling is expected to remain relatively stable against major currencies in 2026, supported by anticipated steady inflows from growing forex reserves, diaspora remittances, and controlled inflation. Refinancing of the Kenya Eurobond in 2025 alleviated potential volatility for the Kenyan unit. Key factors that could influence the shilling include global commodity prices, foreign capital movements, and domestic monetary policy decisions. Inflation is projected to remain within the Central Bank's target range, with food and fuel prices likely to be the main drivers of any fluctuations in the overall consumer price index.

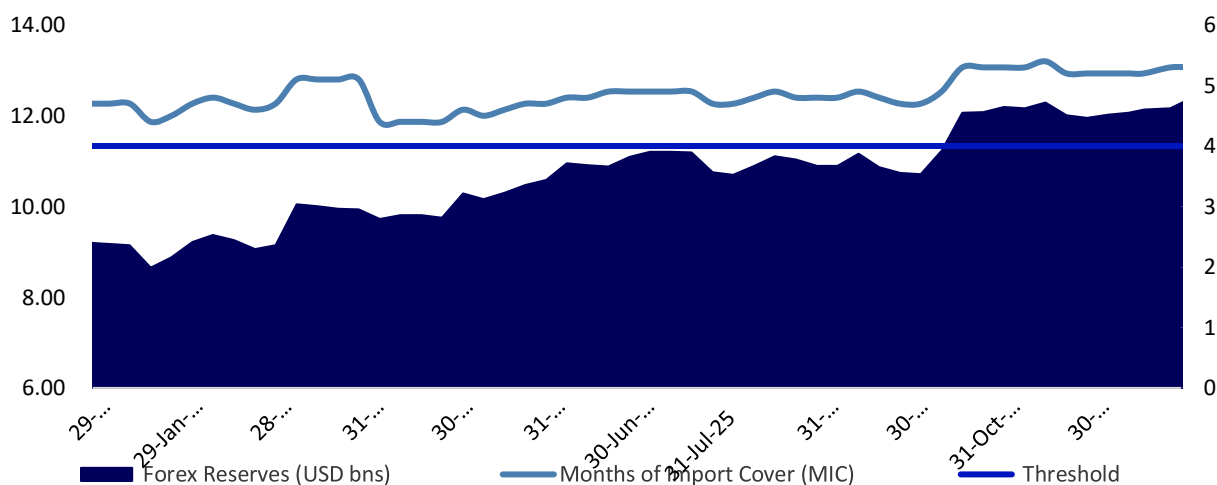
Forex Reserves: FX reserves rebound as external pressures ease

Kenya's foreign exchange reserve position strengthened materially over the course of 2025, pointing to improved external inflows, a stabilizing current account position, and deliberate policy efforts to rebuild buffers. Usable reserves increased from USD 9.2Bn (4.7 months of import cover) in early January 2025 to USD 12.23Bn (5.3 months of import cover) by the end of December, consistently remaining above the Central Bank of Kenya's statutory minimum of four months of import cover.

The reserve accumulation path was uneven, with pressures evident in Q1'25 amid elevated external debt service obligations and tight global liquidity conditions. However, a clear inflection emerged from Q2'25, supported by resilient diaspora remittance inflows, improved agricultural export receipts, exchange rate stabilization, and proactive external debt management that helped smooth near-term financing risks and limit reserve drawdowns. By Q4'25, reserves had firmly re-anchored above the five-month import cover threshold, signaling a restored external liquidity buffer and improved external resilience.

The strengthened reserve position reinforced market confidence, underpinned exchange rate stability, and enhanced policy credibility, providing the CBK with greater flexibility to manage liquidity conditions amid a gradually easing monetary stance. Looking ahead, reserves are expected to remain comfortably above the 5.0-month import cover mark in 2026, anchored by continued remittance resilience, stable export earnings, and moderated external financing pressures, positioning the economy to better absorb external shocks while sustaining macroeconomic stability.

Chart 7: Forex Reserves Trend



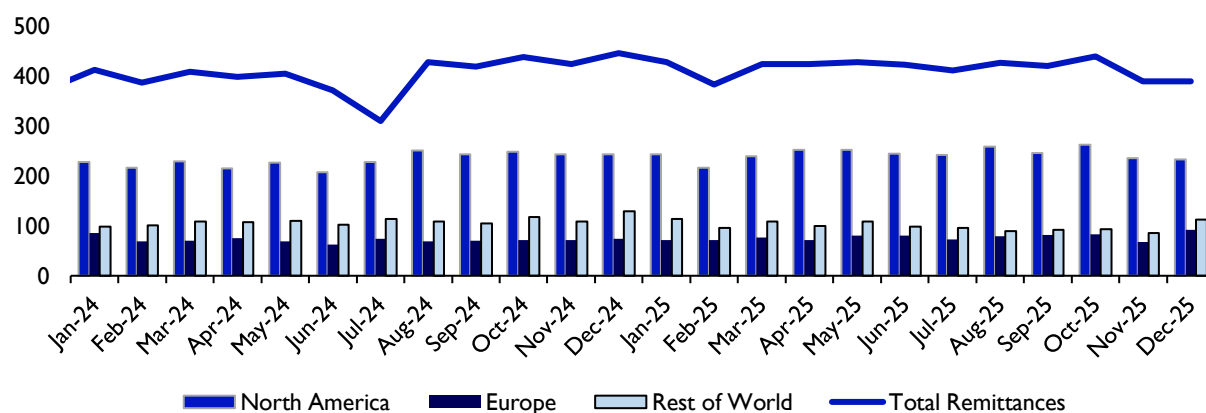
Source: Central Bank of Kenya, AIB-AXYS Research

Diaspora Remittances

Diaspora remittances to Kenya reached a historic high in 2025, surpassing USD 5.00 Bn for the first time and firmly entrenching remittances as the country's largest source of foreign exchange, ahead of traditional earners such as tea and tourism. Cumulative inflows crossed KES 1.00 Tn by November, underscoring their critical role in supporting household incomes, strengthening the balance of payments, and sustaining foreign exchange liquidity. North America remained the dominant source, accounting for approximately USD 2.90 Bn, reinforcing Kenya's continued linkage to economic conditions in advanced economies.

Despite the strong absolute performance, growth in remittance inflows slowed sharply to around 1.9% y/y, the weakest expansion since 2009. This deceleration reflects mounting pressures on diaspora incomes amid elevated living costs and tighter financial conditions in key source markets. Structurally, remittances remain a vital macroeconomic stabilizer, offering a steady, non-debt-creating source of foreign exchange. However, their growth impact remains constrained by usage patterns, with an estimated 80.0% of inflows directed toward consumption rather than productive investment.

Chart 8: Remittances (USD '000s)



Source: Central Bank of Kenya, AIB-AXYS Research

Looking ahead, diaspora remittances are expected to remain structurally resilient in 2026, though growth is likely to remain modest as external headwinds persist. The introduction of a 1% U.S. excise tax on remittances from January 2026 may marginally weigh on flows from Kenya's largest source market, particularly for low-value transfers. That said, initiatives such as the Kenya Diaspora Investment Strategy (2025–2030), alongside expanding digital employment opportunities and formal remittance channels, are expected to gradually improve the quality and economic impact of inflows. Overall, remittances should continue to play a key role in anchoring external sector stability, supporting the shilling, bolstering reserves, and cushioning the economy against external shocks.

Exchequer: Fiscal deficit drives increased domestic borrowing

For the first half of FY25/26, the government is lagging its total revenue targets, achieving 90.3% performance against the prorated target. Revenues amounted to KES 1,243.41 Bn versus a prorated target of KES 1,377.36 Bn. Notably, non-tax revenues outperformed expectations, coming in at KES 82.11 Bn, translating to 128.6% performance on a prorated basis. In our Q4 Investment Outlook, we noted that we expected the government to remain behind its revenue targets and to increasingly rely on the debt market to bridge the deficit, a trend that has since materialized. We also note that the government has rolled out several initiatives aimed at strengthening fiscal consolidation, including the introduction of the Electronic Rental Income Tax System, mandatory eTIMS compliance for tax purposes, and the introduction of automated payment plans for tax liabilities.

On the borrowing side, the government is ahead of its domestic borrowing target, having raised KES 670.43 Bn, equivalent to 122.1% of the prorated target of KES 549.13 Bn. Persistent fiscal deficits have compelled the government to increase domestic borrowing. Encouragingly, the yield curve has continued to soften, and we expect more stabilization over the course of the year, which should help moderate the cost of debt and work in the authorities' favour. On the expenditure front, recurrent Exchequer issues are ahead of the target at KES 809.19 Bn, while development expenditure has absorbed only 71.3% of the prorated allocation. Meanwhile, county governments have received KES 172.23 Bn, below the target of KES 207.5 Bn.

