

Market Review & Outlook

January 2026

(as at 31 December 2025)

Overview

The US ISM Manufacturing Purchasing Managers' Index ("PMI") fell to 48.2 in November 2025, signalling that the manufacturing sector contracted for the ninth consecutive month, driven by declines in supplier deliveries, new orders and employment. In contrast, the US ISM Services PMI rose to 52.6 in November 2025, supported by continued expansion in business activity and new orders, along with the highest backlog of orders since February 2025, indicating positive signs of recovery in the services sector.

Personal income increased by 0.4% Month-on-Month ("MoM") in September 2025, matching August 2025's growth, primarily due to higher employee compensation, including wages and supplements. Meanwhile, personal spending rose by 0.3% MoM in September 2025, down from 0.5% in August 2025, with most of the growth coming from a USD 63.0 billion increase in services spending, led by housing and utilities (USD 15.4 billion), health care (USD 12.6 billion), financial services and insurance (USD 12.5 billion), food services and accommodations (USD 8.2 billion) and transportation services (USD 6.7 billion).

Job openings edged up slightly to 7.67 million in October 2025 from 7.66 million in September 2025, according to delayed data from the US Bureau of Labor Statistics. Openings increased in trade, transportation and utilities (+239k), led by retail and wholesale trade, and in health care and social assistance (+49k) but declined in professional and business services (-114k), the federal government (-25k) and leisure and hospitality (-22k).

On 10 December 2025, the Federal Reserve cut interest rates by 25 basis points to a range of 3.50%–3.75%, following similar reductions in September 2025 and October 2025. The decision included two dissents, with two members favouring a hold, while new FOMC Governor Miran opted for a 50 bps cut.

Retail sales was flat in October 2025, compared to 0.1% in September 2025 while the unemployment rate rose to 4.6% in November 2025 from 4.4% in September 2025 (the October 2025 data is not published due to the US government shutdown during that period). The annual core Consumer Price Index ("CPI"), excluding food and energy, eased to 2.6% in November 2025. The shelter index increased 3% Year-on-Year ("YoY"),

while notable annual increases were observed in medical care (+2.9%), household furnishings and operations (+4.6%), recreation (+1.8%), and used cars and trucks (+3.6%). US Gross Domestic Product ("GDP") grew at an annualized 4.3% in Q3 2025, driven mainly by consumer spending, exports, and government expenditure.

In the Eurozone, the annual inflation rate was revised down to 2.1% in November 2025 from a preliminary 2.2% in October 2025. Price growth slowed for food, alcohol, tobacco, and non-energy industrial goods but accelerated for services, while energy prices fell at a slower pace. The European Central Bank kept borrowing costs unchanged for the fourth consecutive meeting in December 2025, with the main refinancing rate at 2.15% and the deposit facility rate at 2.00%. Updated European Central Bank projections show GDP growth revised up to 1.4% in 2025, 1.2% in 2026, 1.4% in 2027 and expected to remain at 1.4% in 2028. Headline inflation is forecasted at 2.1% in 2025, 1.9% in 2026, 1.8% in 2027 and 2.0% in 2028, with the 2026 revision mainly due to higher service costs.

Malaysia

December 2025 opened with the release of Malaysia's October 2025 labour market data, which continued to signal resilience. The unemployment rate held steady at 3.0% for a sixth consecutive month, in line with consensus and marking the lowest level in a decade. Employment rose marginally by 0.2% YoY to 17.06 million, supported primarily by the services sector, followed by agriculture, manufacturing and construction.

Inflation dynamics remained benign. Headline CPI for November 2025 edged up to 1.4% YoY from 1.3% in October 2025, undershooting market expectations of 1.5%. Price pressures increased modestly in alcoholic beverages and tobacco (2.4% vs. 0.3%), education (2.6% vs. 2.4%) and transport (0.2% vs. -0.1%). Food inflation remained subdued at 1.5%, the softest pace in over four years, while inflation was broadly stable across financial services, healthcare, recreation and restaurants. Meanwhile, price growth moderated for housing and furnishings, clothing and communication services.

