

Market Review & Outlook March 2026 (as at 28 February 2026)

Overview

In February 2026, the U.S. Supreme Court ruled by a 6–3 majority that President Trump had exceeded his statutory authority under the International Emergency Economic Powers Act (“IEEPA”) when imposing tariffs on dozens of countries. While the decision challenges the legal basis of those tariffs, the Supreme Court refrained from ruling on whether the federal government is required to refund the approximately USD 160 billion in duties collected. Any mandated reimbursement could widen the U.S. fiscal deficit, complicate U.S. Treasury (“UST”) supply dynamics, and potentially add volatility to the UST market.

In response, President Trump signaled plans to introduce a 15% global tariff on top of existing U.S. levies, utilising Section 122 of the Trade Act of 1974, which permits the president to impose temporary import restrictions for up to 150 days. The renewed tariff uncertainty weighed on market sentiment, contributing to a decline in the 10-year UST yield as investors reassessed the implications for global trade and growth.

Geopolitical risks escalated sharply after the U.S. strike on Iran on 28 February 2026, which intensified concerns about regional stability, energy supply disruptions, and the potential for a broader geopolitical confrontation. These developments have heightened risk aversion globally, prompting investors and policymakers to brace for further market volatility.

On the economic front, the January 2026 U.S. labour market data surprised to the upside. Non-farm payrolls rose by 130,000, double the consensus expectation of 65,000 and well above December 2025’s 48,000 print. The unemployment rate improved to 4.28% from 4.38% previously. The strong labour indicators point to continued stabilisation in employment conditions, reducing the urgency for the Federal Reserve (“the Fed”) to initiate rate cuts. That said, lingering uncertainty around the administration’s tariff strategy could weigh on corporate hiring plans in the medium term.

U.S. inflation eased more than expected at the start of the year. Both headline and core Consumer Price Index (“CPI”) moderated to 2.4% YoY and 2.5% year-on-year (“YoY”) respectively in January 2026 (December 2025: 2.7% and 2.6%). The slowdown was largely driven by lower energy prices, particularly declines in gasoline and fuel oil.

In Europe, the European Central Bank (“ECB”) maintained its benchmark interest rate at 2% following stronger than expected fourth quarter Gross Domestic Product (“GDP”) growth of 0.3% quarter-on-quarter (“QoQ”) in the Eurozone. In its policy statement, the Governing Council highlighted the economy’s ongoing resilience despite a challenging global environment, underpinned by low unemployment, increasing public investment including defence expenditure and healthy private sector balance sheets.

Malaysia

Malaysia’s manufacturing sector softened in February 2026, with the Purchasing Managers' Index (“PMI”) easing to 49.3 after briefly expanding in January 2026, signalling a moderation with slowdowns in new orders and output. Industrial production ended 2025 on a firmer footing, rising 4.8% YoY in December 2025, driven by robust manufacturing and electricity output despite a pullback in mining, keeping full-year industrial production growth relatively stable at 3.6%. The retail sales in Malaysia rose 6.9% YoY in December 2025, picking up from 6.4% in November 2025, supported by stronger growth across most categories including non-specialised stores, market-based sales, automotive fuel, ICT equipment and food, beverages & tobacco. The labour market remained stable, with the unemployment rate unchanged at 2.9% in December 2025.

Meanwhile, Malaysia’s economy grew a stronger than expected 6.3% YoY in 4Q2025, revised up from 5.7% YoY. Growth was broad-based, led by rebounds in agriculture and stronger manufacturing and services activity, while mining and construction moderated. On the demand side, government expenditure, household spending and fixed investment all recorded firmer gains. Full-year 2025 economic growth reached 5.2% YoY, above the 5.1% YoY recorded in the previous year and exceeding the government’s projection of 4.0%–4.8% YoY for 2025.

