KFH Capital Monthly Insights

Capital Market Outlook & Updates

August 2025

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Capital Markets Insights

Market Analysis & Outlook

- **Capital Markets Monthly Summary:** In the case of **Fixed Income** there has been a notable steepening in the US Treasury Yield Curve driven by buying across the short end of the curve during August in anticipation of rate cuts during September. **Equities;** after an initial decline, equity markets have been on an uptrend recording new highs. Key driver being dovish monetary policy expectations coupled with strong quarterly earnings growth. **Commodities** performance has been mixed. Precious metals outperform, benefiting from increased uncertainty. While energy-related products continue to record lower prices amid weak demand and excess supply.

- **Macro-Economic Update:** Bank of England (BOE) reduced its key rates by 25bps to 4.0%, bringing cumulative year-to-date decline to 75bps. Meanwhile the European Central Bank (ECB) kept its key lending rates unchanged. In the case of US, Inflation remains elevated at 2.7% for July. The Producer Price Index rose by 3.3% during the same period, indicating higher input costs for manufacturers. Further consumption data highlighted that Consumer Spending has been resilient as it recorded 2.1% growth on a yearly basis.

- **Outlook:** As mentioned earlier, our theory of a probable 25bps rate cut is likely to play out, a view that was also acknowledged by the Fed Chair in his recent speech. According to the Fed Chair the focus will be on the jobs data as other macro data *(elevated inflation, resilient consumer spending etc.)* remain unsupportive of a rate cut. Unfavorable incoming jobs data (*i.e. if there is healthy jobs creation or Unemployment remains steady at 4.2%*) can interrupt the rate cut cycle and impact markets negatively. Tailwinds for Equities include the inception of an aggressive rate cut cycle which could improve sentiments

Market Analysis & Outlook

While headwinds are elevated inflation, restrained corporate earnings outlook for 2H2025. Additionally, Tariffs - which we believe are yet to be discounted both in earnings and inflation pose further downside risks.

KFH Private Wealth Insight – Chart of the Month

- ***Yield Curve Movement:*** There has been a bearish steepening of the US Yield Curve (*indicating that bond prices for long tenors are expected to decline*) as long-term yields moving higher compared to the short end. **Key Drivers:**

    I. **Rising Debt:** Rising budget deficits to drive debt requirement. As of 2024, the US deficit stands at 6.9% of total GDP is 6.9% as of 2024 (*US Total GDP as of Q22025 stands at USD 24 trillion*). The reason being higher outlays relative to revenue growth

    II. **Treasury Demand/Supply:** Larger deficits imply increased Treasury Issuances particularly the longer maturities. Thus, increase supply coupled with weak demand are pushing long tenor yields upwards.

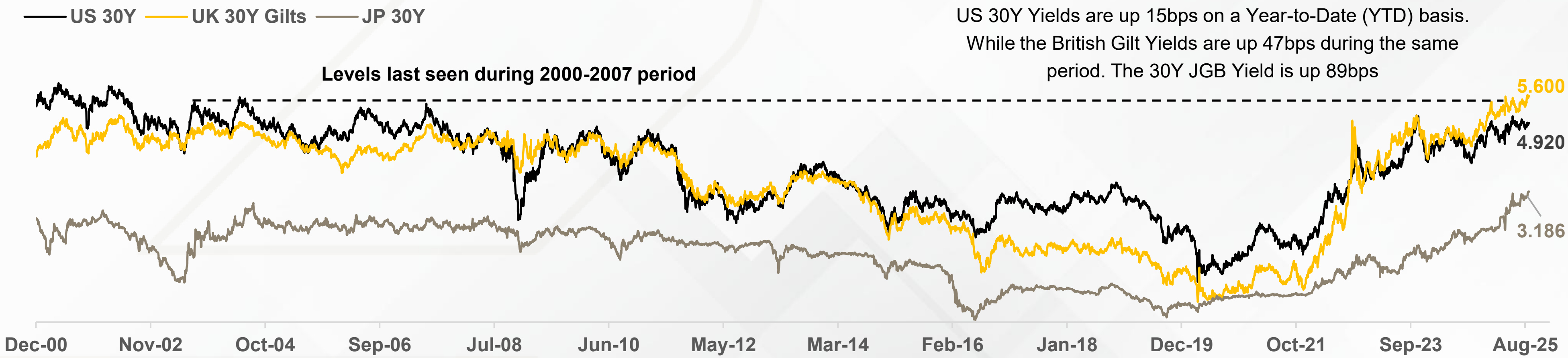
    III. **Potential Downside Risks to Demand:** Reduced central bank support as appetite for Quantitative Easing (QE) on the decline. Further, inflation uncertainty and geopolitical risks have impacted investor demand for long tenor bonds