External trade data weakened noticeably. Malaysia's trade surplus narrowed sharply to MYR 6.1 billion in November 2025, down from MYR 14.8 billion a year earlier and well below expectations of MYR 17.2 billion, marking the smallest surplus since May 2025. Exports grew 7.0% YoY to MYR 135.0 billion, decelerating significantly from October 2025's 15.7% increase and falling short of forecasts. Export growth was led by

manufacturing and mining, with shipments primarily to Singapore, China and the European Union ("EU"). In contrast, imports surged 15.8% YoY to MYR 128.9 billion, exceeding expectations and recording the fastest expansion in seven months.

Fixed Income

US Treasury Market Overview

In the initial week of December 2025, the US Treasuries ("UST") yield curve bearish-steepened with mixed data, with Automatic Data Processing ("ADP") Payroll showing a decline in 32,000 private sector jobs while weekly jobless rate slid down 27,000 to 191,000 (consensus 220,000) and the Challenger job cuts survey that saw job cuts of 71,300 in November 2025 which was far-lower than October 2025's 153,000 job cuts. The UST continued to weakened over persistent inflationary fears and better than expected Job Openings and Labor Turnover Survey ("JOLTS") job openings of 7.67 million in October 2025 (consensus: 7.20 million).

The Federal Reserve ("the Fed") cut the policy rate as expected by 25bps to 3.50-3.75% but post meeting speech and statement indicates a possible pause in rate cut pending inflation and employment data. However, the Fed's decision to buy shorter-dated Treasury provided support for the UST. Toward the end of the month, UST yield fell following better than expected 2.7% increase in CPI for November 2025 (consensus: 3.1%; September 2025 3.0%).

Overall in December 2025, the UST steepened with the 2Y yield down by 12.1bps and 10Y yield up by 15.4bps.

US Treasury Yields

US Treasury Tenor	31-Dec-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.47	-12.1	-67.3
2Y	3.47	-1.6	-76.9
5Y	3.73	+12.9	-65.7
7Y	3.94	+15.6	-54.0
10Y	4.17	+15.4	-40.2
20Y	4.79	+16.9	-6.5
30Y	4.84	+18.1	+6.2

Source: Bloomberg, 4 January 2026

Looking ahead, the 10Y UST yield is expected to trade in the range of 3.90%-4.20% for the 1st quarter of 2026.

Asian Bond Indices Performance

Markit Asian USD Index	31-Dec-25	Month-on-Month	Year-To-Date
Asian Dollar Index	150.2	0.03%	8.18%
Asian Dollar IG Index	151.6	-0.01%	8.02%
Asian Dollar HY Index	141.9	1.04%	9.19%
Asian Dollar Corp Index (ex-banks)	152.5	0.04%	8.01%

Source: Bloomberg, 2 January 2026

Asian dollar bonds indices were generally flat in December 2025, except for the Asian Dollar HY Index, as the market priced in the Fed's December 2025 rate cut.

Asian Dollar HY Index gained 1.04% MoM while the other indices ranged between -0.01% and 0.04%.

By country, the Asian Dollar bond performance was mixed. The top three gainers by sequence were India (0.36% MoM), South Korea (0.19% MoM) and Indonesia (0.12% MoM) while the top three losers by sequence were Singapore (-0.27% MoM), Malaysia (-0.26%) and China (-0.11% MoM).

The United States Dollar Index

In December 2025, the United States Dollar Index ("DXY") weakened notably, declining from 99.365 pts to 98.399 pts. This decline was primarily driven by the Fed's December 2025 rate cut, which confirmed market expectations for a more accommodative monetary stance. The dovish tone from the Fed reduced demand for the dollar, signaling a shift in sentiment toward risk assets and higher-yielding currencies.