Table 1: Fiscal Performance for the first six months of FY2025/2026

	Original Estimates	Actual Receipts	% of the prorated
Opening Balance		6427.59	
Tax Revenue	2,627.06	1,161.29	88.4%
Non-Tax Revenue	127.65	82.11	128.6%
Total Revenue	2,754.71	1,243.41	90.3%
External Loans & Grants	569.81	226.97	79.7%
Domestic Borrowings	1,098.26	670.43	122.1%
Other Domestic Financing	10.8	21.57	399.5%
Total Financing	4,433.58	2,162.38	97.5%
Recurrent Exchequer issues	1,470.45	809.19	110.1%
CFS Exchequer Issues	2,141.03	1,017.20	95.0%
Development Expenditure & Net Lending	407.1	145.04	71.3%
County Governments+ Contingencies	415	1,72.223	83.0%
Total Expenditure	4,433.58	2,143.66	96.7%

Source: Treasury & AIB-AXYS Research

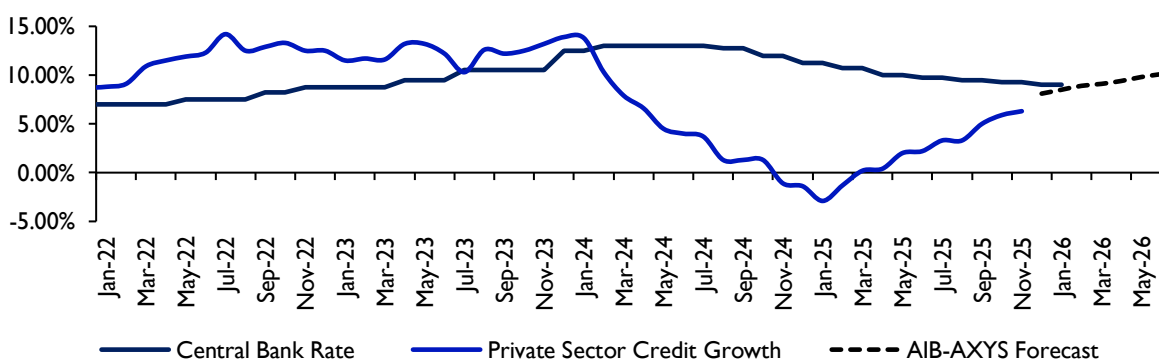
Looking ahead to the second half of the fiscal year, we expect a supplementary budget that will likely revise revenue targets downward. In addition, we anticipate that the government will continue to lean on the debt market, particularly domestic borrowing, to plug persistent revenue shortfalls. While the FY25/26 budget avoided introducing major reforms, thereby averting the public outcry witnessed in FY24/25, the Draft 2026 Budget Policy Statement suggests a renewed focus on tax policy and austerity measures aimed at containing recurrent expenditure.

Interest Rate: Dovish policy boosts lending and business activity

The Monetary Policy Committee maintained a dovish stance throughout 2025, a broad market movement particularly across emerging markets, cutting the benchmark rate in six meetings and bringing the Central Bank Rate to 9.0%, in line with our expectations. The committee's decision was informed by stable inflation, which is expected to remain within the target in the near term, as well as the need to stimulate economic growth in the country while balancing its dual mandate. We can trace the ripple effects of the easing cycle, especially in the second half of the year, evidenced by improving business conditions as indicated by the Purchasing Managers Index, which touched historic levels of 55.0 in November, as business activity recovered and firms remained optimistic.

In line with this, credit appetite continued to improve, with lending to the private sector expanding by 6.3% in November 2025, from a 2.9% contraction at the onset of the year. We link this improvement to the easing cost of borrowing as lenders continued to transmit the benefits of Central Bank Rate cuts to borrowers. Key to note, the MPC expects the revised Risk Based Credit Pricing Model to improve monetary policy transmission and enhance transparency in loan pricing once fully operational in March 2026. Further, loan repayment conditions improved; in the December MPC briefing, the committee noted that non-performing loan levels had eased to 16.5% in November, from 17.6% in August 2025.

Chart 9: Central Bank Rate and Private Sector Credit Growth Forecast



Source: Central Bank of Kenya, AIB-AXYS Research

Looking ahead, we see scope for further monetary easing to levels between 8.25% and 8.0%. We expect additional easing by the MPC on the back of the need to stimulate lending to the private sector and achieve double-digit credit growth, support broader economic expansion, and expectations that inflation will remain stable in the near term.

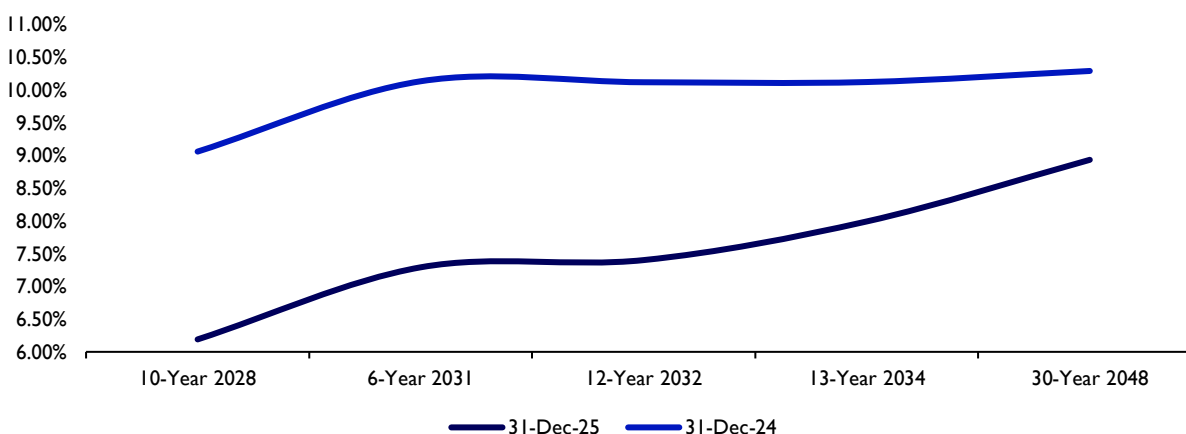
Government Borrowing Plan

Privatization has been at the forefront of the government's borrowing plan, where the authorities had ambitious plans of raising KES 149.0 Bn from proceeds of privatization. Plans have already kicked off; late last year, divestiture of Safaricom plc was announced, where the government is seeking to raise KES 204.3 Bn by offloading 15.0% of its stake by selling 6,009,814,200 shares at a share price of KES 34.0 per share. In addition, the government also agreed to sell the rights of future dividends to Vodafone Kenya. The entire divestiture is likely to offset some budgetary pressures in the near term as well as raise funds for infrastructure projects. In the long term, this might shrink non-tax revenue for the exchequer, as Safaricom contributes significantly through dividends.

Furthermore, the government has already started implementing its Liability Management Operations for FY25/26. It has executed its first bond switch, which was oversubscribed. The government opted to switch holders of FXDI/2016/010, which was nearing maturity, to FXDI/2022/015, which will be maturing in 2037. This was a proactive approach to smooth its debt maturity profile and reduce refinancing risk.

Buyback was another market operations strategy expected to feature in FY25/26. So far, the government has already executed buybacks in the market. This includes the partial buyback of a domestically issued bond (FXDI/2023/003) as well as the buyback of USD 1.0 Bn Eurobond, which was maturing in 2028, through the issuance of USD 1.5 Bn USD, which registered heavy subscription. Key to mention, yields on Kenyan Eurobonds have softened through 2025, partly linked to the prudent refinancing.

