

Market Review & Outlook

June 2026

(as at 31 May 2026)

Overview

First quarter of 2026 ("1Q2026") US Gross Domestic Product ("GDP") grew at 1.6% quarter-on-quarter ("QoQ") seasonally adjusted annual rate ("SAAR"), falls short of the advanced estimate of 2.0% QoQ. The lower GDP estimate reflected downward revisions to inventory and consumer spending. Growth was supported by robust business investment, particularly in Artificial Intelligence ("AI")-related capital expenditure.

Headline Consumer Price Index ("CPI") inflation jumped 3.8% year-on-year ("YoY") in April 2026 versus 3.3% YoY in March 2026, mainly due to spike in energy prices amid Middle East tensions. Gasoline accounted for over 40% of the monthly increase. Meanwhile, core inflation rose 2.8% YoY versus 2.6% YoY in March 2026 owing to the accelerating shelter costs and broadening services inflation. Clearly, housing remained a dominant contributor, while food prices also rebounded.

The US labour market remains resilient with nonfarm payrolls showing that the economy added 115k jobs in April 2026 versus 178k in March 2026. Job creation was primarily driven by healthcare, transportation & warehousing and retail trade, highlighting the ongoing strength of consumer- and service-oriented sectors. The Job Openings and Labor Turnover Survey ("JOLTS") report showed that US job openings rose sharply to 7.6 million in April 2026, up from 6.9 million in March 2026. The increase was driven by a sharp increase in demand within professional and business services. Meanwhile, unemployment rate held steady at 4.30%, unchanged from the previous month.

Inflation in Europe rose to 3.2% YoY in May 2026, up from 3.0% YoY in April 2026, reinforcing expectations that the European Central Bank ("ECB") may need to raise interest rates for the first time in nearly three years to address mounting price pressures stemming from the conflict in the Middle East. Energy prices remained a key driver, increasing 10.9% compared to a year earlier, slightly higher than April 2026's 10.8% rise. In recent weeks, leading European policymakers have signaled a likely rate hike this month, warning that elevated oil prices are feeding through into broader inflation.

Malaysia

Bank Negara Malaysia (“BNM”) kept the Overnight Policy Rate (“OPR”) unchanged at 2.75% for the fifth consecutive meeting, reflecting confidence in the economy’s resilience despite elevated external uncertainties. In the latest Monetary Policy Statement, BNM maintained its overall growth outlook while noting downside risks to the domestic economy arising from external sector developments. Nevertheless, BNM projects inflation to remain within the 1.5% to 2.5% range, supported by the government’s ongoing fuel subsidy measures.

Malaysia’s 1Q 2026 GDP growth was revised slightly higher to 5.4% YoY from the advance estimate of 5.3% YoY. Economic expansion was driven by moderate growth in services and manufacturing sectors, supported by factors such as the ongoing AI upcycle, continued data centre investments and festive-related demand.

Malaysia’s labour market remained strong in March 2026, with the unemployment rate holding steady at 2.9%, its lowest level since November 2014. Total employment rose by 13.2k to 16.8 million jobs (February 2026: +19.5k to 16.79 million). Expansion in jobs growth came from the service sector such as accommodation, F&B services and information & communication activities and Transportation & Storage activities.

On the inflation front, Malaysia’s headline inflation accelerated for a second consecutive month to 1.9% YoY in April 2026, partly driven by the impact of the Strait of Hormuz disruption. Prices increased were seen in transport, food, alcoholic beverages, information & communication services, as well as furnishings, household equipment & maintenance. On the other hand, core inflation eased slightly to 2.0% YoY in April 2026 from previous month’s 2.1% YoY, indicating manageable underlying price pressures.

Malaysia’s trade in March 2026 remained solid, with total trade increasing by 9.3% YoY, reaching RM273.0 billion, with exports rising by 8.3% YoY to RM148.8 bn, while imports increased by 10.4% YoY to RM124.2 billion. Additionally, the trade balance continued to show a surplus of RM24.6 billion in March 2026, albeit narrowing marginally by RM215.5 million compared to the previous month.