- ***KFH Private Wealth Strategy:*** We recommend avoiding long-dated Sukuks, as we foresee yields to remain elevated amid increased supply and weak demand as investors remain oversensitive on inflation, interest rate cycle and geopolitical risks

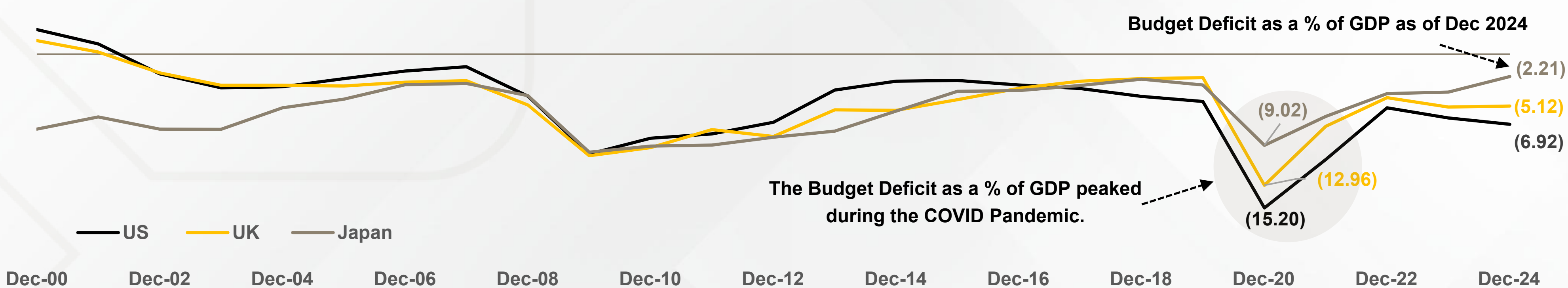
Global Themes Driving Long-Term Yields Higher

The long-term Sovereign (30Y) bond yields for the US/UK/Japan show a steady upward trend since early 2020. Key common theme driving the yields is rising Debt Concerns, Fiscal Stress …

There is a strong correlation between rising budget deficits and the rise in the 30Y Yields…



Budget Deficit as a % of GDP….



Source: Bloomberg;

Equity Markets Update

Increased prospects of a Dovish Monetary Policy coupled with better-than-expected earnings for the 1H2025 drive markets. However, risks continue to remain to the downside

