

Market Review & Outlook

February 2026

(as at 31 January 2026)

Overview

The Federal Reserve ("the Fed") kept its target rate range unchanged at 3.50-3.75% at its 29 January 2026 meeting with two dissensions from Governors Waller and Miran who both favoured cutting rates. The Federal Open Market Committee ("FOMC") signalled an extended pause based on the Fed's view of the labour market and inflation outlook. The Fed independence is currently being watched closely by the market given the launching of a Department of Justice investigation on Fed Chair Jerome Powell as well as continued statements from the White House criticising monetary policy decisions.

US President Donald Trump has on 30 January 2026, nominated former Fed Governor Kevin Warsh as the next Fed Chair. If confirmed by the Senate, Warsh will succeed Jerome Powell as chair of the central bank in May 2026. Warsh's recent public statements indicates that he is in favour rate cuts in the short-term. However, 10-year treasury yields priced higher on the news, likely on expectation that Warsh will tighten current Quantitative Easing ("QE") given his criticism of the Fed's large balance sheet of USD6.6 trillion.

US third quarter Gross Domestic Product ("GDP") was revised slightly higher to 4.4% annualised pace, improving 0.1% from the initial estimate (2Q2025: 3.8% quarter-on-quarter ("QoQ") Seasonally Adjusted Annual Rate ("SAAR")). The revision was mainly driven by stronger exports and investment. Overall, the largest contributors to GDP growth were resilient consumer spending that added 2.34% QoQ SAAR and net exports that contributed 1.62% QoQ SAAR; to the quarterly GDP growth. Business investment slowed overall, although equipment investment growth remained relatively resilient at 5.2% QoQ SAAR (2Q2025: 8.5% QoQ SAAR). For the full-year 2025, US GDP growth outlook has stabilised with consensus expectation of 2.2%, relieving concerns of less than 2% growth from tariff turmoil at the start of 2025.

December 2025's non-farm payrolls added 50,000 jobs, less than 56,000 in November 2025. There were revisions of previous reports, with November 2025 revised down to 56,000 from 64,000 and October 2025 revised down to -173,000 from -105,000. With the statistical revisions introducing noise into the non-farm payrolls data, investors are closely monitoring the unemployment rate is likely a better indicator of current labour market health. The unemployment rate improved to 4.4% in December 2025 (November 2025: 4.5%) and such a trend allows the Fed to maintain interest rates.

US inflation remained subdued in December 2025 for both headline and core Consumer Price Index ("CPI") at 2.7% YoY and 2.6% YoY respectively (November 2025: 2.7% YoY, 2.6% YoY). Inflation is falling from 3.0% YoY for both headline and core CPI in September 2025, with tariff pass-through likely to have peaked in October 2025 where no CPI report was issued.

The European Central Bank ("ECB") has released its latest Bank Lending Survey ("BLS"), conducted between 15 December 2025 and 13 January 2026. The BLS indicated a small unexpected tightening in corporate credit conditions with the overall credit standards index for the eurozone rose slightly, from +4 to +7. The tightening was broadbased, driven by a modest increase in banks' risk perceptions with respect to lending across sectors in the eurozone. At the same time banks reported a small headwind to loan demand from trade policy. Given that the survey results do not show any dramatic stress to credit conditions at present, the ECB is likely to maintain its neutral, data dependent policy stance with the deposit rate potentially kept unchanged at 2.00% for 2026.

Malaysia

Malaysia entered 2026 with considerable momentum, underpinned by a 4Q2025 advance GDP estimate that surprised to the upside at 5.7%. This late-year surge propelled full-year 2025 growth to a robust 4.9%. While this is a slight moderation from the 5.1% recorded in 2024, it comfortably exceeds consensus expectations and underscores the economy's underlying strength. Against this backdrop of resilient growth, Bank Negara Malaysia ("BNM") maintained its neutral monetary policy stance at the 22nd January 2026 meeting, holding the Overnight Policy Rate ("OPR") at 2.75%. The central bank's characterization of current rates as "appropriate and supportive" suggests a prolonged pause, as they balance growth optimism with a vigilant eye on long-term price stability.

The external sector has reclaimed its role as a primary growth driver, evidenced by a 10.4% year-on-year ("YoY") jump in December 2025 exports. This recovery was supercharged by a 25.3% surge in Electrical and Electronics ("E&E") shipments, reflecting Malaysia's deepening integration into the global AI-driven semiconductor supply chain.