Throughout the month, the DXY faced additional pressure from strength in major counterparts such as the euro and the pound, as their respective central banks maintained relatively tighter policies. The index traded in a broad range in December 2025, starting near 99.5 pts early in the month and dipping to lows around 97.4 pts before stabilizing slightly.

Overall, December 2025 marked a clear downtrend for the dollar, reflecting both policy divergence and a recalibration of global currency flows in response to the Fed's easing cycle.

In the near term, the DXY is expected to remain under downward pressure, driven by growing expectations of additional Fed rate cuts in early 2026. Market sentiment is also clouded by uncertainty surrounding U.S. labour market data—volatile employment figures and mixed jobless claims have heightened concerns, leaving the dollar vulnerable to further weakness unless stronger economic indicators emerge.

Chart 1: The United States Dollar Index



Source: Bloomberg, 2 January 2026

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	31-December-25 (%)	Net Change	Net Change
		MoM (bps)	YTD (bps)
3Y	3.09	-0.9	-44
5Y	3.30	0.3	-36
7Y	3.39	-7.5	-38
10Y	3.53	4.3	-31
15Y	3.80	2.9	-19
20Y	3.86	-1.7	-22
30Y	3.98	0.1	-21

Source: Bond Pricing Agency Malaysia, 31 December 2025

In December 2025, the Malaysian bond market performance was mixed on thin year-end volume with MGS/GII volume at RM81.6 billion (November 2025: RM128.7 billion) and corporate bond volume at RM13.3 billion (November 2025: RM18.8 billion).

The last sovereign bond auction of the year, the 10Y MGS reopening on 12 December 2025 saw better than expected demand with bid-to-cover ratio of 1.924x at size of RM3 billion.

Overall, the bond market should remain supported by healthy GDP growth outlook, fiscal and monetary authorities that stand ready to intervene in the event of economic shocks and contained inflation that preserve real returns on fixed-income instruments.

Foreign interest in the ringgit bond market remained strong with inflows rising to RM6.1 billion in November 2025 (October 2025: RM4.4 billion); as Malaysia benefitted from being the highest yielding market in EM Asia with a current account surplus, together with expectations of a dovish Fed and potential further appreciation in the ringgit.

Some notable domestic corporate issuances in December 2025 included RM500 million of YTL Power International Berhad (AA1), RM1 billion of CIMB Group Holdings Berhad Tier-2 Sukuk (AA2), RM550 million of CIMB Group Holdings Berhad Additional Tier-1 Sukuk (A1), RM500 million of CelcomDigi Telecommunications Sdn Bhd (AAA) and RM350 million of BGSM Management Sdn Bhd (AA3). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.56% (+2bps MoM), 3.64% (+1bps MoM), 3.72% (no change MoM), 3.81% (-8bps MoM).

Strategy

Market Outlook

Malaysia's fixed income market enters 2026 on a stable and constructive footing, supported by steady macroeconomic conditions, moderate inflation and credible fiscal consolidation. Bank Negara Malaysia ("BNM") is expected to maintain policy rates, anchoring the yield curve and reducing volatility. Attractive real yields relative to regional peers continue to draw both domestic and foreign investors.

Total returns are projected in the mid-single-digit range, driven primarily by carry income rather than capital gains. Supply dynamics remain manageable, while fiscal discipline reinforces sovereign credit confidence.

Corporate bonds and sukuk offer compelling opportunities, underpinned by strong issuer fundamentals and low default risk.

Key risks include global rate volatility, foreign fund flow shifts, and currency sensitivity. However, Malaysia's deep domestic investor base and improving fiscal metrics provide resilience against external shocks.