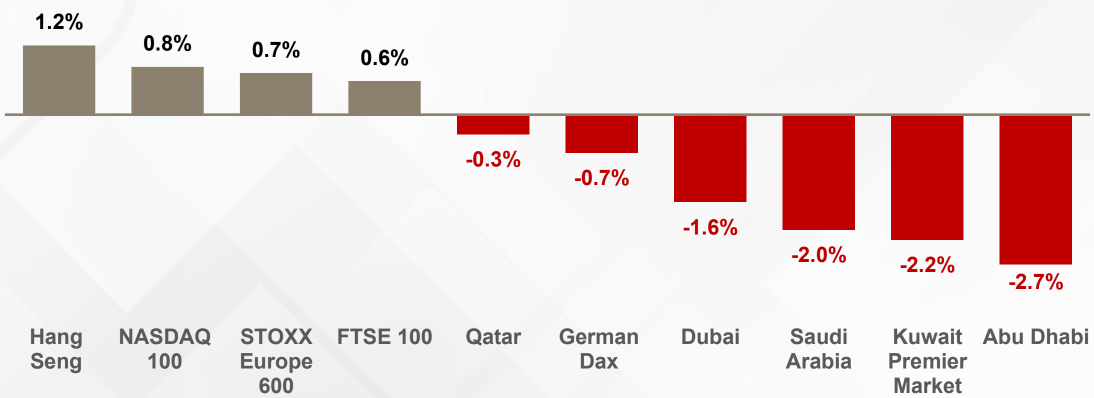
Key Global Equities witness volatility:

- After initial decline equities have recorded new highs supported by increased rate cut expectations, strong Q2 earnings. The initial decline was due the sharp revision in the Jobs data. Markets gave way towards the month end amid fresh tariff announcements and subdued earnings outlook for 2H2025 in the Tech sector a key market driver
- Earnings have exceeded expectations, the average earnings growth for the S&P500 group has been double digit against expectations of 5-6% earlier. European Corporates are expected to post earnings growth is 4-5% for the second quarter.

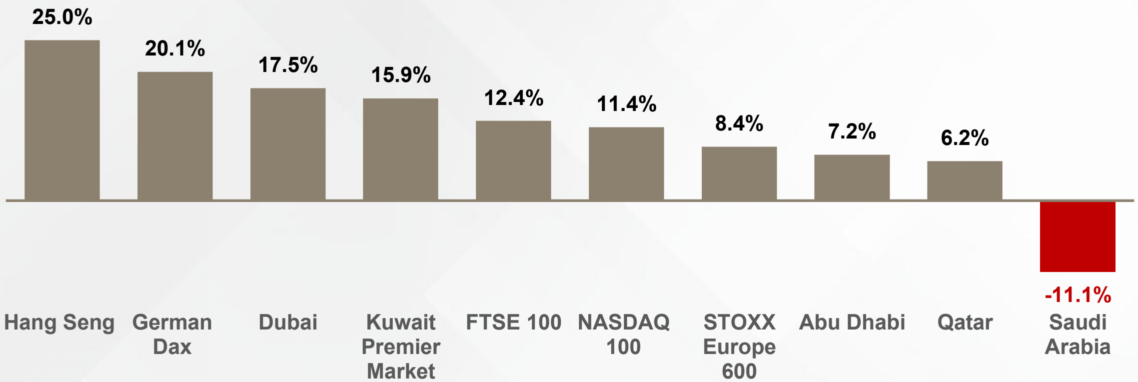
GCC Equities have underperformed global peers:

- Despite strong earnings growth the GCC peers have underperformed on monthly basis. Continued decline in crude prices have impacted markets negatively. The monthly average price for the Brent Crude is down over 3%
- In the case of earnings; consumer services segments recorded growth in earnings through revenue growth and improved margins. While Banking Sector has witnessed double digit growth in earnings for the 1H2025 driven by loan growth and margin improvements. Sectors with earnings decline are predominantly Petrochemical and allied sectors due to price declines coupled with weak demand

Global Equity Markets Performance – Month to Date (MTD)