Chart 10: Kenya Eurobond Yield Evolution



Source: Central Bank of Kenya, AIB-AXYS Research

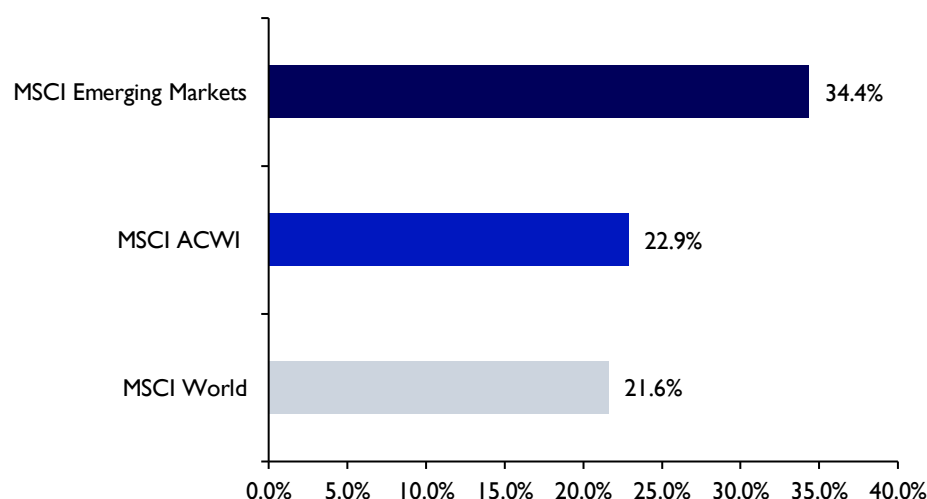
Going by the FY25/26 Annual Borrowing Plan, the government plans to reduce reliance on T-bills gradually and lean more on re-opening bonds on the medium and long-term tenors. In 2026, we expect at least one bond issuance in the first half of the year.

Equities Outlook

Global Equities: AI Leads market rally

The global equities market was more than a roller coaster in 2025, with policy-triggered volatility, especially in the first half of the year. However, after the signing of peaceful deals, the market rebounded as investor sentiment grew stronger. One key observation through 2025, emerging markets gradually showcased insulated-like behavior to policy headlines compared to developed markets. A weaker dollar was a catalyst for emerging markets; add that to easing monetary policy and easing inflation, lifted the performance of emerging markets. The AI theme was a key driver, especially in the US and Europe. AI-related names delivered strong earnings compared to their peers in the S&P 500. Although the valuation question came out strongly.

Chart 1 I: Regional Equities Performance (USD % Terms)



Source: MSCI World, AIB-AXYS Research

In 2026, the AI theme will prevail, and it's expected to act as a tailwind to the equities market, as it has been the case in 2025 (Key to note, AI emerged as a significant contributor of US's GDP). Strong earnings will be sustained as businesses continue to adopt and integrate AI to remain competitive. The consensus position is that we are still in the first phase of AI development. Enablers of AI will reap in the whole AI ecosystem, as AI continues to be adopted, there will be a need for power to fuel data centres, which provides an opportunity for energy companies. Demand for high memory build-up will increase, and all these provide investment opportunities for investors in 2026. We are of the view that if AI names continue to print strong financials, valuation will be validated, easing investors' concerns. Easing monetary policy will be a key catalyst for the equities market. In the US, the Fed's are expected to ease rate, and at least two rate cuts have been priced in for 2026. For investors positioning, some key sectors that are poised to reward investors in 2026 are: healthcare, financials, technology, and communication services.

Africa Equities Market Performance

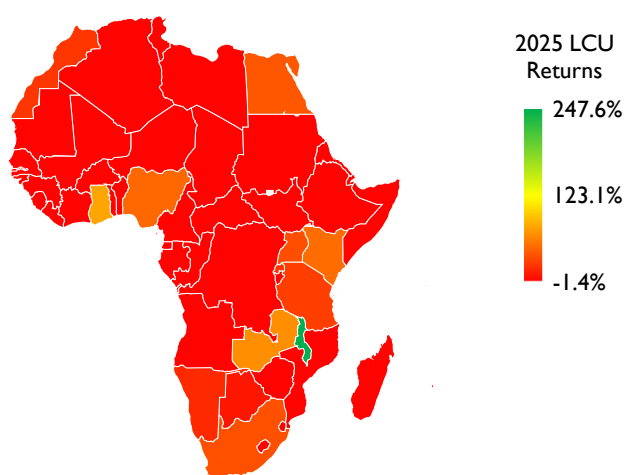
Sub-Saharan equities markets closed the year on a bullish note, with select markets posting a median return of 32.8% in local currency terms and delivering higher returns in dollar terms as local currencies appreciated against the dollar.

Table 2: Sub-Saharan Equities performance (LCU)

Country	2025 LCU Returns
Malawi	▲ 247.6%
Ghana	▲ 79.4%
Kenya	▲ 51.1%
Nigeria	▲ 49.2%
Egypt	▲ 40.6%
South Africa	▲ 37.7%
Uganda	▲ 36.6%
Tanzania	▲ 29.1%
West Africa	▲ 25.3%
Morocco	▲ 25.1%
Rwanda	▲ 22.5%
Namibia	▲ 18.5%
Mauritius	▼ (1.4%)
Median	▲ 32.8%

Source: African Markets

Chart 12: African Equities LCU Return Heatmap



Powered by Bing
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Kenya Equities Market

Kenya's equities market closed on a positive note, building on the momentum from 2024 and recording one of the strongest performances in recent years. This was supported by easing monetary policy, resilient corporate earnings, and increased investor participation, as evidenced by a surge in market turnover. Corporate earnings emerged as a key catalyst, lifting investor sentiment across the market. Across sectors, listed companies posted resilient results, prompting investors to position for both capital gains and dividend income. Growth in earnings supported higher dividend payouts, a critical factor given the dividend-driven nature of the Kenyan investor base. This dynamic continued to propel the market as investors actively priced in dividend prospects. Key to note, coming in 2025 the market had several counters trading at deep discounts backing the recovery narrative.

A dovish stance by the Monetary Policy Committee added further momentum. Easing monetary policy typically favours valuations through a lower discount rate. In this instance, declining returns in the fixed income market compelled investors to rotate into equities in search of superior returns. Portfolio rebalancing flows into equities sustained the bullish momentum. The exchange rate also remained relatively stable, particularly against the US dollar, helping to build confidence among foreign investors that returns would not be eroded upon repatriation. However, this was insufficient to reverse foreign investor behavior, as foreigners still closed the year in a net selling position.

Table 3: Kenya Equity Market Yearly Statistics

Statistic	2025	2026	% changes
Equity Turnover (KES, Mn)	142,877.49	104,365.82	▲ 36.9%
Market Cap (KES Bn)	2,944.54	1,939.74	▲ 51.8%
Nairobi All-Share Index	186.58	123.48	▲ 51.1%
NSE-10 Index	1,965.20	1,302.31	▲ 50.9%
NSE-20 Index	3,139.19	2,010.65	▲ 56.1%
NSE-25 Index	5,096.68	3,402.80	▲ 49.8%
Foreigner buys (KES Mn)	47,746.70	44,793.00	▲ 6.6%
Foreigner sales (KES Mn)	59,602.68	47,011.93	▲ 26.8%
Net foreign flows (KES, Mn)	(11,855.98)	(2,291.20)	▲ 417.5%

Source: Nairobi Securities Exchange, AIB-AXYS Research

Looking at performance, the Nairobi All Share Index (NASI), which measures the overall performance of the market, added 51.1% on a yearly basis, highlighting growth in investors' wealth. The performance was buoyed by gains in large-cap stocks such as Safaricom Plc, KCB Group, East African Breweries, and Equity Group, which gained 66.3%, 58.1%, 40.1%, and 38.2%, respectively. At the same time, all other indices also recorded gains; the NSE 10, NSE 20, and NSE 25 added 50.9%, 56.1%, and 49.8%, respectively.

Foreign investors increased their buying position to KES 47.74 Bn from KES 44.79 Bn, a 6.6% increase. However, foreign sales rose to KES 59.60 Bn from KES 47.75 Bn, resulting in a net selling position of KES 11.86 Bn, highlighting sustained years of capital flight. Encouragingly, local investors' participation has continued to take up positions left by foreign investors, noting that the overall market turnover increased by 36.9%/y to KES 142.88 Bn

Going into 2026, opportunities remain; however, investors need to separate the grain from the chaff when selecting portfolios, especially those playing the long-term game. In the near term, we opine that earnings growth will prevail, in line with the country's economic growth, which will sustain dividend growth.