Investment Strategy

For 2026, an income-oriented strategy is recommended:

- **Duration:** Neutral to slightly long, focusing on the 5–7-year segment for roll-down and yield pick-up.
- **Credit:** Prioritize high-quality investment-grade corporates and sukuk; maintain selective exposure to higher-yielding credits with strict risk controls.
- **Portfolio Construction:** Diversify across MGS/GII, quasi-sovereigns, and corporates; emphasize liquidity management and active credit selection.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	31-Dec-25	MoM	YTD
S&P 500 Index	6,845.50	-0.69%	16.39%
Nasdaq Index	23,241.99	-0.53%	20.36%
MSCI Europe Index	197.64	2.61%	16.34%

Source: Bloomberg, 2 January 2025.

The Standard & Poor's ("S&P") 500 Index fell by -0.69% MoM in December 2025, but rose 16.39% in 2025, marking its third consecutive year of double-digit gains. The strong performance was driven by resilient corporate earnings with profits growing approximately 12%–13%, surpassing early-year expectations. Technology and AI-related sectors, particularly the "Magnificent Seven" stocks, were key contributors, benefiting from continued enthusiasm around artificial intelligence and cloud innovation. Despite a sharp selloff in April 2025, triggered by new tariffs and declared "Liberation Day" by President Trump, the S&P 500 Index quickly rebounded as trade tensions eased and supply chains adapted, reinforcing investor confidence. Monetary policy also played a pivotal role in sustaining momentum. The Fed cut rates three times in the later part of the year, providing a significant tailwind for equities.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 2.61% MoM in December 2025 and 16.34% in 2025 marking one of its best years in recent history. Despite global volatility earlier in the year, European equities attracted renewed investor interest as relative valuations were favourable compared to US markets. Large-cap multinationals such as Advanced Semiconductor Materials Lithography ("ASML"), Nestlé and Shell provided stability and growth, while financials and industrials benefited from improving credit conditions and fiscal spending. The European Central Bank's proactive rate cuts early in the year also helped stimulate economic activity, particularly in lending and manufacturing sectors, while moderating inflation reinforced confidence.

Asia Pacific Equity Index Performance

Index	Index level	Dec-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	913.42	2.57%	29.73%
FTSE ASEAN	990.47	3.46%	15.23%
CSI 300 INDEX	5,156.46	2.28%	17.66%
KOSPI INDEX	4,214.17	7.32%	75.63%
HANG SENG INDEX	25,630.54	-0.88%	27.77%
S&P BSE SENSEX INDEX	85,220.60	-0.57%	9.06%
TAIWAN TAIEX INDEX	28,963.60	4.84%	25.74%

Source: Bloomberg, 1 December 2025.

Chinese onshore equities rose 2.3% MoM amid positive market sentiment on the 2026 outlook following the Central Economic Work Conference. Retail sales remained soft as it slowed further to 1.3% YoY in November 2025 from 2.9% YoY in October 2025 weighed by unfavorable base effects and exhausted trade-in subsidies. Hang Seng Index fell 0.9% MoM amid weakening macro activity and limited policy surprises from the Central Economic Work Conference. Unfavorable year-end seasonality was compounded by rising concerns over the default risk at Vanke and renewed fears of a US AI bubble following Oracle's mixed results. South Korea's KOSPI rose 7.3% MoM mainly driven by IT. Industrial production rose just 0.6% MoM, well below expectations, after a steep drop by 4% MoM in October 2025. Taiwan's TWSE index rose 4.8% MoM driven mainly by financials and tech sector which all benefited from the AI boom causing positive spill over effect to the economy. Taiwan's manufacturing PMI picked up with gains in both production and demand. Headline manufacturing PMI rose 1.1pt to 48.8 in November 2025 from 47.7 in October 2025. India equities declined 0.6% MoM amid continued INR weakness, no conclusion of the India-US trade deal and global risk off. Composite PMI fell to 58.9 in December 2025 (vs 59.7 in November 2025).

