KFH Capital Monthly Insights

Capital Market Outlook & Updates

July 2025

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Capital Markets Insights

Market Analysis & Outlook

- **Capital Markets Summary:** Global Equities have performed well on a monthly basis, driven by strong earnings and periodic announcements on trade deals. However, the recent sharp revision to employment data resulted in the markets giving away gains. As we write, during the last week of July, major global indices were down 2-2.5% on weekly basis. On Fixed Income, US Treasuries witnessed sharp compression in yields during the same period, driven by the above news. There was a flattening of the US Treasury Yield Curve, implying rate cuts and slower economic growth.
- **What does Macro-Economic Data Say:** If one were to summarize the recent US Bureau of Economic Analysis data, there is a clear deceleration in the economic momentum, which can be explained by the 2.0% year on year growth during Q22025 compared to the Q12025 growth of 3.8% for the same period. Furthermore, the data indicated personal Income growth (or wage) growth of 4.9% year-on-year, which is well above inflation levels. However, there was an increase in savings during the same period. Savings increased by 9% on quarterly basis - marking the second consecutive quarter of rising savings. This implies lower consumer spending - a key driver of US GDP. Further, Fixed Investment which is corporate capex also declined after Q12025. Likewise, the US CPI data pointed to weak Consumer discretionary spending as price of New Vehicles and Used Cars & Trucks continue to decline, Airline fares also record a decline in prices.
- **What about the Earnings:** Earnings have been contrasting on a sectoral basis, although the Industrial, Manufacturing and Automotive sectors have reported growth in earnings, the sectors expect tariffs to impact earnings during 2H2025.

Market Analysis & Outlook

- While the Tech and Financial sector are less effected, having witnessed record earnings. Refinitiv estimates a ballpark USD 15 billion in tariff-related hit to profits during 2025 for Industrial related sectors.
- **What does all this Mean for the Markets - Increased volatility:** Markets had an extended rally, thus recording new highs - limiting further potential upside, as markets lack fundamentals to support or sustain current levels. Macroeconomic data is supportive of potential Fed rate cut during September; however, the size of the cut will depend on the data in coming months. Furthermore, flash tariff related announcements will drive markets as well.

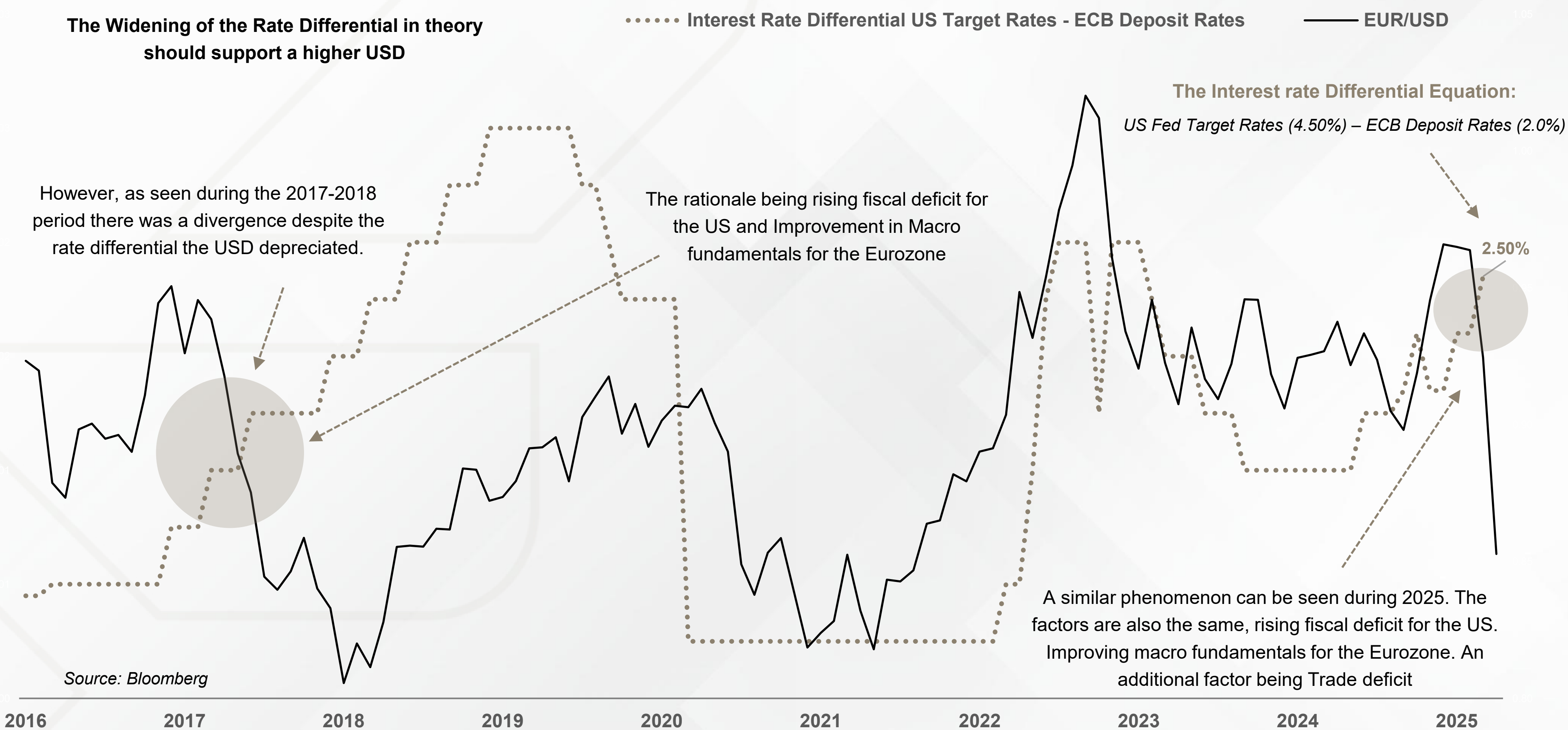
KFH Private Wealth Insight – Chart of the Month