Malaysia's inflation remained stable in January 2026, with the CPI rising 0.1% month-on-month ("MoM") and annual inflation holding at 1.6% YoY, the highest since January 2025. Price pressures stayed broad-based across most categories, including housing, education, recreation and miscellaneous goods, while food, alcoholic beverages & tobacco and services-related components continued to post steady increases. Malaysia's trade performance strengthened at the start of 2026, with the trade surplus surging to RM21.37 billion in January 2026 from RM3.66 billion a year earlier. Exports jumped 19.6% YoY, supported by festive driven demand ahead of the Lunar New Year and Ramadan, while imports rose a softer 5.3%, reflecting subdued domestic demand. For full-year 2025, Malaysia recorded a RM159.54 billion trade surplus, an increase from RM139.05 billion in 2024.

Malaysia's producer prices continued to fall in January 2026, declining 2.9% YoY. The downturn was driven mainly by deeper price contractions in mining (-11.7% YoY), particularly crude petroleum and natural gas, as well as declines in agriculture (-8.3% YoY) and a 1.7% YoY fall in manufacturing prices, led by weaker refined petroleum and food product prices. Malaysia's manufacturing sector also softened in February 2026, with the PMI declining to 49.3 from 50.2, signalling renewed weakness in demand and output. Firms reported a sharp drop in employment, slower purchasing activity, longer delivery times, and continued depletion of inventories, although backlogs saw a slight uptick.

Fixed Income

US Treasury Market Overview

The US Treasuries ("UST") rallied going into February 2026 on weaker economic data. Jobless claims in the last week of January 2026 jumped 231,000 (Expected 212,000), JOLTS job opening in December 2025 was down to 6.542 million (November 2025: 6.928 million) and Challenger, Gray & Christmas' job cuts in December 2025 with 108,435 layoffs for January 2026 (up 205% vs December 2025, up 118% vs January 2025). UST yields fell around 10bps in the 2Y and circa 9bps in the 10Y.

In mid-January 2026, UST yields went up initially on better-than-expected Non-Farm Payrolls ("NFP") (+130,000; Expected +70,000), causing the market to expect the Fed to delay its next rate cut to July 2026 instead of June 2026. However, the market recovered following higher than expected weekly jobless claims and strong demand from the newly issued UST 30Y auction.

The UST continued its rally as the U.S. CPI in January 2026 fell to 2.4% (December 2025 2.7%; Expected 2.5%) with circa 5bp drop in the 2Y and the 10Y. The market continued to be supported with the ongoing Iran-US tension even after slight weakening in yields following the Supreme Court ruling on the U.S. tariff. The fall in yield was reversed as US President Trump announced plans to impose new tariffs. Trading at the end of February 2026 was centered on safe haven buying with the ongoing tension between the US and Iran.

Overall, in February 2026, the UST bullish flattened with the 2Y yield up 1.3bps and 10Y yield down by 29.8bps.

US Treasury Yields

US Treasury Tenor	27-Feb-26 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.47	+1.3	+0.5
2Y	3.37	-14.8	-9.8
5Y	3.50	-28.6	-22.4
7Y	3.70	-31.4	-24.3
10Y	3.94	-29.8	-23.0
20Y	4.55	-27.2	-24.2
30Y	4.61	-26.2	-23.3

Source: Bloomberg, 2 March 2026

Looking ahead, the 10Y UST yield is expected to trade in the range of 4.00%-4.20% in the 1Q2026. The market is pricing in 2 cuts on the Fed Fund Rate in 2026.

Asian Bond Indices Performance

Markit Asian USD Index	27-Feb-26	MoM	YTD
Asian Dollar Index	152.1	1.17%	1.25%
Asian Dollar IG Index	153.5	1.18%	1.26%
Asian Dollar HY Index	144.5	0.23%	1.87%
Asian Dollar Corp Index (ex-banks)	154.7	1.06%	1.45%

Source: Bloomberg, 3 March 2026

All Asian dollar bond indices rallied in February 2026, largely driven by the announcement of Kevin Walsh as Trump's nominee for the new Fed Chair. Walsh is seen as a more independent and professional choice than the other potential candidates.