ASEAN Equity Index Performance

Index	Index level	Dec-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	4,646.21	2.70%	22.67%
JAKARTA COMPOSITE INDEX	8,646.94	1.62%	22.13%
STOCK EXCH OF THAI INDEX	1,259.67	0.24%	-10.04%
PSEi - PHILIPPINE SE IDX	6,052.92	0.51%	-7.29%
HO CHI MINH STOCK INDEX	1,784.49	5.53%	40.87%
FTSE Bursa Malaysia KLCI	1,680.11	4.71%	2.30%

Source: Bloomberg, 1 December 2025.

The Straits Times Index rose in December 2025 supported by banking and industrial sectors. Monetary Authority of Singapore's ("MAS") accommodative stance and strong dividend yields attracted defensive flows. Meanwhile, the Thai SET Index was flattish in December 2025 and was the underperformer in the ASEAN region during the month. Political uncertainty remains including the latest skirmish with Cambodia at its border. Tourism-related stocks provided some cushion as arrivals improved during the holiday season. The Jakarta Composite Index rose in December 2025 driven again by the conglomerates and Bank Mandiri. Bank Indonesia ("BI") held policy rate at 4.75%, motivated by the central bank's focus on preserving foreign reserves and allowing more time for the transmission of previous policy easing to trickle through the economy. The Philippines Composite Index rose marginally in December 2025 as the index is weighed down by currency weakness and fiscal concerns. Inflationary pressures from higher oil prices limited upside, though selective buying in utilities and banks helped stabilize the index. The Vietnam stock market rallied in December 2025. Vingroup of companies and consumer stocks led gains while real estate underperformed. Anticipation of a potential FTSE upgrade to emerging market status kept foreign interest alive, with ETF inflows expected to accelerate in 2026.

Malaysian Equities

The KLCI gained 4.7% MoM in December 2025, bringing 2025 return to 2.3%.

Malaysia's mid-cap and small-cap indices lost 0.3% and gained 0.4% MoM respectively. Finance and Industrials were the best performing sectors, gaining 6.1% and 5.8% MoM respectively. On the other hand, Construction and Technology were the worst performing sectors, with a loss of 4.8% and 3.5% respectively. The top three best performers in KLCI component stocks were Petronas Chemicals (+21.0%), 99 Speed Mart (+13.7%) and RHB Bank (+10.9%), while the worst performing stocks were Gamuda (-6.9%), QL Resources (-6.4%) and Maxis (-5.0%).

Malaysia government introduced business friendly measures by raising the e-invoicing threshold to RM1 million and doubling the allocation to RM4 billion for fast-track tax refunds

Foreign institutional investors were net sellers of RM2 billion in December 2025, bringing 2025 net outflow to RM22.2 billion. Local institutional investors were net buyers of RM2.5 billion equities. Average daily trading value was at RM2.2 billion, down 24% MoM.

Strategy

We reiterate our view that expectations of further cuts in US interest rates would translate to the inflow of foreign funds into emerging markets. We expect the Malaysian market to play catch up given its underperformance to regional peers. After the cumulative outflows of RM22.3 billion in 2025, which was 5.3x higher than 2024 and the largest since 2020, we believe any foreign selling in 2026 to be muted or a reversal could happen given expectations of further cuts in US interest rates. We continue to be well invested into domestic centric and dividend yielding stocks.

We remain cautiously optimistic on the US equity market due to tailwinds from the easing cycle and resilient corporate earnings though valuations are elevated. The US technology sector will remain a key focus as we believe the development of artificial intelligence represents a multi-year growth cycle. Fiscal stimulus will be another support for the US and Europe equities going into 2026. In Asia, we maintain an optimistic outlook on Chinese equities on the back of policy support. India's structural growth story remains intact with valuations now being more reasonable after the correction earlier this year. We expect ASEAN markets to be supported by fiscal policies, stable inflation trends and currency tailwinds. We like sectors driven by domestic demand and high-yielding stocks, which offer resilience amid the external volatility.

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