Table 4: Kenya Listed Equities Sectoral Performance

Sector	2025 Sectoral Returns	2024 Sectoral Returns	Change (%)
Agriculture	▲ 14.8%	▼ (4.3%)	▲ 19.1%
Automobiles and Accessories	▲ 124.2%	-	▲ 124.2%
Banking	▲ 48.9%	▲ 52.1%	▼ (3.2%)
Commercial and Services	▲ 92.5%	▼ (6.8%)	▲ 99.3%
Construction and Allied	▲ 65.6%	▲ 80.2%	▼ (14.6%)
Energy & Petroleum	▲ 93.6%	▲ 92.2%	▲ 1.4%
Insurance	▲ 86.6%	▲ 7.9%	▲ 78.7%
Investment	▲ 136.6%	▼ (3.1%)	▲ 139.7%
Investment Services	▲ 237.5%	▼ (2.0%)	▲ 239.5%
Manufacturing and Allied	▲ 38.2%	▲ 47.2%	▼ (9.0%)
Telecommunication	▲ 66.3%	▲ 23.7%	▲ 42.6%
Market Average*	▲ 66.3%	▲ 36.1%	▲ 30.2%

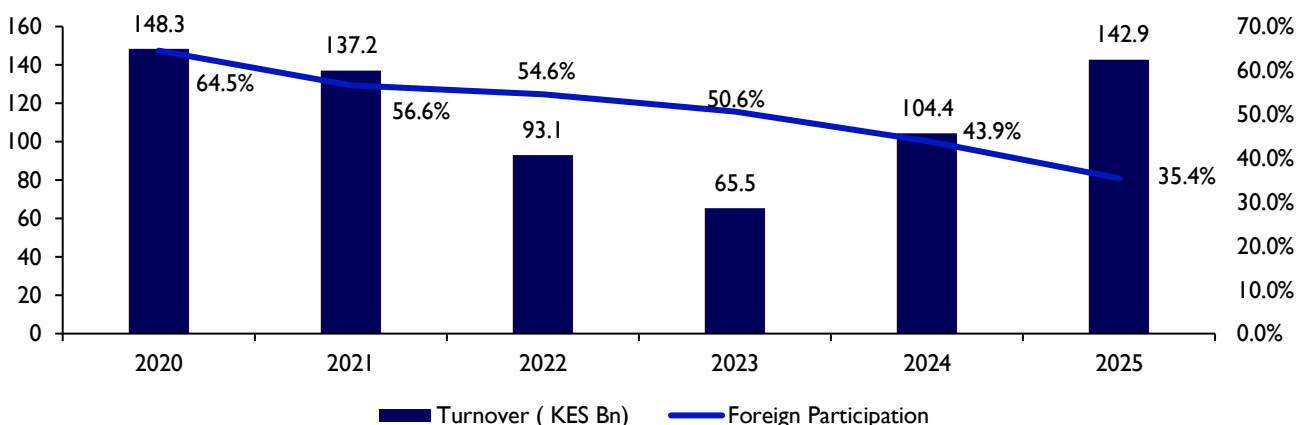
Source: Nairobi Securities Exchange, AIB-AXYS Research

*Market Average computed on an equal-weighted sector average basis

All sectors registered double-digit gains. The investment services sector stole the show, returning a spectacular 237.5%, after two consecutive years of closing on the losing side. Notably, the banking sector climbed 48.9%, following price discovery, as most counters in the sector entered the year trading at deep discounts. The banking sector was bolstered by increased credit appetite, lifting revenues, as well as falling interest rates, which continued to sustain profit margins. We expect this to continue in the near term. The energy and petroleum sector also registered solid gains, on the back of improved dividend propositions by some counters as well as improving profitability. Key to note, the agriculture sector average returns came in at 14.8% (the weakest performance across sectors), as the sector faced a drag from the appreciation of the Kenya shilling, which intensified competition for export products.

The top traded stocks in 2025 were Safaricom Plc, KCB Group, and Equity Group, with aggregate turnovers clocking KES 48.66 Bn, KES 27.73 Bn, and KES 24.11 Bn, respectively. The counters also showcased a significant preference for foreign investors, with some of the highest foreign investors participating rate. Going into 2026, we expect sustained activities by foreign investors in the market owing to the stability of the Kenyan shilling, which cushions against currency risk.

Chart 13: Total Equities Market Turnover (in Bn KES) and Foreign Participation Rate (%)



Source: Nairobi Securities Exchange, AIB-AXYS Research

Table 6: NSE Top Movers 2025

Top Movers 2025	Turnover (KES Mn)	Turnover (USD Mn)	Foreigners' Participation	Closing Price	% Change (YTD)
Safaricom Plc	KES 48,655.1	\$376.59	54.5%	KES 28.35	▲ 66.3%
KCB Group	KES 27,729.6	\$214.63	26.0%	KES 65.75	▲ 58.1%
Equity Group Holdings	KES 24,111.8	\$186.63	42.3%	KES 66.75	▲ 38.2%
East African Breweries	KES 7,912.2	\$61.24	48.4%	KES 263.00	▲ 49.9%
Standard Chartered Bank	KES 4,522.7	\$35.01	3.7%	KES 297.25	▲ 6.3%
Co-operative Bank of Kenya	KES 4,491.0	\$34.76	3.2%	KES 23.95	▲ 45.6%
Kenya Power & Lighting Co	KES 3,655.4	\$28.29	8.7%	KES 13.60	▲ 182.7%
KenGen Co.	KES 3,443.2	\$26.65	6.4%	KES 9.18	▲ 152.2%
Absa Bank Kenya	KES 3,429.2	\$26.54	13.0%	KES 24.70	▲ 36.8%
Stanbic Holdings	KES 3,127.8	\$24.21	39.3%	KES 197.75	▲ 44.1%
British American Tobacco Kenya	KES 2,616.0	\$20.25	26.2%	KES 459.00	▲ 22.1%
I&M Holdings	KES 2,077.2	\$16.08	4.3%	KES 42.45	▲ 17.1%
Kenya Re Insurance Corporation	KES 1,875.8	\$14.52	3.8%	KES 3.01	▲ 135.2%
NCBA Group	KES 1,815.8	\$14.05	1.4%	KES 84.00	▲ 74.3%
HF Group Plc	KES 1,713.2	\$13.26	0.2%	KES 9.96	▲ 120.8%

Source: Nairobi Securities Exchange, AIB-AXYS Research

Bullish foreign investor sentiment was skewed towards Equity Group, registering net inflows amounting to KES 432.06 Mn. Kenya Power & Lighting Co and Carbacid Investments followed with foreign net inflows of KES 130.30 Mn and KES 103.93 Mn, respectively. On the other hand, bearish foreign sentiments were pronounced on Safaricom to register net outflows totaling KES 5.89 Bn.

Table 7: Net Foreign Buys and Sales

Top Foreigner Net Buys 2025	Turnover (KES)	Top Foreigner Net Sales 2025	Turnover (KES)
Equity Group Holdings	432,063,070.25	Safaricom Plc	(5,892,072,297.25)
Kenya Power & Lighting Co	130,298,862.05	KCB Group	(2,362,002,673.15)
Carbacid Investments	103,928,247.15	Stanbic Holdings	(882,290,149.75)
Diamond Trust Bank	98,173,487.50	Absa Bank Kenya	(837,304,246.85)
Nairobi Securities Exchange	71,448,160.90	British American Tobacco Kenya	(686,407,623.75)
Jubilee Holdings	54,021,065.25	Umeme Ltd	(233,971,262.03)
BK Group	8,341,297.15	East African Breweries	(225,344,095.75)
Crown Paints Kenya	5,320,851.10	KenGen Co.	(179,228,608.38)
CIC Insurance Group	3,394,334.34	I&M Holdings	(150,410,293.95)
Shri Krishana Overseas Plc	3,159,809.08	Standard Chartered Bank	(115,475,055.00)

Source: Nairobi Securities Exchange, AIB-AXYS Research

Table 8: 2025 Winners and Losers (Capital Gains)

Top Gainers 2025	Closing Price	% Change	Top Losers 2025	Closing Price	% Change
Uchumi Supermarket	KES	1.03 ▲ 505.9%	Umeme Ltd	KES	7.82 ▼ (53.3%)
Sameer Africa	KES	14.25 ▲ 486.4%	Williamson Tea Kenya	KES	149.50 ▼ (34.0%)
Home Afrika Ltd	KES	1.34 ▲ 262.2%	Nairobi Business Ventures	KES	1.47 ▼ (26.9%)
Nairobi Securities Exchange	KES	20.25 ▲ 237.5%	Nation Media Group Plc	KES	11.55 ▼ (19.8%)
Olympia Capital Holdings	KES	8.22 ▲ 193.6%	Kenya Airways Ltd	KES	3.53 ▼ (7.8%)
Trans-Century Plc	KES	1.12 ▲ 187.2%	Bamburi Cement	KES	54.00 ▼ (1.8%)
Kenya Power & Lighting Co	KES	13.60 ▲ 182.7%	Kapchorua Tea Kenya	KES	231.50 ▼ (1.5%)
KenGen Co.	KES	9.18 ▲ 152.2%	TPS Eastern Africa	KES	14.70 ▼ (1.3%)
E.A. Portland Cement	KES	73.50 ▲ 140.2%			
Kenya Re Insurance Corpor	KES	3.01 ▲ 135.2%			

Source: Nairobi Securities Exchange, AIB-AXYS Research (*Prices as of 31st December 2025)

The top gainers list remained dominated by small and mid-caps, with only a few large caps. **Uchumi Supermarket** led the pack, adding **505.9%** in valuation (as retail investors drove the price higher following reports that the retailer had returned to profitability. So far, we classify Uchumi's narrative as largely speculative, noting that the company remains in a negative equity position.) Notably, **Kenya Power & Lighting** surged by **182.7%**, buoyed by a financial turnaround and the resumption of dividend payments, a sweetener for Kenyan investors who are heavily dividend-driven. On the flip side, **Umeme Ltd** emerged as the top loser, shedding **53.3%**, as the outlook remains clouded following the end of its electricity distribution concession. In addition, **Williamson Tea Kenya** and **Kapchorua Tea Kenya** lost **34.0%** and **1.5%**, respectively, following their bonus issues, as expected.