The Asian Dollar IG Index (1.18% MoM) and Asian Dollar Corp Index (1.06% MoM) played catch-up with the more volatile Asian Dollar HY Index (0.23%) that had already rallied significantly in January 2026.

By country, the Asian Dollar bond performance was uniformly positive across the board with positive performance of between 1.00-2.00% MoM except for South Korean Dollar bonds that returned a relatively weaker 0.95% MoM in February 2026. The top three gainers by sequence were Malaysia (1.95% MoM), Thailand (1.50% MoM) and Hong Kong (1.44% MoM) with no losers in our universe.

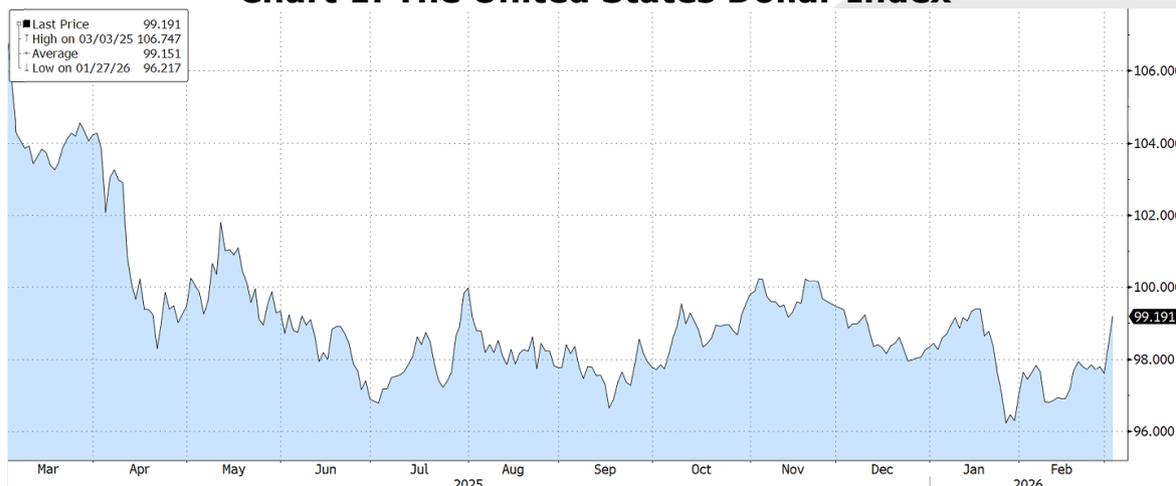
The United States Dollar Index

In February 2026, the United States Dollar Index (“DXY”) traded mixed ending the month marginally stronger by 0.64% MoM, at 97.608 pts at market close on Friday, 27 February 2026.

The mixed sentiment on the USD during the month was driven by bearish factors of continued ‘de-dollarisation’ among trading nations and tariff policy uncertainty following the U.S. Supreme Court ruling against the the mechanism used by the President Trump administration to impose import tariffs without consulting Congress; balanced by bullish factors of continued resilience in aggregate U.S. consumer demand, contained inflation and some upside surprise in job creation.

However, since the start of US-Israel conflict with Iran on the evening 27 February 2026, the DXY has strengthened strongly by 1.61% over the first two trading days of March 2026 to 99.179; with dollar strength driven by a mix of safe-haven flows and also increasing positive relationship of the USD with oil price.

Chart 1: The United States Dollar Index



Source: Bloomberg, 3 March 2026

MALAYSIAN BOND MARKET

Malaysian Government Securities ("MGS") Benchmark Tenors	27-February-26 (%)	Net Change	Net Change
		MoM (bps)	YTD (bps)
3Y	3.12	1.4	2.5
5Y	3.29	-4.1	-1.2
7Y	3.42	-3.7	2.1
10Y	3.52	0	-1.4
15Y	3.78	0.8	-1.8
20Y	3.93	0.2	7.7
30Y	4.02	0.1	4.2

Source: Bond Pricing Agency Malaysia, 27 February 2026

The Malaysian bond market delivered a mixed performance in February 2026, beginning the month on a softer footing following a lukewarm 10-year government bond auction. Despite the subdued start, market sentiment improved steadily as the month progressed, with firmer trading supported by a stable domestic macroeconomic backdrop. Resilient GDP momentum, contained inflation, and expectations of sustained policy stability continued to underpin investor confidence and enhance the appeal of ringgit fixed-income assets.