- ***Forex (FX) Strategy Note with focus on EUR/USD:*** KFH Private Wealth generally prefer to focus on long-term compounding assets such as **Equities, Sukuk, and Property-related strategies** rather than large FX positions. Historically, many investors have struggled to consistently add value through FX strategies. Consequently, in our global portfolios, we adopt a **diversified FX approach -** typically maintaining **low active risk**.
- ***KFH Private Wealth Strategy:*** We maintain a **mildly positive view on the USD**, supported by **U.S. equities recording new highs and attractive interest rate differentials**. However, given the breakdown in the traditional interest rate correlation, we remain cautious in assigning too much weight to this factor alone. Most bond and sukuk investments are typically FX-hedged, further reducing the need for active FX positioning

Interest Rate Differential US - ECB vs EUR/USD

The outlook for EUR/USD has historically been influenced by several macroeconomic factors, with the interest rate differential between the US Fed target rates and ECB rates playing a central role…

However, recent data suggests that this relationship has broken down…



Equity Markets Update

Equities have been resilient despite tariff uncertainties, key drivers being robust corporate earnings for the 1H2025, incoming macro-economic data

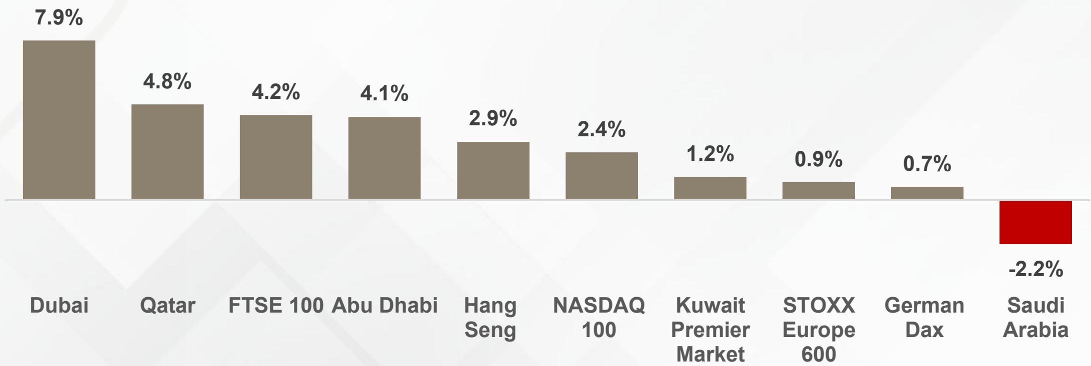
S&P500 Q22025 earnings growth revised upwards:

- The expected earnings growth for Q22025 for the S&P500 constituents has been revised upwards to 9.8% from earlier estimates of 5.7% as per Refinitiv. On sector basis, earnings have been contrasting, the Tech sector have witnessed record quarterly profits driven by demand from AI. While the banking sector has had a similar effect with key earnings driver being higher trading income due to financial markets volatility coupled with higher Investment Banking Fees. However, the consumer-based companies have been less upbeat. Leading consumer brands struggled on pricing due to increased price sensitivity. Further, consumer discretionary segments like Airlines have reported a cautious outlook. Manufacturers have reported cautious outlook as they struggle with rising costs due to tariffs and weak demand.

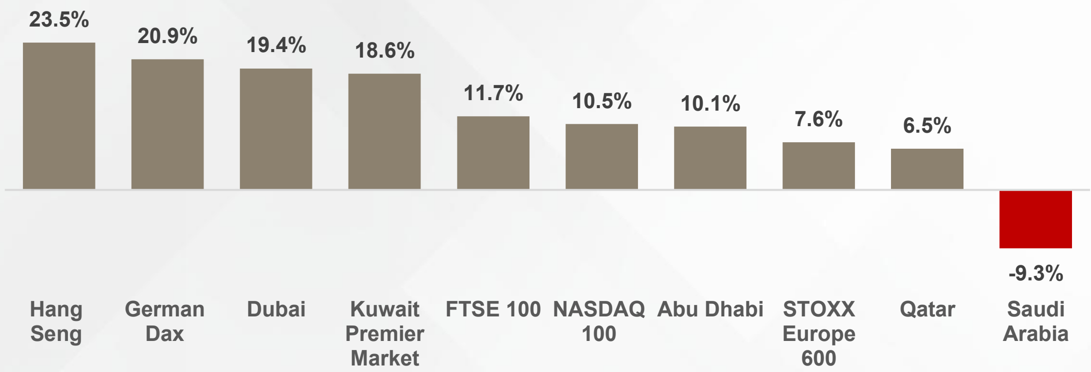
GCC Equities outperform global peers:

- On earnings, GCC banking sector has reported healthy earnings with high single to low double digit growth on half yearly basis.
- Key highlights include stable Net Interest Margins, higher Non-Operating Income, lower provisions and higher tax rates in particular for Kuwaiti banks. While Loan growth has been mid to high single digit. Saudi banks have revised the Net Financing Margins guidance for 2025 to the downside

Global Equity Markets Performance – Month to Date (MTD)