Table 9: Top 2025 Dividend Picks (Dividend Yields)

Top Dividend Counters 2025	Dividend	Closing Price	TTM Dividend Yield
Standard Chartered Bank Kenya	KES 45.00	KES 297.25	▲ 15.1%
British American Tobacco Kenya	KES 55.00	KES 459.00	▲ 12.0%
Stanbic Holdings Plc	KES 22.70	KES 197.75	▲ 11.5%
Kapchorua Tea Kenya Plc	KES 25.00	KES 231.50	▲ 10.8%
The Co-operative Bank of Kenya	KES 2.50	KES 23.95	▲ 10.4%
KenGen Co. Plc	KES 1.94	KES 9.18	▲ 9.8%
I&M Group Plc	KES 3.20	KES 42.45	▲ 7.5%
Kenya Power & Lighting Co Plc	KES 1.00	KES 13.60	▲ 7.4%
ABSA Bank Kenya Plc	KES 1.75	KES 24.70	▲ 7.1%
NCBA Group	KES 5.75	KES 84.00	▲ 6.8%

Source: Nairobi Securities Exchange, AIB-AXYS Research (*Prices as of 31st December 2025)

Despite elevated market prices, equities still offered a dividend-income proposition. Standard Chartered and British American Tobacco emerged as the top counters by dividend yield at 15.1% and 12.0%, respectively, supported by their progressive dividend policies. Banking sector stocks featured predominantly, backed by earnings growth, which supported dividend hikes.

Bullish Outlook Amid Selective Sector Opportunities

Going forward into 2026, we expect the bull run to be sustained. Catalysts to fuel the rally are visible and include falling interest rates. We anticipate that the Central Bank will continue on the path adopted in 2025; therefore, we foresee more rate cuts during the year (although not the same magnitude we experienced in 2025). This will act as a tailwind for the equities market because: i) returns in the fixed income market will be squeezed, compelling investors to turn to the equities market for higher returns; ii) lower interest rates typically lift valuations, offering investors attractive entry points; and iii) for corporates, profit margins will improve as borrowing costs decline.

Furthermore, the economy has been gathering momentum, especially in the second half of last year, and we expect this to carry through the year. As a result, we expect corporate earnings to grow, providing another catalyst for the market. In addition, we expect heightened activity in the market, driven by potential new listings. Domestic investors have gradually increased their participation in the market, which has been a key driver, and this trend is encouraging.

From a sector perspective, **the banking sector presents a constructive but selective outlook**; there is scope for further upside, in our view. Bank earnings will be supported by a growing credit appetite, which will underpin revenue growth. Banks will also be coming from a lower base in the FX segment, with higher revenues expected this year as they continue to shift the model from a margins game to a volumes game. A low-interest-rate environment will further support performance, as the cost of funds eases and banks continue to bargain for cheaper deposits. Most

listed banks return value to shareholders through dividends, a key consideration for investors, and with improving earnings, dividends are likely to be hiked. *(We are of the view that current banking sector prices have already priced in dividends in the upcoming full-year earnings season).*

The insurance sector calls for selective positioning. Profitability came under pressure in 2025 as claims surged *(with four out of six listed insurers recording a decline in interim earnings)*. This trend is likely to be painted in full-year results, noting that the third quarter also recorded elevated claims activity. As such, near-term performance remains challenged. The medium to long-term growth case for the sector remains intact. The industry continues to record encouraging growth in Gross Written Premiums, supported by expanded product offerings tailored to diverse consumer needs. Despite this progress, insurance penetration in the country remains relatively low, presenting a structural growth opportunity for underwriters. Competition within the sector has intensified, particularly from banks, which have continued to expand their insurance subsidiaries. In this environment, diversification is increasingly critical. Insurers that are well positioned to capitalise on asset management, which is steadily growing, alongside strong underwriting of quality risks, are better placed to defend earnings. Additionally, revenues are expected to face pressure as the yield curve continues to soften, further underscoring the need for disciplined underwriting and diversified income streams.

We are bullish on the telecommunications sector. Data revenue is poised to stirr longterm growth for Voice and data revenues should continue supporting topline growth in the longterm. Believe the Ethiopian market presents a compelling case with value yet to be realized, and we share the same confidence with the management on break-even projections in that market.

In the manufacturing and allied segment, opportunities lie. British American Tobacco presents one of the best defenses in a portfolio owing to its progressive dividend policies. Although consumers face affordability challenges, the manufacturer continues to capitalize on pricing power to drive revenue growth. The return of sales of modern oral nicotine pouches will add further upside. However, illicit products, which also affect the alcohol business, remain a key drag.

We are bullish on the energy sector. Energy demand in the country continues to outstrip supply, driven by a growing population and rising electricity needs across households, industrials, and broader economic activity. This underpins the case that energy companies are well-positioned for both near- and long-term growth. Kenya Power and Lighting Company (KPLC) presents a bright outlook. We have taken note of i) improving power distribution efficiency, albeit still below desired levels, ii) growing electricity demand, iii) an improving current ratio, now nearing the desired 1.0 level, and iv) improving debt metrics. Although the company remains highly leveraged, we are encouraged by ongoing initiatives aimed at offsetting debt levels – (can be traced to the lowering debt levels). On the other hand, KenGen is also well-positioned to benefit from rising electricity demand in the country. There is a promising pipeline of projects set to feed into an undersupplied market. Beyond electricity generation, we opine that

optimizing business diversification will unlock the next phase of growth. We note that KenGen will be intensifying its geothermal exploration and drilling services beyond domestic markets.

It is important to note that keen selection is critical when taking positions in the market. The bull run in 2025 elevated prices, leaving lofty valuations for some counters, which poses a risk to investors in the event of price corrections. Geopolitics and global policy shifts also present significant risks to the market; we got a taste of this in April after US President Trump announced sweeping tariffs on its trading partners, and investors should take note of this. Additionally, the country is entering an electioneering period, which comes with its own share of challenges, and disruptions to economic activity may weigh on anticipated corporate growth. This calls for a portfolio that includes defensive and mature counters to withstand periods of heightened volatility.

Fixed Income Outlook

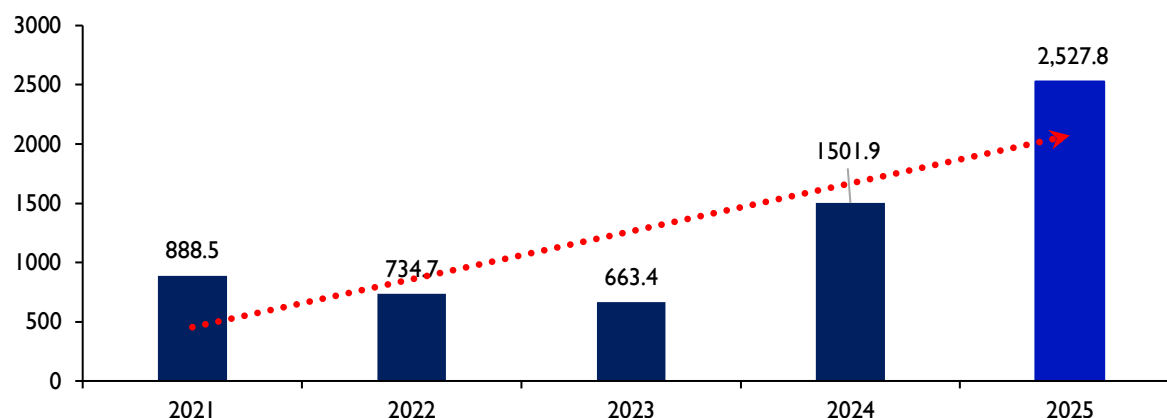
Corporate Bonds Space

There was an evident resurgence of activity in the corporate bond space. East African Breweries PLC returned to the market in October with a Medium Term Note Programme of up to KES 20.00 Bn, aiming to raise KES 11.00 Bn in the first tranche. Prior to this return, the company had retired an earlier MTN programme. The new issuance was oversubscribed, recording an overall subscription rate of 152.4% after receiving applications worth KES 16.76 Bn. A greenshoe option of KES 6.0 Bn was exercised to accommodate the excess demand. This issuance was tactical, as it allowed the brewer to raise funds at a lower cost, with the new note priced at 11.8% compared to 12.3% for the 2021 issuance. Safaricom also tapped the capital markets with a KES 40.0 Bn Medium Term Note programme, with the first tranche seeking to raise KES 15.0 Bn alongside a KES 5.00 Bn greenshoe option. The issuance recorded a subscription rate of 275.7% after receiving applications worth KES 41.4 Bn. The note offers a return of 10.40% and is tax-exempt. We view this as a tactical move to raise funding at a relatively low cost. Going forward, the current interest rate environment remains attractive for corporates seeking funding from the capital markets, especially as yields on alternative government bonds continue to trend downwards.