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

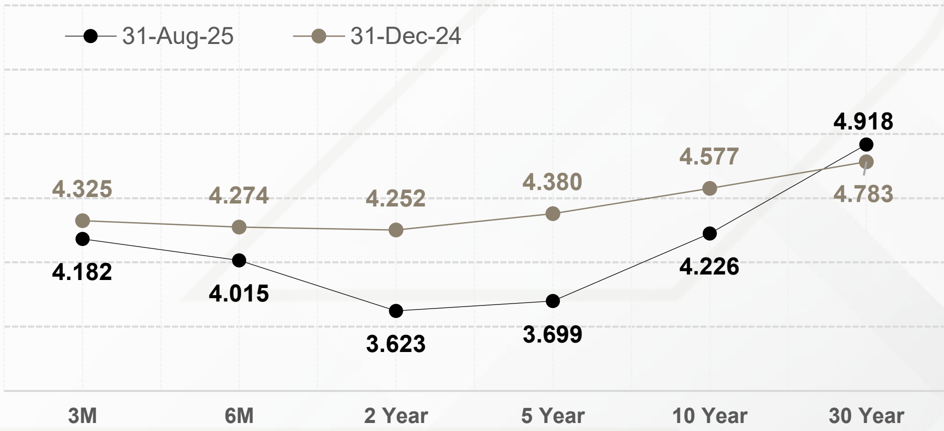


Source: Refinitiv; *Index Closing as of August 31, 2025

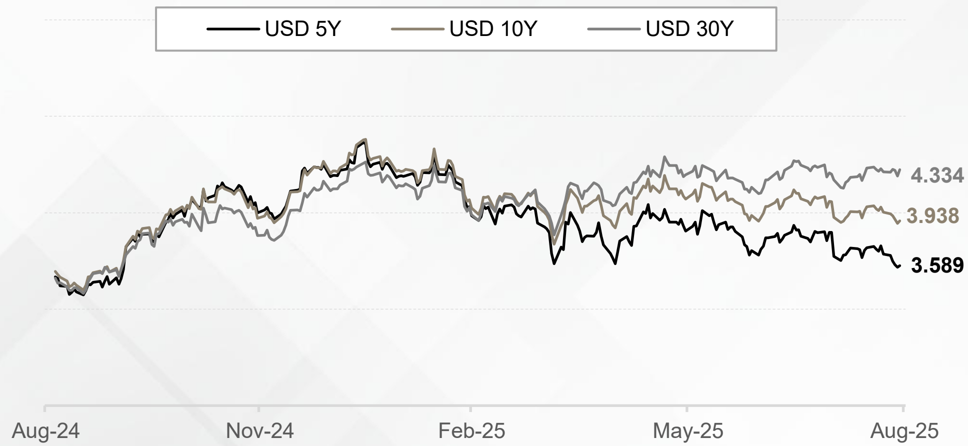
Global Benchmark Yields

Notable steepening of the Yield Curve as Investors expect rate cuts in the near term

US Treasury Yield Curve (%)

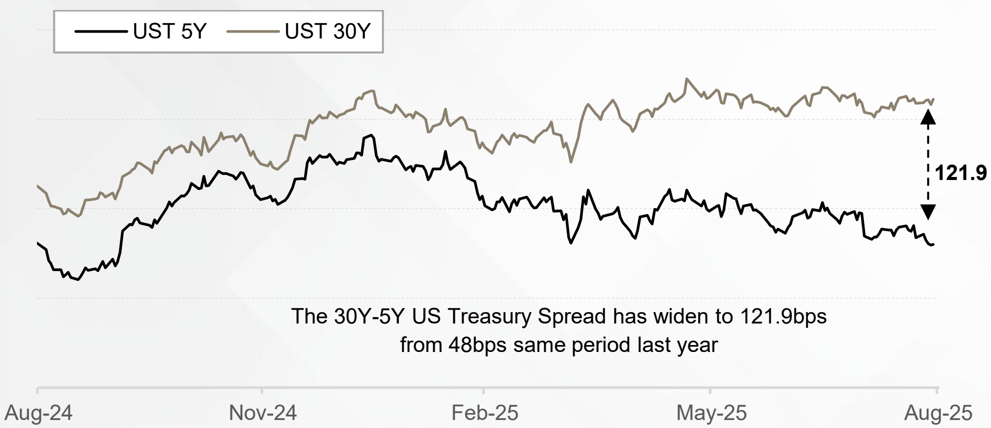


US Mid-Swaps Yield (%)