Fixed Income

US Treasury Market Overview

US Treasury (“UST”) yields jumped going into mid-May 2026 on pressure from the volatile development in the Middle East and following a jump in April 2026 CPI to 3.8% (consensus: 3.8%, March 2026: 4.46%). Higher than expected producer inflation in the US of 1.4% MoM in April 2026 (consensus: +0.5%, March 2026: +0.7%) as well as low bid-to-cover (“BTC”) in the 20Y and 30Y UST pushed up long-dated yields with 10Y UST reaching 4.48% and 30Y UST at 5.03%. The yield surge continued with the curve bear steepening to the high of 4.67% (10Y UST) and 5.18% (30Y UST) as inflation risk dominates and market expects higher policy rates to be maintained for longer than expected. The swap market began to price in a rate hike by end 2026.

The UST curve recovered slightly and flattened toward the end of the month on optimism of a peace deal in the Middle East and lower oil prices. The month ended with the 10Y-2Y spread at 44bps (April 2026: 50bps) with 2Y UST at 4.00% and 10Y UST at 4.44%.

US Treasury Yields

US Treasury Tenor	29-May-26 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.77	+6.2	29.8
2Y	4.00	+13.5	53.1
5Y	4.14	+13.5	41.6
7Y	4.28	+9.1	34.2
10Y	4.44	+6.5	26.9
20Y	4.97	+0.8	17.3
30Y	4.97	+0.6	12.8

Source: Bloomberg, 4 June 2026. Past performance is not indicative of future results.

Looking ahead, we expect volatility to continue in the UST market should the war remain protracted and we do not expect any US Federal Reserve (“Fed”) rate cut in 2026.

Asian Bond Indices Performance

Markit Asian USD Index	29-May-26	MoM	YTD
Asian Dollar Index	151.2	0.62%	0.45%
Asian Dollar IG Index	152.5	0.57%	0.35%
Asian Dollar HY Index	145.2	2.34%	1.17%
Asian Dollar Corp Index (ex-banks)	154.1	1.04%	0.49%

Source: Bloomberg, 4 June 2026. Past performance is not indicative of future results.

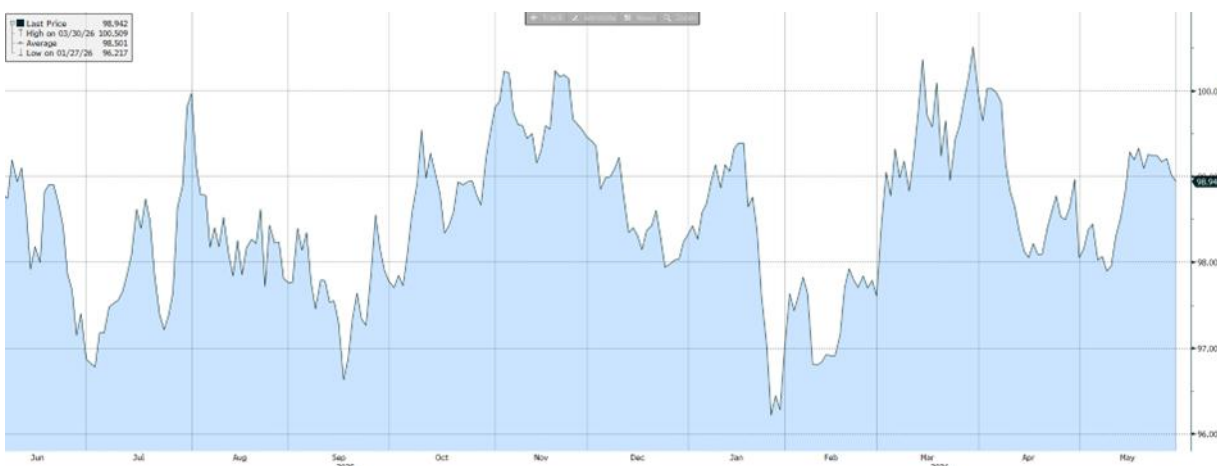
All Asian dollar bond indices rose in May 2026 as the spread compressed in the Asian Dollar HY index, supported by carry.