Bond Market Performance

A low-interest-rate environment in 2025 supported activity in the secondary bond market, coupled with government actions in the primary bond market, which included the reopening of investors' favourite infrastructure bonds that were heavily subscribed, as well as buybacks and bond switches, all designed to support activity in the secondary bond market. Last year was spectacular in terms of turnover; by the close of the third quarter, secondary bond market turnover had already surpassed 2024's full-year turnover. Key highlights in the primary bond market were the reopening of IFBI/2018/015 and IFBI/2022/019, which received an overwhelming subscription of 359.4%, compelling the apex bank to open a tap sale to mop up excess liquidity in the market.

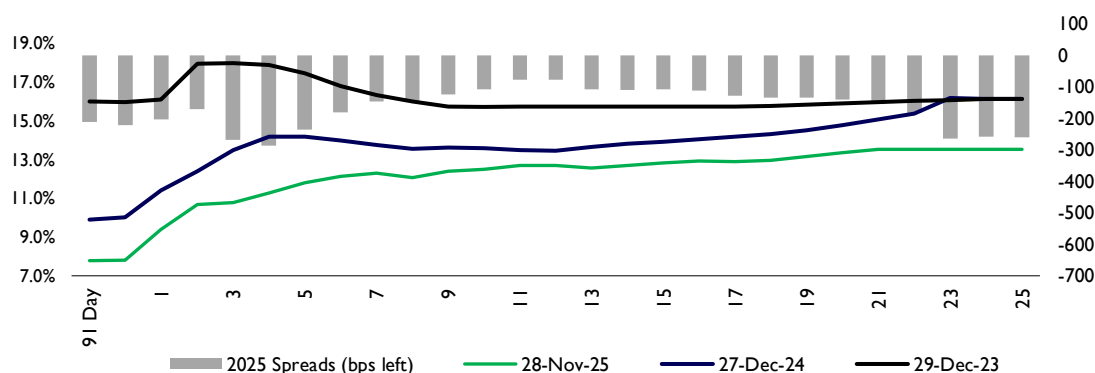
Chart 16: NSE Secondary Bond Market Turnover of KES (2021-2025, excluding over-the-counter transactions)



Source: NSE, AIB-AXYS Research

Notably, 2025 secondary bond turnover reached KES 2.52 Tn (excluding over-the-counter transactions), representing a 68.3% y/y increase from KES 1.50 Tn recorded in 2024. This performance can be attributed to: i) capital gains-focused investors seeking to exit the market amid a low-interest-rate environment that presented ideal exit points, and ii) investors who missed opportunities in the primary bond auctions turning to the secondary bond market. As we had highlighted in our 2025 investment outlook, the yield curve continued to normalise, as yields softened. The front end of the curve recorded the largest declines, driven by the dovish stance of the Monetary Policy Committee, which cut rates in all six meetings. Consequently, yields were pushed lower, while the apex bank rejected aggressive bids in primary auctions. Notably, the government leaned its borrowing strategy towards medium and long-term issues in a bid to lengthen its maturity profile while minimising refinancing risk.

Chart 17: Kenya Domestic Yield Curve Evolution



Source: Nairobi Securities Exchange, AIB-AXYS Africa Research

As we advance into 2026, we expect the yield curve to stabilize further on the back of easing monetary policy. However, we anticipate that declines will be more moderate across the curve compared to last year.

Portfolio Recommendation

Last year, the market rewarded investors generously, even in counters that lacked strong fundamental backing. Small and mid-cap stocks emerged as the biggest winners. This year, investors must separate grains from chaff, especially if they are investing with a long-term horizon. Only counters with strong fundamentals are likely to deliver resilient returns over time. In portfolio construction, we advocate for a well-balanced approach anchored on fundamentally strong counters, which offers an optimal trade-off between risk and return.

We recommend a portfolio with a thoughtful mix of selective positions that can deliver both capital gains and dividend income, with dividends providing a layer of defense during periods of market pullbacks. We call for prudent long-term positioning in fundamentally strong counters, supported by tangible growth catalysts, pricing power, and durable moats. Execution remains critical. Last year demonstrated this clearly, as investors who took advantage of deep discounts and positioned ahead of the rally saw their portfolios grow as the market advanced.

We cannot fail to mention that diversification plays a critical role in portfolio returns. Beyond our market, there are opportunities in other markets, as well as in other asset classes and currencies. In our global equities outlook, we have highlighted preferred sectors for portfolio positioning.

Besides fixed income and equities, other asset classes are poised to deliver resilient returns this year include commodities, specifically gold and silver. Gold upside is supported by surging demand, especially from EMs Central Banks, as the dollar continues to face some weakness, geopolitical risks, and large fiscal deficits.

AIB-AXYS Africa Equities Portfolio Recommendation 2026

As we head into the year, we are bullish on the key sectors: agriculture, banking, energy & petroleum, insurance, and manufacturing & allied sectors, adopting a selective strategy, which will reward investors from both a capital appreciation and dividend income perspective. Below is a list of our constituents' Equities Portfolio in 2026.

Table 10: AIB-AXYS Equities Portfolio

Counter	Sector	Closing Price as at 31st December 2025	Weight
Kapchorua	Agriculture	231.5	10.0%
Stanbic Holdings	Banking	197.75	10.0%
KCB Bank	Banking	65.75	10.0%
Equity Group	Banking	66.75	10.0%
KPLC	Energy & Petroleum	13.6	10.0%
KenGen	Energy & Petroleum	9.18	10.0%
Kenya RE	Insurance	3.01	10.0%
British American Tobacco	Manufacturing & Allied	459	10.0%
Cabacid Investments	Manufacturing & Allied	29.35	10.0%
Safaricom	Telecommunication	28.5	10.0%

Source: NSE, AIB-AXYS Africa Research

AIB-AXYS Africa Fixed Income Portfolio recommendation 2026

For investors who are not aggressive and are seeking moderate returns, we recommend medium and long-term bonds with higher yields. These bonds offer attractive coupons, and in a low-interest-rate environment, we anticipate price appreciation. Below is a list of our recommended bonds.

Table 12: Top bonds picks

Issue No.	Next Coupon Payment Date	Maturity Date	Fixed Coupon Rate*	Modified Duration (%)	Implied Yield to Maturity
FXDI/2022/025	20-Apr-26	23-Sep-47	14.19%	6.7	13.4%
FXDI/2021/025	4-May-26	9-Apr-46	14.15%	7.1	13.4%
IFBI/2021/021	9-Mar-23	18-Aug-42	12.73%	7.1	12.9%
IFBI/2023/017	8-Jun-26	20-Feb-40	14.40%	6.7	12.6%
SDBI/2011/030	9-Feb-26	21-Jan-41	12.00%	7.7	12.6%
FXDI/2020/015	16-Feb-26	5-Feb-35	12.76%	6.6	12.6%
FXD2/2018/020	20-Jul-26	5-Jul-38	13.20%	7.2	12.5%
FXDI/2019/015	20-Jul-26	24-Apr-34	12.73%	6.7	12.4%
FXDI/2023/010	9-Feb-26	31-Jan-33	14.15%	5.5	12.4%
IFBI/2024/8.5	23-Sep-26	9-Aug-32	18.46%	4.8	11.6%

Source: NSE, AIB-AXYS Research

*Fixed Coupon Rates are Gross of Withholding Tax where applicable.