Global Equity Markets Performance – Year to Date (YTD)*

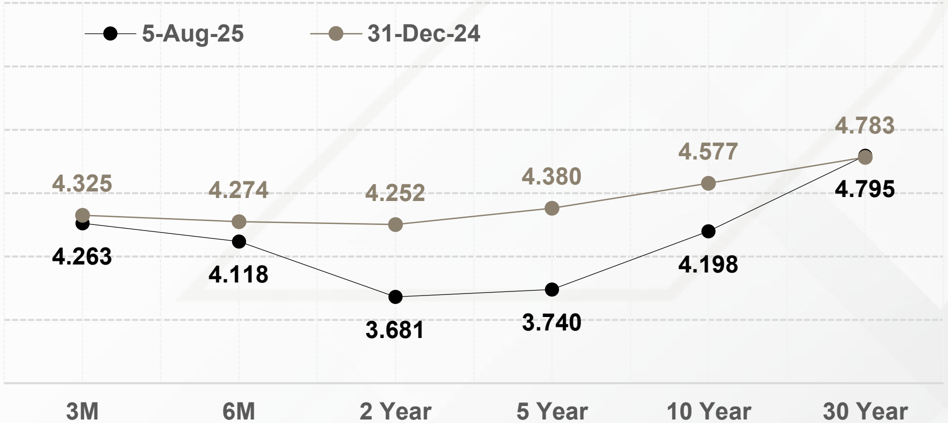


Source: Refinitiv; *Index Closing as of July 31, 2025

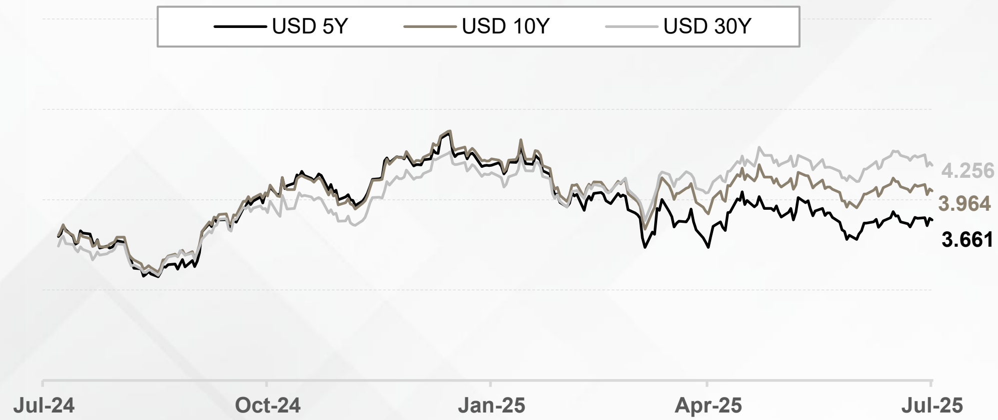
Global Benchmark Yields

The flattening of the US Treasury Yield Curve on YTD basis directs to a Dovish Monetary Policy

US Treasury Yield Curve (%)



US Mid-Swaps Yield (%)



- Following the weak jobs data, there was compression across the US Treasury Yield Curve. The 2Y US Treasury closed at 3.951% for July 2025; since the jobs report released on August 01; 2025 the yield is down 27bps. While the 10Y yield is down 16.2bps, and on the shorter end, the 6M Treasury bill yield were down 15.8bps during the same period
- On a Year to Date (YTD) basis, there has been a flattening of the Yield Curve as the longer end yields have decreased sharply. The 2Y US Treasury trades at 3.681% down 57.1bps on YTD basis. While the 10Y yields closed at 4.198% down 37.9bps during the same period. **Implications:** expectations of rate cuts have increased, downside risks to economic growth.

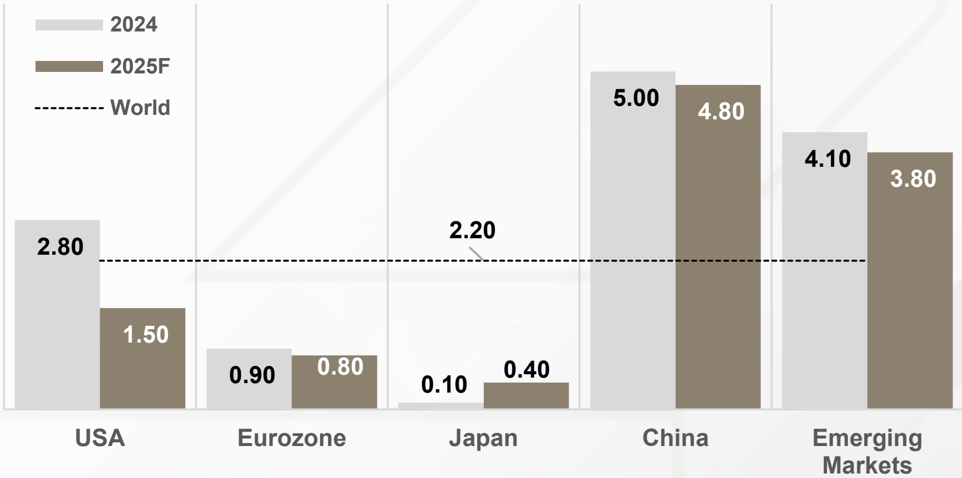
Source: Refinitiv, Year-to-Date (YTD) as of July 31, 2025

10Y-2Y Spread (bps)