The Asian Dollar HY Index was the best performer returning 2.34% MoM in May 2026, while the less volatile Asian Dollar IG Index was up 0.57% MoM.

The United States Dollar Index

In May 2026, the United States Dollar Index rose 0.90% in the month to 98.94 driven by risk haven trades in the USD. The USD is also supported by hawkish expectations in the rate market, with one rate hike priced in for late 2026 to early 2027.

Chart 1: The United States Dollar Index



Source: Bloomberg, 4 June 2026

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	29-May-26 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.25	3.9	15.9
5Y	3.40	5.5	10.2
7Y	3.53	5.7	13.5
10Y	3.61	0.1	8.1
15Y	3.84	-1.3	4.3
20Y	3.96	-0.8	10.6
30Y	4.08	0.9	10.0

Source: Bond Pricing Agency Malaysia, 29 May 2026. Past performance is not indicative of future results.

In May 2026, the Malaysian Government Securities (“MGS”) curve bear-flattened, led by a 4–6 bps rise in the belly (3–7Y), while the long end was broadly unchanged. MGS opened the month slightly firmer amid easing Gulf tensions, with Bank Negara Malaysia (“BNM”) holding rates steady for a fifth consecutive meeting and retaining a neutral stance. However, sentiment deteriorated in subsequent weeks, as the lack of progress in resolving the Gulf conflict pushed energy prices higher, fuelling inflation concerns and triggering a broader sell-off in global government bonds.

Three sovereign bond and sukuk auctions were held in May 2026, comprising the re-opening of the 10-year MGII, 7-year MGS and 30-year MGII, each with an issuance size of RM5.0 billion. The auctions drew robust demand, recording healthy bid-to-cover ratios ranging from 2.28x to 2.87x. Notably, auction sentiment remained resilient despite US strikes and higher oil prices.

Meantime, foreign holdings of Ringgit bonds rose by a further RM3.8 billion in April 2026 (March 2026: RM6.1 billion). Foreign flows into government bonds were flat, while the bulk of inflows were directed into private debt securities. The month began with strong momentum, with cumulative inflows reaching RM5 billion in the first two weeks. Thereafter, some reversals were seen, partly due to the RM11.3 billion MGS maturity mid-month.

Corporate bond trading activity, including quasi-sovereign names, declined by 21.8% MoM in May 2026 to RM17.4 billion (April 2026: RM22.3 billion). This was partly due to weaker sentiment in global government bond markets and a holiday-shortened month.

Some notable domestic corporate issuances in May 2026 included RM4.0 billion of Tenaga Nasional Berhad (AAA), RM1.0 billion of Imtiaz Sukuk II Berhad (AA2), RM1.41 billion of Cagamas Berhad (AAA), RM1.2 billion of Malayan Banking Berhad (AA1), RM770.0 million of TNB Kuala Muda Solar Sdn Berhad (AA+), RM550.0 million of AmBank (M) Berhad (AA2) and RM525.0 million of MR D.I.Y. Group (M) Berhad (AA1). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.62% (+2bp MoM), 3.73% (+2bp MoM), 3.82% (+3bp MoM), 3.92% (+2bp MoM), respectively.

Strategy

Market Outlook

Malaysia's macro backdrop into 2H2026 is expected to remain broadly stable but increasingly nuanced. Growth is likely to moderate from earlier momentum as external demand softens amid a less synchronised global cycle, while domestic demand remains supported by resilient consumption and ongoing fiscal initiatives. Inflation pressures appear manageable, though sticky core components and subsidy rationalisation risks warrant caution on the policy front. BNM is expected to remain data-dependent, balancing growth support against inflation containment. Global rate dynamics particularly the timing and magnitude of developed market easing will continue to shape capital flows and yield direction in the local bond market. Against this backdrop, MGS yields may trade within a range, with episodic volatility driven by external factors and supply dynamics.