There were three sovereign bond and sukuk auctions in February 2026 with a combined issuance size of RM15.0 billion, comprising the reopenings of the 10-year MGS, 20-year Malaysian Government Investment Issue ("MGII"), and 5-year MGS, each sized at RM5.0 billion. The first auction of the month registered relatively soft demand with a bid-to-cover ("BTC") ratio of 1.603x. However, market appetite improved significantly mid-month, with the subsequent two auctions attracting robust BTC ratios of 2.896x and 2.921x, respectively.

Corporate bond trading activity (including quasi-sovereign names) saw a notable decline in February 2026, with volume falling 37.8% MoM to RM15.3 billion (January 2026: RM24.6 billion), largely due to the shorter trading month arising from the Chinese New Year festive period. Meanwhile, January 2026 recorded a net foreign inflow of RM1.0 billion, driven primarily by a strong RM3.9 billion inflow into MGS (December 2025: RM0.2 billion outflow). The sizeable foreign interest in local bonds was underpinned by growing conviction over the Fed's easing trajectory.

Some notable domestic corporate issuances in February 2026 included RM5.5 billion of Lembaga Pembiayaan Perumahan Sektor Awam (GG), RM1.56 billion of Cagamas Berhad (AAA), RM1.5 billion of Danum Capital Berhad (AAA), RM3.0 billion of Maybank Islamic Berhad (AAA), RM500.0 million of UEM Sunrise Berhad (AA3) and RM100 million of AEON Credit Service (M) Berhad (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% (-3bps MoM), 3.73% (-2bps MoM), 3.84% (+1bps MoM), respectively.

Strategy

Market Outlook

Geopolitical tensions have sharply intensified following large-scale U.S.–Israeli military operations against Iran, triggering a pronounced risk-off sentiment across global markets. The heightened uncertainty is pushing investors globally toward safe-haven assets, increasing volatility in emerging-market fixed income and weakening regional currencies, including the ringgit.

Against this backdrop, Malaysia’s corporate bond market is poised for a period of heavier supply, with 2026 issuance expected to reach RM130–140 billion—well above the long-term average. This increase in upcoming supply, combined with heightened geopolitical uncertainty, may trigger investors to stay defensive in the near term.

However, rising yields amid current volatility may create compelling opportunities for medium to long-term investors. Malaysia’s resilient fixed income fundamentals and stable macro backdrop continue to underpin the attractiveness of ringgit denominated assets, offering potential entry points as valuations become more appealing.

Investment Strategy

- We maintain slight overweight on the portfolio duration and prefer the belly of the curve (5 to 7 years) for carry and roll-down yield.
- Prefer high quality corporate bond/sukuk over government bonds and maintain short term liquidity for trading purpose.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	27-Feb-26	MoM	YTD
S&P 500 Index	6,878.88	-0.87%	0.49%
Nasdaq Index	22,668.21	-3.38%	-2.47%
MSCI Europe Index	211.70	3.92%	7.11%

Source: Bloomberg, 2 March 2026.