Macroeconomic Overview

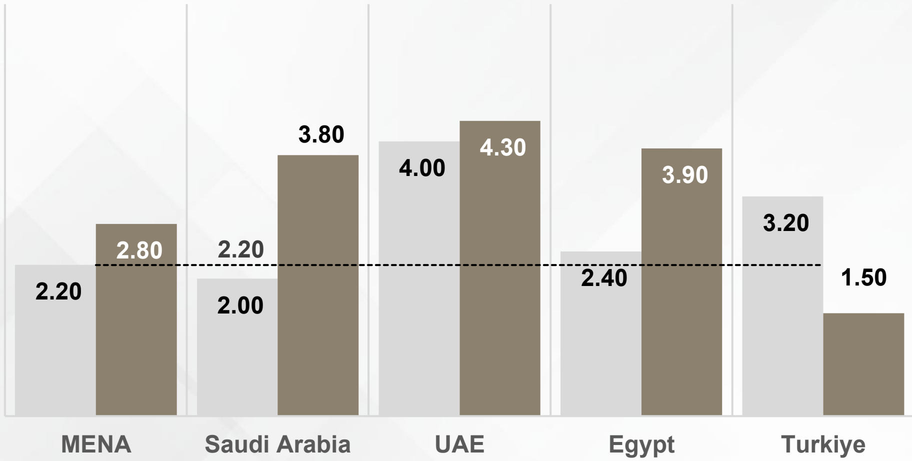
Global GDP Growth outlook remains strong despite on going tariff related uncertainties, however downside risks continue to remain elevated...

Real GDP Growth (%) - Global



- Fitch Solutions has revised its global GDP growth forecast for 2025 to 2.3%, up from earlier estimate of 2.2%. Similarly, the World Bank expects growth to reach 2.3% for the same period. The International Monetary Fund (IMF) has by far been the most aggressive as it has revised the GDP growth outlook for 2025 upwards to 3.0% from April 2025 forecasts of 2.8%.
- The IMF's rationale for the upward revision is supported by lower-than-expected effective US tariff rates than announced in April 2025, improved financial markets, decline in USD which is to support trade volumes.

Real GDP Growth (%) – MENA Region



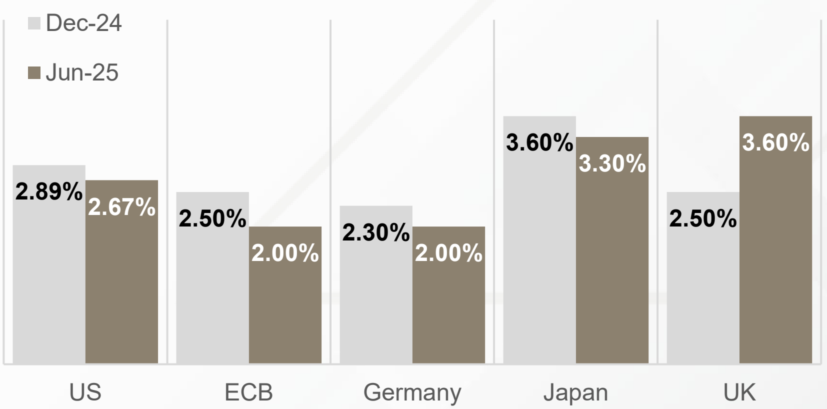
- The MENA region growth expectations remain strong driven by rising oil production. What does it mean for MENA economies: Increased volumes to compensate for lower prices. The government budgets are likely to witness revenue growth and smaller budget deficits. That leads increased government spending a key economic driver for the region
- The OPEC+ group has announced significant increase in oil production, on a YTD basis so far, the group has raised its output by 1.65 million barrels per day (mbpd).

Source: Fitch Solutions, f=forecasted, e=expected

Consumer Price Inflation & Central Banks Rates Monitor

Monetary Policy easing would be the theme for 2025, however elevated inflation levels initiated by uncertain effective tariff rates would prompt global central banks to take a cautious approach

Consumer Price Index (CPI)



- In June, the European Central Bank (ECB) and the US Federal Reserve kept key interest rates unchanged, citing unsupportive macroeconomic data – characterized by strong economic growth; low Unemployment rate, and inflation continues to remain elevated.
- Recent sharp revision in the US employment data pushed the unemployment rate to move up to 4.2% from earlier 4.1%. Nonetheless, it remains withing the US Fed target range of 4.0%. The US CPI recorded an increase of 2.67% up from previous month level of 2.40%.
- In the case of Inflation, as we write the Eurozone inflation expectations for July were announced and they remained steady at 2.0% in line with June 2025 levels.