Domestically, the labor market remains exceptionally tight with the unemployment rate reaching an 11-year low of 2.9%. This robust employment data provides a sturdy boost for domestic consumption, which is further evidenced by Wholesale & Retail Trade sales of 6.4% YoY expansion reaching RM158.9 billion, driven largely by resilient motor vehicle sales (+8.0%) and retail trade (+6.4%).

On the pricing front, Malaysia continues to operate within a healthy range, where growth is robust but inflationary pressures remain contained. According to the latest data from the Department of Statistics Malaysia ("DOSM"), headline inflation averaged a modest 1.4% in 2025, even with a slight year-end uptick to 1.6% in December 2025. This suggests that while underlying domestic demand is healthy, there is currently no evidence of an accelerating price spiral. The official outlook for 2026 remains anchored in stability, with both BNM and the Ministry of Finance ("MOF") projecting headline inflation to settle within a range of 1.3% to 2.0%.

Fixed Income

US Treasury Market Overview

The US Treasuries ("UST") yield rose broadly across the curve in January 2026, with 1-Year UST dropped 0.9bps to 3.46 while 2-30 Year UST rose 3-7bps.

UST yields were little changed going toward mid-January 2026 following a mix of weaker-than-expected November 2025's Job Openings and Labor Turnover Survey ("JOLTS") Job Opening (7.14 million; Expected 7.6 million) and December 2025's Automatic Data Processing ("ADP") (+40,000; Expected +50,000) and a rise in December 2025's Institute for Supply Management ("ISM") Services Index (54.4%; November 2025 52.6%), the highest since October 2024.

The third week of the month saw a drop in UST yields on tariff treats by the US on Europe over Greenland, contagion from the Japanese Government Bond ("JGB") rout and the news that the Danish pension fund will start selling UST. The UST rebounded after US President Trump pulled back from the tariff threat but edged up again toward the end of the month on geopolitical tensions, tariff threats and USD weakness.

Overall, in January 2026, the UST steepened with the 2Y yield down by 0.9bps and 10Y yield up by 6.9bps.

US Treasury Yields

US Treasury Tenor	30-Jan-26 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.46	-0.9	-0.9
2Y	3.52	4.9	4.9
5Y	3.79	6.3	6.3
7Y	4.01	7.1	7.1
10Y	4.24	6.9	6.9
20Y	4.82	2.9	2.9
30Y	4.87	2.9	2.9

Source: Bloomberg, 4 February 2026

Looking ahead, the 10Y UST yield is expected to trade in the range of 4.00%-4.20% for the 1st quarter of 2026. The market is pricing in 2 cuts on the Fed Fund Rate in 2026.

Asian Bond Indices Performance

Markit Asian USD Index	30-Jan-26	Month-on-Month	Year-To-Date
Asian Dollar Index	150.4	0.08%	0.08%
Asian Dollar IG Index	151.8	0.08%	0.08%
Asian Dollar HY Index	144.2	1.64%	1.64%
Asian Dollar Corp Index (ex-banks)	153.1	0.38%	0.38%

Source: Bloomberg, 4 February 2026

Asian dollar bonds indices all went up in January 2026, especially for the Asian Dollar HY Index, as the market priced in the Fed's December 2025 rate cut.

Asian Dollar HY Index gained 1.64% month-on-month ("MoM") while the other indices ranged between -0.08% and 0.38%.

By country, the Asian Dollar bond performance was mixed. The top three gainers by sequence were Hong Kong (0.43% MoM), India (0.41% MoM) and Korea (0.38% MoM) while the were only two losers which were Indonesia (-0.62% MoM) and the Philippines (-0.21%).