- There has been compression in the short tenor yields as investor expectations of a rate cuts increase. The 2Y US Treasury Yields were down 33bps on a monthly basis, while the 5Y Yields were also down 28bps during the same period. Key drivers being apprehensions of a weak labor market and dovish tone of the US Fed Chair Powell in the recently concluded gathering
- However, long term treasuries remained steady, the US 30Y Treasury Yields moved up by 3bps on a month-on-month basis. The movement could reflect reduced demand for long term treasuries coupled with expected increase in supply to support rising US fiscal deficit. *Detailed in our Chart of the Month section*

30Y-5Y Spread (bps)

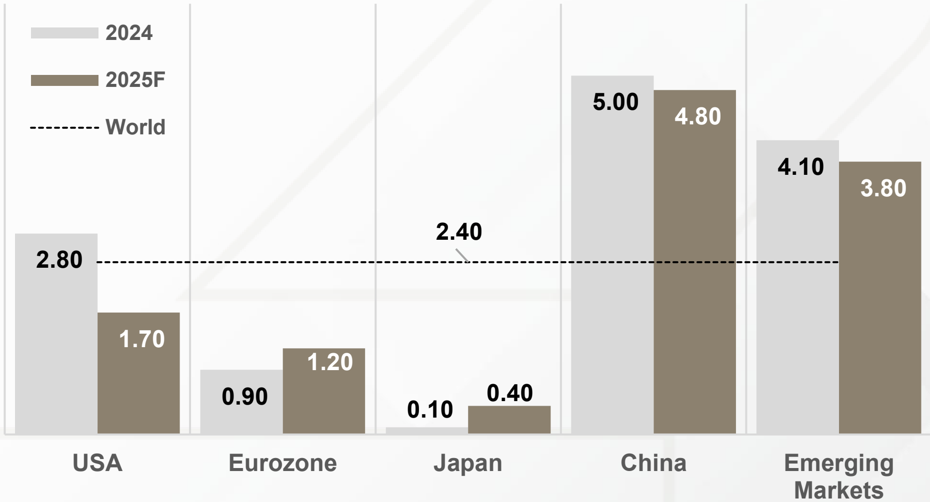


Source: Refinitiv, Year-to-Date (YTD) as of August 31, 2025

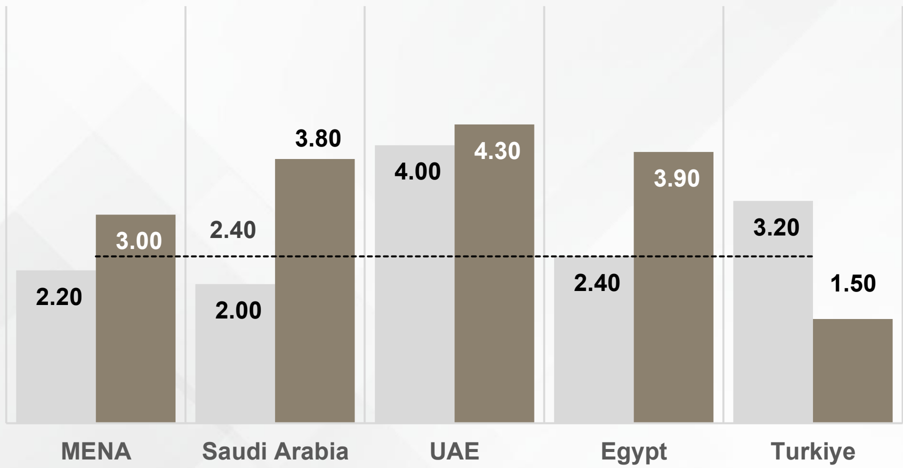
Macroeconomic Overview

Fitch revised its Global Growth Outlook upwards to 2.4% for 2025 from earlier 2.3%, key drivers being stronger growth across Developed Economies in particular Eurozone, US ...