Investment Strategy

From a strategy perspective, we maintain a cautious and defensive stance in the current environment. We prefer to raise liquidity and preserve capital flexibility, allowing us to redeploy when clearer value and entry points emerge. In the interim, we favour the primary market over the secondary market, given more attractive pricing and new issue concessions amid uneven demand conditions. Duration positioning remains measured, with a bias towards high-quality exposures and selective participation where risk-reward is compelling. Overall, we advocate patience, staying liquid and disciplined, while waiting for dislocations or repricing opportunities to re-engage more constructively.

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

Indices	29-May-26	MoM	YTD
S&P 500 Index	7,580.06	5.15%	10.73%
Nasdaq Index	26,972.62	8.36%	16.05%
MSCI Europe Index	208.93	2.56%	5.71%

Source: Bloomberg, 3 June 2026. Past performance is not indicative of future results.

The Standard & Poor's ("S&P") 500 Index rose 5.15% MoM in May 2026, hitting fresh all-time highs as it delivered one of its strongest May performances since the 1950s and its best two-month gain since May 2020, as robust AI infrastructure spending and a blockbuster earnings season outweighed Iran-related concerns.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 2.56% MoM in May 2026. The rise was supported by intermittent "relief rallies" as geopolitical tensions, particularly involving the Middle East, showed signs of easing, alongside a marked decline in oil prices, which helped reduce inflation pressures and improve investor sentiment. Markets were nevertheless volatile due to uncertainty over central bank policy and the durability of geopolitical developments. Investor interest remained concentrated in technology and AI stocks, supported by strong global earnings trends, as well as defence and energy transition stocks amid ongoing geopolitical risks.

Asia Pacific Equity Index Performance

Index	Index level	May-26 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	1,161.25	11.04%	27.13%
FTSE ASEAN	1,004.27	-0.32%	1.39%
CSI 300 INDEX	4,892.12	1.76%	5.66%
KOSPI INDEX	8,476.15	28.45%	101.13%
HANG SENG INDEX	25,182.39	-2.30%	-1.75%
S&P BSE SENSEX INDEX	74,775.74	-2.78%	-12.26%
TAIWAN TAIEX INDEX	44,732.94	14.92%	54.45%

Source: Bloomberg, 3 June 2026. Past performance is not indicative of future results.

Chinese onshore equities rose 1.8% MoM supported by abundant liquidity, though profit-taking took place in the second half of the month amid moderating April economic activity data, news on potential A-share IPO pipelines in coming months and the in-line outcome of the Trump-Xi meeting. Retail sales grew by just 0.2% YoY in April, the slowest pace since the Covid reopening shock in 1Q23. Hang Seng Index declined 2.3% MoM mainly due to softening of risk appetite with platform internet struggling to gain traction, with sentiment capped by uncertain AI monetization, mixed 1Q26 earnings (esp. e-commerce and ads) and intense competition within the ecosystem (fast delivery, LLMs).

South Korea's KOSPI surged 28.5% MoM hitting new all-time high with Samsung and Hynix driving the bulk of the upside. Taiwan's TWSE index rose 14.9% MoM as well amid still strong AI related sentiment rally. Industrial production in April rose 0.2% MoM lifting the annual rate to 26.1% (from 28.7% previously). Taiwan's headline CPI rose 1.7% YoY with the impact of higher global commodity prices starting to show through with energy CPI surging 9.9% YoY.

India equities declined 2.8% MoM amid concerns of India's service heavy tech obsolescence, although the Materials sector held up better with taxes on precious metals. India has launched ECGLS 5.0 to support Micro, Small and Medium Enterprises as well as airlines amid the Middle East crisis. LPG and aviation fuel consumption fell in April, while petrol demand stayed strong. Manufacturing and services PMIs improved, but manufacturing faces margin compression from rising input costs. Auto sales remain healthy, with rural demand outpacing urban.