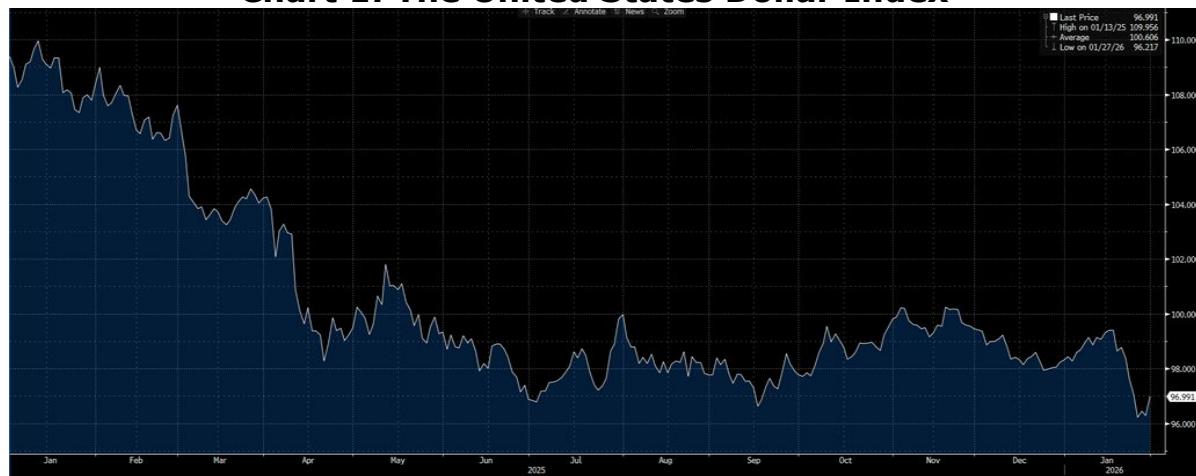
The United States Dollar Index

In January 2026, the United States Dollar Index ("DXY") weakened 1.35%, declining from 98.399 pts to 97.991 pts. This decline was driven by US threats on Greenland and worries over the Fed's independence.

The USD fell following speculations that the US would take steps to intervene to support the Yen. The DXY fell further on comments by US President Trump, saying that "I think its great", when being asked about the USD slump. The comment is taken as a signal that the US could end its "strong dollar policy". At one point the DXY fell to 95.859, the lowest since February 2022.

The DXY rebounded at the end of the month following the announcement of Kevin Walsh as Trump's nomination for the new Fed Chair. Walsh is seen by the market as 'hawkish'.

Chart 1: The United States Dollar Index



Source: Bloomberg, 4 February 2026

MALAYSIAN BOND MARKET

Malaysian Government Securities ("MGS") Benchmark Tenors	30-January-26 (%)	Net Change	Net Change
		MoM (bps)	YTD (bps)
3Y	3.11	1.5	1.5
5Y	3.33	2.7	2.7
7Y	3.45	6.2	6.2
10Y	3.52	-1.4	-1.4
15Y	3.77	-3.1	-3.1
20Y	3.93	7.1	7.1
30Y	4.02	4.2	4.2

Source: Bond Pricing Agency Malaysia, 30 January 2026

The local bond market delivered a mixed performance in January 2026, with investors alternating between bullish and bearish positions throughout the month amid continued uncertainty over the short- to medium-term direction of bond yields. Trading volume in MGS / Malaysian Government Investment Issues ("MGII") picked up significantly at RM155.8 billion in January 2026 (December 2025: RM81.6 billion) as corporate bond trading volume followed suit at RM24.5 billion (November 2025: RM13.3 billion).

Demands for long dated bond auction remained tepid while the shorter end drew slightly stronger interest. The first bond auction of the year, the 5Y MGII reopening on 7 January 2026 saw better than expected demand with bid-to-cover ratio of 2.296x at size of RM5 billion (without private placement). However, the following 2 bond auctions of the month, the new 15Y MGS (RM 3.5 billion + RM 1.5 billion private placement) and the new 30Y MGII (RM 3 billion + RM 2 billion private placement) came in at a bid-to-cover of 1.94x and 2x respectively.

Overall, the bond market is likely to remain well supported by a solid GDP growth outlook, proactive fiscal and monetary authorities prepared to step in during economic disruptions, and contained inflation that helps maintain positive real returns on fixed-income assets.

Foreign interests in the ringgit bond market continued strong with foreign funds adding another RM 3 billion in December 2025 (November 2025: RM6 billion); as inflows skewed to the front end of the curve to position for FX gains.

Some notable domestic corporate issuances in January 2026 included RM400 millions of Malaysian Resources Corporation Berhad (AA3), RM 150 million of Toyota Capital Malaysia Sdn Bhd (AAA), and RM1.5 billion of SP Setia Berhad (AA2). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.58% (+2bps MoM), 3.67% (+3bps MoM), 3.74% (+2bps MoM), 3.83% (+2bps MoM).

Strategy

Market Outlook

In early 2026, BNM maintained the Overnight Policy Rate ("OPR") at 2.75%, keeping monetary policy supportive amid steady domestic growth. At the same time, the Fed is expected to hold rates in the near term as it closely monitors labour market and inflation trends, though we still anticipate two rate cuts later in 2026 as disinflation resumes and growth moderates. These global dynamics contributed to a steepening in the UST curve, with front end yields remaining anchored under a Fed pause while longer dated yields drifted higher in line with improving growth expectations and supply factors.