Real GDP Growth (%) - Global



Real GDP Growth (%) – MENA Region



- Fitch Solutions has revised its global GDP growth forecast upwards for the second time during 2025. At the inception of 2025 the expected growth was 2.2%. Continued momentum in economic activity despite the tariff uncertainties resulted in revision of growth expectations to 2.4%.
- The Eurozone economic growth has been revised upwards to 1.2% for 2025 from earlier expectations of 0.8%, loose monetary policy has had a positive impact on the economic activity. US growth expectations are 1.7% for 2025 from earlier 1.5% as economic momentum remains resilient

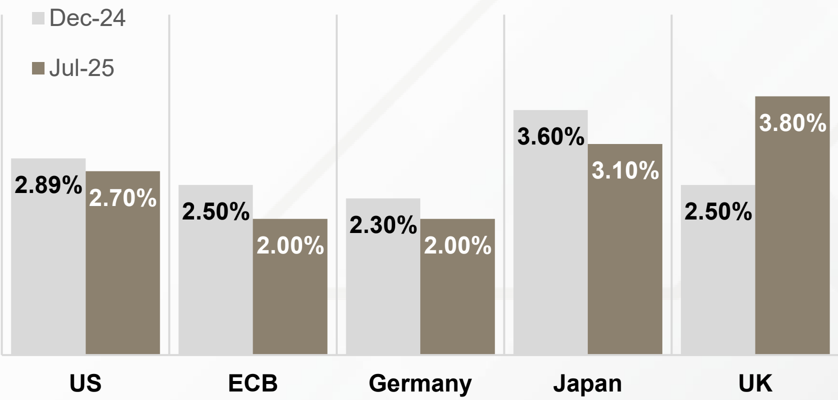
- The MENA region growth also has been revised upwards to 3.0% from earlier expectations of 2.8%. In the case of GCC, Saudi Arabia is expected to continue to grow at 3.8% for 2025 supported by higher crude oil volumes as prices remain under pressure during the 2H2025. Non-Oil sector is expected to remain muted during the same period
- UAE growth has been revised downwards to 4.3% from earlier 4.7% due to expectations of downside risks to the Non-Oil sector growth during the 2H2025.

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

Consumer Price Inflation & Central Banks Rates Monitor

Dovish Monetary Policy sentiments remain integral theme; however Central Banks remain cautious as they balance economic growth, higher wage and elevated inflation

Consumer Price Index (CPI)



- During the month of July, European Central Bank (ECB) kept its key deposit rates unchanged. The Eurozone inflation expectations for July remained steady at 2.0% in line with June 2025 levels.
- However, Bank of England (BOE) reduced its Bank Rate by 25bps to 4.0% from earlier 4.25%. The cumulative decline in rates during 2025 is 75bps as Bank rates as of December 2025 stood at 4.75%. The rate cuts were despite elevated Inflation, the CPI for the month of June 2025 was at 3.6%.
- The US CPI (Inflation) indicated that prices increased by 2.7% during the month of July 2025, marginally higher when compared to previous month levels of 2.67%. Steady and declining Food, Energy and Shelter prices had a positive impact on the Index. However, increase in Non-Food and Energy items and Services segments.