ASEAN Equity Index Performance

Index	Index level	May-26 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	5,037.86	2.55%	8.43%
JAKARTA COMPOSITE INDEX	6,127.38	-11.92%	-29.14%
STOCK EXCH OF THAI INDEX	1,568.37	5.00%	24.51%
PSEi - PHILIPPINE SE IDX	5,768.76	-1.11%	-4.69%
HO CHI MINH STOCK INDEX	1,863.49	0.51%	4.43%
FTSE Bursa Malaysia KLCI	1,683.07	-2.26%	0.18%

Source: Bloomberg, 3 June 2026. Past performance is not indicative of future results.

The Straits Times Index advanced in May, continuing to demonstrate defensive characteristics amid regional divergence. Performance was underpinned by the index's bank heavy composition, with domestic banks benefiting from resilient asset quality and sustained net interest margins. The market also attracted relatively stable fund flows as investors sought lower volatility exposure within ASEAN. The Thai SET Index extended its gains in May, supported by continued earnings momentum and improving investor sentiment. Strength in export oriented sectors such as electronics and energy, alongside firm oil prices and resilient external demand underpinned performance. The market also benefited from ongoing optimism around policy support and earnings upgrades, reinforcing its appeal as a valuation catch up story within the region.

The Jakarta Composite Index declined sharply in May, significantly underperforming regional peers. Market sentiment remained fragile amid persistent rupiah weakness, elevated oil prices, and continued foreign capital outflows. Bank Indonesia maintained a defensive policy stance to stabilise the currency, which tightened liquidity conditions. Ongoing concerns over external balances and financial market stability continued to weigh heavily on equity performance. The PSEi Index fell in May, extending its weakness as macro headwinds persisted. The market was pressured by currency depreciation and lingering inflation concerns, reinforcing expectations of a prolonged tight monetary policy environment. Weakness was concentrated in interest rate sensitive sectors, particularly banks and property, while defensive sectors showed relative resilience.

The Vietnam stock market posted a marginal gain in May, indicating a stabilisation in performance following earlier volatility. Market sentiment was supported by improving domestic demand conditions and a gradual recovery in exports, particularly within the electronics segment.

Malaysian Equities

The KLCI declined 2.3% MoM in May 2026, YTD 0.2%.

Malaysia's mid-cap and small-cap indices gained 2.2% and loss 1.1% MoM respectively. Technology and Utilities were the best performing sectors, gaining 19.0% and 2.8% MoM respectively. On the other hand, Energy and Consumer were the worst performing sectors, with a loss of 7.4% and 5.9% respectively. The top three best performers in KLCI component stocks were YTL Power (+8.9%), Maxis (+6.3%) and AMMB (+5.4%), while the worst performing stocks were Nestle (-16.1%), Axiata (-14.9%) and PPB Group (-14.2%).

Malaysia's 1Q26 corporate earnings beat-to-miss ratio came in at 0.52x, a notable decline from 1.33x in 4Q25. In other words, for every one company that beat earnings expectations, there are roughly two companies that missed expectations. The deterioration reflects the combined headwinds of higher costs, and weaker sales stemming from the US-Israel vs Iran war. Underperformance was concentrated within the construction, property, and consumer sectors.

Foreign institutional investors were net sellers of RM3.5 billion in May 2026. Local institutional investors were net buyers of RM3.1 billion equities. Average daily trading value was RM3.8 billion, gaining 22% MoM.

Strategy

The recently concluded 1Q26 earnings reporting season in Malaysia saw an increase in earnings misses. The weakness reflects the combined headwinds of volatile market conditions, higher costs and weaker sales stemming from the US-Israel vs Iran war. Guidance by management teams during analyst briefings were mixed, with many corporations adopting a more cautious stance. Any correction on fundamentally-sound stocks presents a good opportunity to accumulate for long-term positioning.

In the global markets, we remain cautiously optimistic on global equities due to the earnings-driven uptrend led by AI and semiconductor demand. That said, markets could remain volatile in the near term as the US and Iran have yet to finalize negotiations to end the conflict and reopen the Strait of Hormuz. We continue to favour exposure in AI and semiconductor supply chains (notably Korea, Taiwan and US large-cap tech). Within ASEAN, besides Malaysia we also prefer Singapore due to its solid fundamentals with strong fiscal buffers, a stable government with consistent policies and strong rule of law.

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