Against this backdrop, the Ringgit strengthened against the U.S. dollar, supported by a softer dollar profile and Malaysia's firm macro fundamentals—conditions that encouraged incremental foreign inflows into the Malaysian government bond market. MGS and GII yields remained broadly stable throughout January 2026, underpinned by resilient demand from both domestic and foreign investors. Market conditions were orderly, with steady buying interest helping to anchor yields despite external rate volatility. Overall, we expect the local bond market to remain resilient in near term, supported by stable monetary policy, supportive economic fundamentals, and consistent investor appetite.

Investment Strategy

We maintain our income strategy with tactical duration play:

- **Duration:** slightly long, focusing on the 5-7-year segment for roll-down and yield pick-up. 15-20 year for tactical trading purpose.
- **Credit:** Prioritize high-quality corporate bonds/sukuk; selective credit plays.
- **Portfolio Construction:** Adopt a multi sector allocation framework incorporating MGS/GII, quasi sovereign credits, and corporate bonds, with a strong emphasis on liquidity optimisation, duration efficiency, and disciplined, bottom up credit selection.

EQUITIES**Global Equities****Global Equity Index Performance**

Indices	30-Jan-26	MoM	YTD
S&P 500 Index	6,939.03	1.37%	1.37%
Nasdaq Index	23,461.82	0.95%	0.95%
MSCI Europe Index	203.71	3.07%	3.07%

Source: Bloomberg, 3 February 2026.

The Standard & Poor's ("S&P") 500 Index rose by 1.37% MoM in January 2026, posting a modest but positive start to the year supported primarily by strong earnings reports and upbeat guidance from large technology and AI companies. This offset bouts of volatility tied to interest-rate and policy uncertainty. The S&P 500 reached fresh record highs near the 7,000 level during the month, reflecting continued investor confidence after three consecutive years of double-digit gains, though momentum cooled toward the end of January 2026 as markets digested mixed corporate results, a selloff in some software and cloud names and uncertainty around Fed leadership and interest rate outlook.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 3.07% MoM in January 2026, reflecting strong momentum following a robust finish to 2025 and placing European equities among the better performing developed market regions early in the year. Performance was supported by improving macroeconomic data across Europe, easing inflation pressures, and resilient corporate earnings, with investors responding positively to signs that growth in the region was holding up better than feared. Cyclical sectors and financials benefited from rising growth expectations and a supportive policy backdrop, while defense and energy stocks also outperformed amid heightened geopolitical tensions.

Asia Pacific Equity Index Performance

Index	Index level	Jan-26 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	987.94	8.16%	8.16%
FTSE ASEAN	1,031.29	4.12%	4.12%
CSI 300 INDEX	4,706.34	1.65%	1.65%
KOSPI INDEX	5,224.36	23.97%	23.97%
HANG SENG INDEX	27,387.11	6.85%	6.85%
S&P BSE SENSEX INDEX	82,269.78	-3.46%	-3.46%
TAIWAN TAIEX INDEX	32,063.75	10.70%	10.70%

Source: Bloomberg, 31 January 2026.

Chinese onshore equities rose 1.7% MoM on strong liquidity amid rising mutual fund issuance. 4Q real GDP rose 4.5% YoY with full year 2025 real GDP growth reaching 5% YoY in line with the government's target. Hang Seng Index rose 6.9% MoM amid stronger CNY vs. USD, positive spillover from global markets and robust fund inflows. South Korea's KOSPI rose 24.0% MoM and surpassed the historically significant 5,000 level in January 2026 and ended at 5,224. The strength was on the back of government support that came back into focus with the third Commercial Code revision imminent and the administration expressing support for the KOSDAQ bourse (driving a sharp catch-up). The Bank of Korea's Monetary Policy Committee has decided to maintain the base rate at 2.5%, aligning with expectations but adopting a more hawkish tone than anticipated. Taiwan's TWSE index rose 10.7% MoM driven mainly by healthcare, materials and tech sector which all benefited from the AI boom causing positive spillover effect to overall economy. Taiwan's manufacturing Purchasing Managers' Index ("PMI") in December 2025 rose to above 50 for the first time in ten months to 50.9, with renewed expansion in production and new orders and stronger future output expectations.

Meanwhile, India equities declined 3.5% MoM amid mixed corporate earnings so far for 3Q26, the Iran tariff threat, persistent foreign investors selling, INR weakness and the oil price spike. India and the European Union ("EU") have announced a Free Trade Agreement marking a significant addition to India's recent trade initiatives. The agreement grants India preferential access to 99.5% of its exports to the EU while provide the EU with access to 97.5% of its exports to India.