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	4.00%	4.25%	(25.0)
People's Bank of China	3.00%	3.00%	-
Central Bank of the Republic of Turkey	43.00%	43.00%	-

Economic Calendar

September 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
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	1	2	3	4

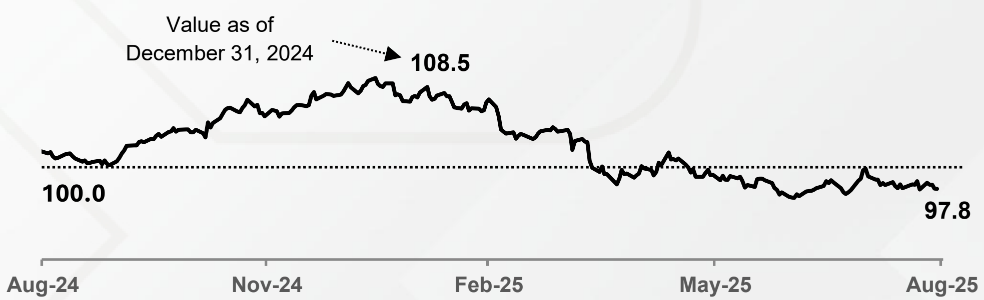
Sep 02: Eurozone CPI data
Sep 03: Turkey CPI data
Sep 05: Non-Farm Payrolls – US
Sep 10: Consumer Price Inflation - US
Sep 11: European Central Bank Meeting
Sep 11: Central Bank of Turkey Meeting
Sep 17: US Fed Meeting
Sep 18: Bank of England (BOE) Meeting
Sep 22: People's Bank of China Meeting

Commodities and Forex Overview

Commodities' performance continues to be mixed, precious and base metals outperform while energy related prices remain weak.

- Precious metal have benefited increased uncertainty which includes monetary policy and tariff related. Base metals have also recorded gains despite growth concerns in China the principal demand driver. Key rationale can be tariff related as manufacturers front load before higher tariffs. Also, Chinese buyers have been price sensitive, hence low prices have resulted in inventory build up
- In the case of Crude Oil, the monthly average price for Brent was USD 67.34 per barrel, a 3.01% decline over previous month average price of USD 69.44 per barrel. The outlook remains to the downside amid weak demand and increased supply. As per Refinitiv data, excess supply phenomenon continues to remain. As of September 2025; the supply is expected to be in excess of 1.76 million barrels per day which is to impact prices negatively
- On forex, the USD has weakened relative to major currencies as the US Dollar Index is down 9.88% on a Year to Date (YTD) basis, the index was down 2.2% on a monthly basis. The outlook for USD remains to the downside driven by Dovish Fed sentiments and increased fiscal concerns

US Dollar Index is down 9.88% on a YTD basis



Oil & Gas	Last	MTD	3M	YTD
NYMEX (USD Per Barrel)	64.01	-7.58%	5.30%	-10.75%
Brent Crude (USD Per Barrel)	68.12	-6.08%	6.60%	-8.74%
DME Oman Crude (USD Per Barrel)	72.49	-7.11%	16.11%	-6.45%
Natural Gas (USD MMBTU)	3.00	-3.51%	-13.05%	-17.51%
LNG - ASIA (USD MMBTU)	11.15	-6.30%	-10.08%	-20.92%
Precious Metals	**Last**	**MTD**	**3M**	**YTD**
Gold (USD Ozs)	3,473.70	5.48%	5.62%	32.12%
Silver (USD Ozs)	40.20	9.98%	22.22%	38.91%
Base Metals	**Last**	**MTD**	**3M**	**YTD**
Aluminum (USD/Tonne)	2,605.0	1.56%	6.59%	2.10%
Alu Alloy (USD/Tonne)	2,509.0	0.00%	0.00%	11.26%
Copper (USD/Tonne)	9,818.0	2.15%	3.37%	11.98%
Tin (USD/Tonne)	34,802.0	6.40%	14.46%	19.66%
Zinc (USD/Tonne)	2,781.0	0.74%	6.15%	-6.63%
Lead (USD/Tonne)	1,983.5	0.66%	1.30%	1.61%
Nickel (USD/Tonne)	15,263.0	2.19%	0.17%	-0.42%
Rolled Steel (CNY/Tonne)	3,054.9	1.22%	1.91%	-3.75%

Source: Refinitiv, YTD as of August 30, 2025

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