2026 INVESTMENT OUTLOOK

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)
Jan-25	30,000	FXD1/2018/015 Re-opened	8.3		12.650%	14.329%	14.210%
		FXD1/2022/025 Re-opened	22.8	196.7%	14.188%	15.743%	15.683%
Feb-25	70,000	IFB1/2022/014 Re-opened	11.8		13.938%	14.086%	13.978%
		IFB1/2023/017 Re-opened	15.1	277.0%	14.399%	14.416%	14.281%
Mar-25	25,000	FXD1/2018/025 Re-opened	18.3	188.1%	13.400%	13.938%	13.803%
Apr-25	70,000	FXD1/2020/015 Re-opened	9.9		12.756%	13.671%	13.665%
		FXD1/2022/015 Re-opened	12.1		13.942%	13.837%	13.828%
		FXD1/2022/025 Re-opened	22.6	102.5%	14.188%	14.237%	14.234%
	10,000	FXD1/2020/015 Tap-sale	9.9	132.4%	12.756%		
May-25	50,000	FXD1/2022/015 Re-opened	12.0		13.942%	13.942%	13.913%
		FXD1/2022/025 Re-opened	22.5	114.2%	14.188%	14.636%	14.538%
	30,000	FXD1/2012/020 Re-opened	7.6	181.3%	12.000%	13.733%	13.649%
Jun-25	50,000	FXD1/2020/015 Re-opened	9.7		12.756%	13.606%	13.487%
		SDB1/2011/030 Re-opened	15.7	202.7%	12.000%	14.181%	13.998%
Jul-25	50,000	FXD1/2018/020 Re-opened	12.8		13.200%	13.945%	13.899%
		FXD1/2018/025 Re-opened	18.0	153.8%	13.400%	14.435%	14.348%
Aug-25	90,000	IFB1/2028/015 Re-opened	7.5		12.500%	13.530%	12.993%
		IFB1/2022/019 Re-opened	15.6	359.4%	12.965%	14.237%	13.999%
		IFB1/2028/015 Tapsale	7.5		12.000%	13.530%	
		IFB1/2022/019 Tapsale	15.6	414.9%	12.965%	14.237%	
Sep-25	40,000	FXD1/2018/020 Re-opened	12.5		13.200%	13.724%	13.080%
		FXD1/2022/025 Re-opened	22.2	243.2%	14.188%	14.246%	12.782%
Oct-25	50,000	FXD1/2018/015 Re-opened	7.7		12.750%	12.652%	12.385%
		FXD1/2021/020 Re-opened	15.9	237.8%	13.444%	13.529%	13.310%
Nov-25	40,000	FXD1/2012/020 Re-opened	7.0		12.000%	12.638%	12.471%
		FXD1/2022/015 Re-opened	11.4	232.3%	13.994%	13.467%	13.339%
	40,000	FXD3/2018/015 Re-opened	8.7		12.340%	12.574%	12.746%
		FXD1/2022/025 Re-opened	21.9	289.7%	14.188%	13.848%	13.746%
Average*	48,846		10.3	222.1%	13.424%	13.887%	13.695%

Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales

2026 INVESTMENT OUTLOOK

AGRICULTURAL	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Eaagads Ltd	20.25	-	▲ 68.8%	0	40.23	0.02%	0.37	-	54.7x	0.5x	0.0%	0.0%	0.9%	0.8%
Kakuzi Plc	402.00	▲ 0.6%	▲ 4.4%	117	279.19	0.26%	(9.37)	-	(42.9x)	1.4x	0.0%	0.0%	0.0%	0.0%
Kapchorua Tea Kenya Plc	231.50	▲ 1.0%	▼ (1.5%)	136	255.42	0.06%	23.16	25.00	10.0x	0.9x	10.8%	107.9%	9.1%	6.7%
The Limuru Tea Co. Plc	460.00	-	▲ 31.4%	5	63.73	0.04%	(6.34)	-	(72.6x)	7.2x	0.0%	0.0%	0.0%	0.0%
Sasini Plc	17.85	▼ (1.9%)	▲ 19.8%	4,200	92.72	0.14%	(2.75)	-	(6.5x)	0.2x	0.0%	0.0%	0.0%	0.0%
Williamson Tea Kenya Plc	149.50	-	▼ (34.0%)	1,159	335.95	0.09%	(8.76)	10.00	(17.1x)	0.4x	6.7%	(114.2%)	0.0%	0.0%
Industry Median	-	-	▲ 12.1%	-	-	0.61%	-	-	(11.8x)	0.7x	0.0%	0.0%	0.0%	0.0%
AUTOMOBILES & ACCESSORIE	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Car & General (K) Ltd	51.00	▼ (1.4%)	▲ 124.2%	1,208	155.99	0.07%	(3.33)	0.30	(15.3x)	0.3x	0.6%	(9.0%)	0.0%	0.0%
BANKING	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
ABSA Bank Kenya Plc	24.70	▲ 4.0%	▲ 36.8%	145,104	17.37	4.49%	4.80	1.75	5.1x	1.4x	7.1%	45.6%	27.6%	4.7%
BK Group Plc	42.50	▲ 1.1%	▲ 30.6%	5,565	50.52	1.27%	8.25	2.64	5.2x	0.8x	6.2%	102.9%	16.3%	3.0%
Diamond Trust Bank Kenya Ltd	114.50	▲ 1.1%	▲ 65.9%	3,036	355.68	1.07%	30.78	7.00	3.7x	0.3x	6.1%	25.6%	8.7%	1.3%
Equity Group Holdings Plc	66.75	▲ 0.4%	▲ 38.2%	91,634	80.35	8.43%	15.74	4.25	4.2x	0.8x	6.4%	34.4%	19.6%	3.3%
HF Group Plc	9.96	▲ 0.4%	▲ 120.8%	69,111	11.64	0.50%	0.90	-	11.1x	0.9x	0.0%	0.0%	7.7%	1.7%
I&M Group Plc	42.45	▼ (0.1%)	▲ 17.1%	230,852	65.53	2.47%	10.64	3.20	4.0x	0.6x	7.5%	34.4%	16.2%	2.9%
KCB Group Plc	65.75	▲ 1.2%	▲ 58.1%	171,896	96.01	7.07%	18.83	4.00	3.5x	0.7x	6.1%	21.4%	19.6%	3.0%
NCBA Group	84.00	-	▲ 74.3%	331,740	72.99	4.63%	14.05	5.75	6.0x	1.2x	6.8%	43.3%	19.2%	3.5%
Stanbic Holdings Plc	197.75	▲ 0.3%	▲ 44.1%	2,840	187.86	2.62%	33.01	22.70	6.0x	1.1x	11.5%	65.4%	17.6%	2.8%
Standard Chartered Bank Kenya Ltd	297.25	▼ (0.9%)	▲ 6.3%	7,670	168.79	3.76%	40.56	8.00	7.3x	1.8x	2.7%	22.1%	24.0%	4.0%
The Co-operative Bank of Kenya Ltd	23.95	-	▲ 45.6%	918,054	27.98	4.70%	4.72	2.50	5.1x	0.9x	10.4%	57.7%	16.9%	3.4%
Industry Median	-	▲ 0.4%	▲ 44.1%	-	-	40.99%	-	-	5.1x	0.9x	6.4%	34.4%	17.6%	3.0%
COMMERCIAL AND SERVICES	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Eveready East Africa Ltd	1.37	▼ (4.2%)	▲ 19.1%	34,244	0.30	0.01%	(0.28)	-	(4.9x)	4.6x	0.0%	0.0%	0.0%	0.0%
Express Kenya Plc	7.40	▼ (3.6%)	▲ 105.6%	367	7.74	0.01%	(2.26)	-	(3.3x)	1.0x	0.0%	0.0%	0.0%	0.0%
Homeboyz Entertainment Plc	4.66	-	-	0	-0.35	0.01%	(0.71)	-	(6.6x)	(13.2x)	0.0%	0.0%	0.0%	0.0%
Kenya Airways Ltd	3.53	▼ (2.5%)	▼ (7.8%)	206,058	-22.25	0.69%	0.74	-	(0.2x)	(0.2x)	0.0%	0.0%	(4.2%)	3.0%
Longhorn Publishers Plc	2.90	▲ 0.7%	▲ 26.1%	2,487	-0.52	0.03%	(1.89)	-	(1.5x)	(5.6x)	0.0%	0.0%	0.0%	0.0%
Nairobi Business Ventures Ltd	1.47	▲ 0.7%	▼ (26.9%)	30,708	1.41	0.07%	0.01	-	159.2x	1.0x	0.0%	0.0%	0.7%	0.4%
Nation Media Group Plc	11.55	▼ (8.0%)	▼ (19.8%)	187,147	2.50	0.08%	(3.00)	-	(3.9x)	4.6x	0.0%	0.0%	0.0%	0.0%
Sameer Africa Plc	14.25	▼ (2.1%)	▲ 486.4%	6,685	2.98	0.13%	0.93	-	15.3x	4.8x	0.0%	0.0%	31.2%	16.3%
Standard Group Plc	6.04	▲ 8.2%	▲ 20.3%	13,277	-28.82	0.02%	(10.15)	-	(0.6x)	(0.2x)	0.0%	0.0%	0.0%	0.0%
TPS Eastern Africa (Serena) Ltd	14.70	▼ (2.0%)	▼ (1.3%)	515	62.15	0.09%	4.54	0.35	3.2x	0.2x	2.4%	7.7%	7.3%	4.2%
Uchumi Supermarket Plc	1.03	▲ 9.6%	▲ 505.9%	395,057	-11.73	0.01%	(5.56)	-	(0.2x)	(0.1x)	0.0%	0.0%	0.0%	0.0%
WPP Scangroup Plc	2.55	▲ 2.8%	▲ 2.8%	5,081	10.89	0.04%	(1.17)	-	(2.2x)	0.2x	0.0%	0.0%	0.0%	0.0%
Industry Median	-	▼ (1.0%)	▲ 11.0%	-	-	0.49%	-	-	(1.9x)	0.2x	0.0%	0.0%	0.0%	0.0%
CONSTRUCTION & ALLIED	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Bamburi Cement Ltd	54.00	-	▼ (1.8%)	0	69.50	0.66%	(1.97)	23.72	(27.4x)	0.8x	43.9%	(850.2%)	0.0%	0.0%
Crown Paints Kenya Plc	54.50	▼ (0.5%)	▲ 65.7%	2,169	25.41	0.26%	1.34	-	40.7x	2.1x	0.0%	0.0%	5.3%	2.1%
E.A Cables Ltd	1.71	-	▲ 58.3%	0	0.34	0.01%	0.37	-	4.6x	5.1x	0.0%	0.0%	110.1%	1.9%
E.A Portland Cement Co. Ltd	73.50	▲ 4.6%	▲ 140.2%	1,568	226.97	0.22%	20.26	-	3.6x	0.3x	0.0%	0.0%	8.9%	5.2%
Industry Median	-	-	▲ 62.0%	-	-	1.15%	-	-	4.1x	1.5x	0.0%	0.0%	7.1%	2.0%
ENERGY & PETROLEUM	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
KenGen Co. Plc	9.18	▲ 0.2%	▲ 152.2%	605,653	43.15	2.03%	1.94	0.90	4.7x	0.2x	9.8%	56.6%	4.5%	2.5%
Kenya Power & Lighting Co Plc	13.60	▲ 1.5%	▲ 182.7%	169,260	56.03	0.89%	12.54	1.00	1.1x	0.2x	7.4%	6.5%	22.4%	6.3%
TotalEnergies Marketing Kenya Plc	38.55	▲ 2.9%	▲ 92.8%	5,626	51.78	0.81%	4.74	1.92	8.1x	0.7x	5.0%	42.9%	9.2%	4.9%
Umeme Ltd	7.82	▼ (1.8%)	▼ (53.3%)	53,491	1.56	0.42%	(11.58)	7.96	(0.7x)	5.0x	101.8%	(68.8%)	0.0%	0.0%
Industry Median	-	▲ 0.9%	▲ 122.5%	-	-	4.15%	-	-	2.9x	0.5x	8.6%	24.7%	6.8%	3.7%
INSURANCE	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Britam Holdings Plc	9.10	▲ 0.2%	▲ 56.9%	42,780	12.27	0.77%	1.86	-	4.9x	0.7x	0.0%	0.0%	15.2%	2.1%
CIC Insurance Group Ltd	4.57	▲ 0.9%	▲ 112.6%	124,457	4.64	0.40%	1.22	0.13	3.7x	1.0x	2.8%	12.5%	26.3%	4.5%
Jubilee Holdings Ltd	335.00	-	▲ 93.1%	126	743.02	0.81%	72.14	13.50	4.6x	0.5x	4.0%	20.8%	9.7%	2.3%
Kenya Re- Insurance Corporation Ltd	3.01	▲ 0.3%	▲ 135.2%	5,856,700	9.27	0.56%	0.81	0.15	3.7x	0.3x	5.0%	19.0%	8.7%	6.6%
Liberty Kenya Holdings Ltd	10.10	▲ 0.5%	▲ 51.2%	14,409	2.90	0.18%	1.86	-	5.4x	3.5x	0.0%	0.0%	64.1%	23.6%
Sanlam Kenya Plc	8.46	▼ (0.2%)	▲ 70.9%	4,686	5.98	0.18%	9.95	-	0.9x	1.4x	0.0%	0.0%	166.3%	15.5%
Industry Median	-	▲ 0.3%	-	-	-	2.91%	-	-	4.2x	0.9x	1.4%	6.3%	20.7%	5.6%
INVESTMENT	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Centum Investment Co Plc	13.85	▲ 6.1%	▲ 40.2%	18,964	64.49	0.31%	2.09	0.32	6.6x	0.2x	2.3%	15.6%	3.2%	1.6%
Home Afrika Ltd	1.34	▲ 5.5%	▲ 262.2%	635,527	-4.41	0.02%	0.17	-	7.9x	(0.3x)	0.0%	0.0%	(3.9%)	1.9%
Kurwitu Ventures Ltd	1,500.00	-	-	0	502.63	0.01%	(35.95)	-	(41.7x)	3.0x	0.0%	0.0%	0.0%	0.0%
Olympia Capital Holdings Ltd	8.22	▲ 3.5%	▲ 193.6%	15,610	30.87	0.01%	0.26	-	31.5x	0.3x	0.0%	0.0%	0.8%	0.5%
Trans-Century Plc	1.12	-	▲ 187.2%	0	-38.80	0.01%	(6.10)	-	(0.2x)	(0.0x)	0.0%	0.0%	0.0%	0.0%
Industry Median	-	▲ 3.5%	▲ 187.2%	-	-	0.36%	-	-	6.6x	0.2x	0.0%	0.0%	0.0%	0.5%
INVESTMENT SERVICES	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Nairobi Securities Exchange Plc	20.25	▲ 0.7%	▲ 237.5%	46,204	4.01	0.18%	0.45	0.32	45.0x	5.1x	1.6%	71.1%	11.2%	5.1%
MANUFACTURING & ALLIED	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
B.O.C Kenya Plc	127.00	▼ (1.4%)	▲ 43.1%	1,140	109.00	0.08%	10.84	2.50	11.7x	1.2x	2.0%	23.1%	9.9%	8.6%
British American Tobacco Kenya Plc	459.00	▼ (0.2%)	▲ 22.1%	8,242	147.65	1.54%	37.97	55.00	12.1x	3.1x	12.0%	122.7%	25.7%	22.7%
Carbacid Investments Plc	29.35	▲ 1.2%	▲ 40.1%	6,011	20.17	0.25%	3.94	2.00	7.4x	1.5x	6.8%	50.8%	19.5%	20.9%
East African Breweries Plc	263.00	▼ (0.9%)	▲ 49.9%	9,685	40.73	9.13%	12.47	8.00	21.1x	6.5x	3.0%	64.2%	30.6%	9.9%
Flame Tree Group Holdings Ltd	1.57	▼ (1.3%)	▲ 57.0%	50,980	6.88	0.01%	1.13	-	1.4x	0.2x	0.0%	0.0%	16.4%	5.4%
Africa Mega Agricop Plc	70.50	-	▲ 0.7%	0	2.18	0.03%	0.13	-	542.3x	32.3x	0.0%	0.0%	6.0%	1.2%
Unga Group Ltd	23.20	▼ (2.1%)	▲ 54.7%	799	70.45	0.06%	(0.74)	-	(31.4x)	0.3x	0.0%	0.0%	0.0%	0.0%
Shri Krishana Overseas Plc	8.16	▼ (0.5%)	▲ 38.3%	1,116	-	0.01%	-	-	-	-	-	-	-	-
Industry Median	-	-	▲ 43.1%	-	-	11.10%	-	-	11.7x	1.5x	2.0%	23.1%	16.4%	8.6%
TELECOMMUNICATION	Current Price	Daily Change (%)	YTD change (%)	Volumes Traded	Book Value per Share	Market Weight (%)	Trailing EPS	Dividend Per Share	P/E Ratio	P/B Ratio	Dividend yield (%)	Payout Ratio (%)	ROE (%)	ROA (%)
Safaricom Plc	28.35	▲ 1.1%	▲ 66.3%	528,958	5.38	38.00%	2.11	1.20	13.4x	5.3x	4.2%	69.0%	39.2%	16.6%

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