ASEAN Equity Index Performance

Index	Index level	Jan-26 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	4,905.13	5.57%	5.57%
JAKARTA COMPOSITE INDEX	8,329.61	-3.67%	-3.67%
STOCK EXCH OF THAI INDEX	1,325.62	5.24%	5.24%
PSEi - PHILIPPINE SE IDX	6,328.97	4.56%	4.56%
HO CHI MINH STOCK INDEX	1,829.04	2.50%	2.50%
FTSE Bursa Malaysia KLCI	1,740.88	3.62%	3.62%

Source: Bloomberg, 31 January 2026.

The Straits Times Index continued its ascend in January 2026 with the GDP growth accelerating to +5.7% in 4Q (from +4.3% in 3Q) amid an AI capex boom, de-escalating trade tensions and easing monetary conditions. Full-year GDP growth came in at +4.8% in 2025, the highest since 2021. The Thai SET Index was also an outperformer in ASEAN as it rose in January 2026. The rise was driven by strong export numbers especially in the technology sector, election theme and positive foreign inflows during the month. The Jakarta Composite Index corrected in sharply in late January 2026 after MSCI froze all Indonesia-related index changes and flagged serious investability concerns, triggering fears of a potential downgrade from emerging market to frontier market status. The market rebounded and narrowed the losses for the month after the regulators swiftly responded with some proposed measures to address MSCI's concern on the shareholders disclosure. The materials sector benefitted from the sharp rise in gold and metal prices. The Philippines Composite Index recovery continued into January 2026 driven by cheap valuations, corporate catalysts and improving macroeconomy conditions. While food prices was higher due to typhoon disruptions, December 2025 inflation remains benign. The Vietnam stock market rose in January 2026 driven by positive sentiment on Resolution 79, which sets a framework to thrust public sector as another pillar of growth (aside from private sector) to achieve the country's aggressive +10% GDP growth target. Additional pro-growth measures and supportive monetary policy are expected to drive the economy in 2026.

Malaysian Equities

The KLCI gained 3.6% MoM in January 2026. The Dow and Nasdaq gained 1.7% and 0.9% MoM respectively.

Malaysia's mid-cap and small-cap indices gained 4.2% and 1.5% MoM respectively. Property and Finance were the best performing sectors, gaining 9.3% and 9.2% MoM respectively. On the other hand, Healthcare and Construction were the worst performing sectors, with a loss of 2.5% and 2.2% respectively. The top three best performers in KLCI component stocks were MR DIY (+19.6%), Hong Leong Bank (+16.5%) and Maybank (+12.6%), while the worst performing stocks were Gamuda (-11.2%), Petronas Chemicals (-11.0%) and Axiata (-8.7%).

Malaysia market sentiment was lifted by Malaysian Prime Minister Anwar's New Year 2026 address, which emphasized governance reforms, stronger execution, and near-term economic support, alongside better-than-expected 4Q25 advance GDP growth of 5.7%.

Prime Minister Anwar announced a series of institutional reform initiatives in his 2026 New Year message, including 1) The tabling of a bill to limit the prime minister's tenure to a 10-year term, alongside similar tenure limits for senior civil service positions; 2) The drafting of an Freedom Of Information Bill, with safeguards for national security, to enhance transparency in public procurement, contracts, and government decision-making; 3) The establishment of an Ombudsman Bill to strengthen public accountability and provide a formal channel for citizens to lodge complaints against public authorities; 4) The separation of powers between the attorney general and the public prosecutor.

Foreign institutional investors were net buyers of RM1.0 billion in January 2026. Local institutional investors were net buyers of RM1.2 billion equities. Average daily trading value was at RM3.1 billion, up 41% MoM.

Strategy

Market actions post President Trump's nomination of Kevin Warsh as the new Fed Chair shows acceptance of the candidate. True to our expectations, the Malaysia equity market performance coupled with the Ringgit's strength has escalated us to one of the better performing markets as compared to our regional peers. We reiterate our view that 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 but may consider to selectively lock in profits given how well the market has performed recently.

In global markets, we remain cautiously optimistic on the US due to resilient corporate earnings and the supportive backdrop of Federal Reserve easing, although valuations remain elevated. We continue to favour the high-growth US technology sector, underpinned by our conviction that artificial intelligence development will drive a multi-year structural growth cycle. In Asia, we are positive on Chinese equities, which should stay supported by government stimulus. Within Korea and Taiwan, we are selective in the technology space, favoring memory and semiconductor companies given supportive supply-demand dynamics, while acknowledging the sharp rallies in these stocks and taking profits where appropriate. We also like financials and consumer sectors that benefit from secular trends and robust domestic demand, while rate-sensitive sectors such as real estate are poised to gain from a continued easing in monetary policy.

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