The Standard & Poor's ("S&P") 500 Index fell by -0.87% MoM in February 2026, amid a turbulent market. The S&P 500 briefly crossed the 7,000 level in late January 2026, fueled by AI enthusiasm and solid earnings, but it failed to sustain the breakout, settling into a tug-of-war between the booming "AI supercycle" and a cooling macroeconomic backdrop. Performance in February 2026 was defined by a dramatic sector rotation as investors pivoted away from the tech-heavy winners of the previous years. The "Magnificent Seven" stocks collectively lagged as concerns over massive AI capital expenditures and a slowing economy fueled a search for safer havens. This rotation sparked an "everything but tech" rally, propelling defensive and cyclical sectors alike.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 3.92% MoM in February 2026, continuing its strong run from the previous year, amid a backdrop of shifting investor sentiment and sector specific dynamics. While European equities had been outperforming the U.S., concerns about the potential disruption from AI began to spread to European stocks. Despite these anxieties, the European market showed resilience, with European indices attempting rebounds amid global volatility. The broader environment was supported by expectations of a more accommodative policy mix in Europe, including previous ECB rate cuts and fiscal spending initiatives, which helped position the region for a durable investment cycle.

Asia Pacific Equity Index Performance

Index	Index level	Feb-26 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	1,045.15	5.79%	14.42%
FTSE ASEAN	1,074.16	4.16%	8.45%
CSI 300 INDEX	4,710.65	0.09%	1.74%
KOSPI INDEX	6,244.13	19.52%	48.17%
HANG SENG INDEX	26,630.54	-2.76%	3.90%
S&P BSE SENSEX INDEX	81,287.19	-1.19%	-4.62%
TAIWAN TAIEX INDEX	35,414.49	10.45%	22.27%

Source: Bloomberg, 27 February 2026.

Chinese onshore equities was up slightly at 0.1% MoM amid ongoing conviction in global AI capex cycles and expectations of a ramp up in domestic fiscal support following the National People’s Congress mitigated by lingering geopolitical uncertainties. Hang Seng Index declined 2.8% MoM triggered by anxieties early in the month over a mis-reported Value Added Tax (“VAT”) hike for online gaming, followed by reports of U.S. Department of Defense Chinese Military Companies list inclusion and general investor concerns that the privately held and highly competitive ByteDance is outcompeting the listed companies in the internet space.

South Korea’s KOSPI rose 19.5% MoM and surpassed another historically significant 6,000 level in February 2026 and ended at 6,244 after it broke above 5,000 in January 2026. The strength was amid Korea having passed the third revision of the Commercial Act, which requires companies to cancel newly acquired treasury shares within one year and offers existing treasury shares a grace period of six months. Taiwan’s TWSE index rose 10.5% MoM amid the AI boom causing positive spillover effect to overall economy. Taiwan’s economy kicked off 2026 with a historic surge in headline nominal exports, rising 69.9% YoY (12.8% MoM) in January 2026 to a new monthly record. The rebound was broad-based, with tech exports up 14.2% MoM on electronic components and telecom, and non-tech exports accelerating to 20.5% MoM.

India equities declined 1.2% MoM amid Securities Transaction Tax hike and IT sector shakeout. The Reserve Bank of India kept policy rates on hold, signaling a prolonged pause as inflation remains benign and growth is strong. The new US-India trade agreement will lower India’s reciprocal tariff to 18% from 50%.

ASEAN Equity Index Performance

Index	Index level	Jan-26 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	4,995.07	1.83%	7.51%
JAKARTA COMPOSITE INDEX	8,235.49	-1.13%	-4.76%
STOCK EXCH OF THAI INDEX	1,528.26	15.29%	21.32%
PSEi - PHILIPPINE SE IDX	6,611.24	4.46%	9.22%
HO CHI MINH STOCK INDEX	1,880.33	2.80%	5.37%
FTSE Bursa Malaysia KLCI	1,716.61	-1.39%	2.17%

Source: Bloomberg, 27 February 2026.