Source: Refinitiv; CPI: Consumer Price Inflation

Central Banks Rates

Central Bank	Current Rate	Prior Rate	Change (bps)
US Federal Reserve System	4.50%	4.50%	-
European Central Bank	2.00%	2.00%	-
Bank of England	4.25%	4.25%	-
People's Bank of China	3.00%	3.00%	-
Central Bank of the Republic of Turkey	43.00%	46.00%	(300.0)

Economic Calendar

August 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31	1	2	3	4	5	6

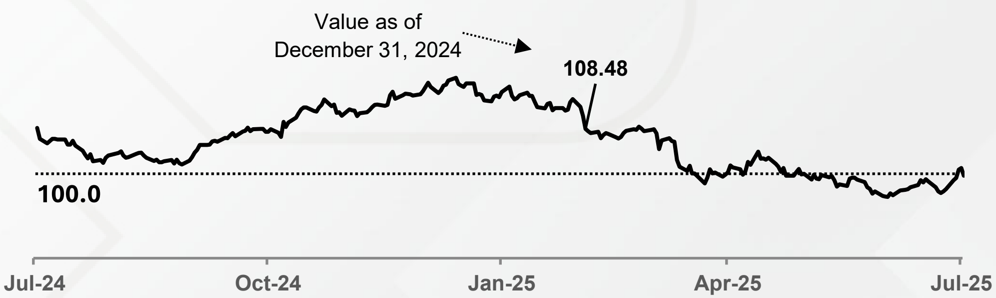
Aug 01: Eurozone CPI data
Aug 04: Turkey CPI data
Aug 07: BOE meeting
Aug 09: China CPI data
Aug 12: US CPI data
Aug 20: UK CPI data
Aug 22: Japan CPI Data

Commodities and Forex Overview

Commodities' performance has been mixed on monthly basis, Crude Oil reported gains while Precious and Base Metals prices recorded decline.

- The average price of Brent Crude was USD 69.4 per barrel a 0.84% decline over previous month average price. While the NYMEX average price was down 1.15% during the same period.
- The outlook on crude prices remains neutral with expected price range for the Brent Crude being USD 65-70 per barrel. Key drivers being weak demand coupled with steady rise in Supply.
- As of July 2025, the demand for crude oil stood at 104.38 million barrels per day (mbpd) while supply was in excess of over 1.3mbpd as it stood at 105.69mbpd. The incidence of excess supply is likely to remain as the market witnesses the unwinding of the OPEC+ production. The OPEC+ group supply to the tune of 1.64mbpd has already hit the market and an additional 0.54 mbpd is expected during September 2025
- On forex, the US Dollar gained or appreciated against major currencies by 3.19% during the month of July. The outlook to the US Dollar remains to the downside driven by probable tariff escalations, Monetary Policy program

US Dollar Index is down 7.85% on a YTD basis



Oil & Gas	Last	MTD	3M	YTD
NYMEX (USD Per Barrel)	69.26	6.37%	18.98%	-3.43%
Brent Crude (USD Per Barrel)	72.53	7.28%	14.91%	-2.83%
DME Oman Crude (USD Per Barrel)	78.04	10.88%	22.22%	0.71%
Natural Gas (USD MMBTU)	3.11	-10.13%	-6.61%	-14.51%
LNG - ASIA (USD MMBTU)	11.90	-9.16%	0.85%	-15.60%
Precious Metals	**Last**	**MTD**	**3M**	**YTD**
Gold (USD Ozs)	3,293.20	-0.04%	-0.36%	25.25%
Silver (USD Ozs)	36.55	1.95%	12.36%	26.30%
Base Metals	**Last**	**MTD**	**3M**	**YTD**
Aluminum (USD/Tonne)	2,565.0	-1.25%	6.90%	0.53%
Alu Alloy (USD/Tonne)	2,509.0	0.00%	0.00%	11.26%
Copper (USD/Tonne)	9,611.0	-2.61%	5.33%	9.61%
Tin (USD/Tonne)	32,710.0	-2.98%	4.34%	12.47%
Zinc (USD/Tonne)	2,760.5	0.33%	6.48%	-7.32%
Lead (USD/Tonne)	1,970.5	-3.64%	0.66%	0.95%
Nickel (USD/Tonne)	14,936.0	-1.83%	-3.13%	-2.56%
Rolled Steel (CNY/Tonne)	3,017.9	2.74%	-0.22%	-4.91%

Source: Refinitiv, YTD as of July 31, 2025

Key Contacts

KFH Capital Investment Company

P.O. Box: 3946 Safat,13040 Kuwait
Tel.(+965) 2298 7000
Company: www.kfhcapital.com.kw

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