The Straits Times Index rose in February 2026 led by REITs, Property, Capital Goods, and Transportation, while Financials and Services lagged. Singapore's budget surplus exceeded expectations. In addition, additional funds were provided for the Equity Market Development Programme ("EQDP") and public investment. The Thai SET Index was an outperformer in ASEAN for the second consecutive months as the political risk premium has reduced sharply due the Thailand election concluding with Bhumjaithai winning the highest number of votes, sending a strong stability signal. The Jakarta Composite Index remained weak in February 2026 on investors concerns of the risk of MSCI downgrade potential. In addition to this, investors were also spooked by Moody's decision to cut Indonesia's outlook to negative – which puts risk towards Indonesia's sovereign and hence credit rating for the future, all of which will impact interest rates as well. The Philippines Composite Index rallied in February 2026 driven by strong earnings results, broad-based buying and the peso's appreciation against the US dollar. The market was also supported by net foreign inflows. The Vietnam stock market rose in February 2026 supported by strong domestic liquidity and leadership from large-cap groups such as Vingroup and Vinhomes. Policy direction for 2026 such as emphasizing infrastructure, digital assets, green bonds and market-upgrade milestones continues to support long-term bullish sentiment.

Malaysian Equities

The KLCI lost 1.4% MoM in February 2026, YTD 2.2%. The Dow and Nasdaq gained 0.2% and lost 3.4% MoM respectively.

Malaysia's mid-cap and small-cap indices gained 0.2% and lost 1.5% MoM respectively. Transport and Property were the best performing sectors, gaining 2.2% and 2.0% MoM respectively. On the other hand, Telecom and Industrial Product were the worst performing sectors, with a loss of 3.3% and 2.7% respectively. The top three best performers in KLCI component stocks were Sime Darby (+13.0%), Petronas Dagangan (+3.7%) and Tenaga Nasional (+3.2%) while the worst performing stocks were 99 Speed Mart (-14.0%), YTL Power (-12.4%) and YTL Corp (-11.5%).

The military strikes by the US and Israel against Iran on 28 February 2026 and 1 March 2026, which resulted in the death of Supreme Leader Ayatollah Ali Khamenei, have introduced a "war premium" into global markets. As of March 2, 2026, financial systems are bracing for a highly volatile week as the threat of a prolonged conflict or a blockade of the Strait of Hormuz looms. Some 15-20 million bpd or 15-20% of global oil supply and 20% of global LNG passes through the Strait of Hormuz.

In the 4Q25 corporate earnings, beat-to-miss ratio improved QoQ to 1.33x (from 0.79x in 3Q25 and 0.61x in 4Q24). Key sectors that drove the outperformance were the healthcare, glove makers, technology, banking and transport sectors. Analyst now forecasts KLCI earnings growth of 6.8% for 2026.

Foreign institutional investors were net buyers of RM0.2 billion in February 2026. Local institutional investors were net sellers of RM0.8 billion equities. Average daily trading value was at RM3.1 billion, flattish MoM.

Strategy

For Malaysia, the recent U.S.-Iran conflict presents a complex "double-edged sword" scenario. As a net energy exporter but a highly trade-dependent nation, Malaysia is balancing immediate fiscal gains against the risk of imported inflation and disrupted supply chains. Markets will be volatile in the short term as Iran retaliates but we opine that the conflict will not be protracted due to the U.S. administration's preference to not prolong the campaign on Iran. Hence, while we are defensive in the short term, we will also be on the lookout for signs that market participants are looking past this conflict and not pricing in elevated geopolitical risk premia anymore. Any correction on fundamentally-sound stocks presents a good opportunity to accumulate for long-term positioning.

The Middle East conflict will reverberate across global equity markets as well. Against this backdrop, we are prioritising selective stock picking and scaling back exposure to high-beta names, ensuring portfolios remain resilient. Safe haven assets like the Singapore equities market and precious metals such as gold may benefit from any risk-off trades amid the ongoing volatility. High-yielding stocks and those in defensive sectors like Consumer staples and Healthcare may offer more resiliency as well. As we do not expect the conflict to be pro-longed, we maintain our longer-term positive outlook on the US technology sector, underpinned by our conviction that AI development will drive a multi-year structural growth cycle. We also favour the memory and semiconductor companies in Korea and Taiwan given supportive supply-demand dynamics, but will top-slice on any rallies. Chinese equities should stay supported by government stimulus and its push for technology innovation and self-sufficiency.

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