Market Review and Outlook

June 2026

Market Review

Global equities softened in June, with the MSCI World Index declining 0.80% mom after two months of robust performance. Within the U.S. market, the Dow Jones Index continued its positive momentum, advancing +2.52% mom. However, technology and growth – oriented stocks experienced profit taking, with the S&P 500 slipping 1.06% mom and the Nasdaq Composite falling 2.81% mom, partially retracing the gains achieved in the preceding two months. Economic data remained broadly supportive of the U.S. economy, although growth momentum moderated slightly, with the S&P Global U.S. Composite Purchasing Managers' Index (PMI) easing to 51.9 in June from 52.2 in May, below the survey estimate of 52.2 but still signalling continued expansion in business activity.

The Middle East tension easing on the back of the US – Iran memorandum of understanding (MoU) helped spur Europe's Stoxx 50 Index by +4.59% mom. Its economic backdrop was also relatively benign during the month with its S&P Global Eurozone Composite PMI improving to 50.0 in June, above consensus' expectations and May's contractionary reading of 49.5. The Eurozone unemployment rate also recovered slightly to 6.2% in May 2026 from 6.3% in the previous month whilst Eurozone CPI came in within expectations at +3.2% yoy in May 2026 (April: +3.2% yoy).

In China, Shanghai Composite index gained +0.63% mom in June, supported by gains in technology (semiconductors) and financials. China's RatingDog China PMI Composite in June 2026 still recorded an expansionary reading of 53.6 versus May 2026's 54.0. Meanwhile, May CPI came in at +1.2% yoy, lower than survey's +1.3% yoy (April: +1.2% yoy). Apart from that, the People's Bank of China kept its 1 – year and 5 – year Loan Prime Rate (LPR) unchanged at 3.00% and 3.50% respectively, signifying the central bank's steady stance on monetary policy.

On the commodities front, Brent crude oil (-20.78% mom to USD72.92 per barrel) remained under pressure as geopolitical tensions in the Middle East eased. With the signing of the aforementioned US – Iran MoU, there were raised expectations of a reopening of the Strait of Hormuz, which could alleviate concerns over supply disruptions and improve the outlook for global energy flows. Meanwhile, crude palm oil prices (+0.09% mom) remained firm at RM4474/tonne. The resilience was underpinned by Indonesia's biodiesel mandate, concerns over potential disruptions arising from the country's evolving export policies and El Nino-related weather risks that could adversely affect palm oil output in the region.

Focusing on the ASEAN front, Thailand's SET index extended its rally with a +1.46% mom gain, partly supported by foreign buying to a tune of THB6.9bn (USD208m). Foreign investors were net buyers of the telecommunication sector on improving earnings outlook post-industry consolidation as well as the transportation sector on expectations of continued growth in passenger traffic.

In contrast, Indonesia's Jakarta Composite Index was down -7.90% mom, pressured by persistent foreign outflows amid fears of potential sovereign rating downgrade pressure and policy uncertainty. After deploying a 50bps hike in May 2026 to defend the rupiah against capital flight, Bank Indonesia implemented two additional 25bps increases in June 2026, pushing the benchmark interest rate to a 12 - month peak of 5.75%.

As for Malaysia, the FBMKLCI shed 1.13% mom in June (YTD-June: -0.96%) as it was weighed down by foreign selling and pre – election risk aversion ahead of the Johor and Negeri Sembilan state elections. In the month, foreign investors continued to pare exposure to Malaysian equity market with net selling of RM2.38bn, resulting in a cumulative YTD – June net outflow of RM3.13bn. Nevertheless, sentiment towards the Malaysian equity market was partly supported by the launch of the Value Up Guidebook in June 2026. Anchored under the Capital Market Masterplan 2026 – 2030, the Value Up Programme aims to encourage listed companies to enhance and communicate their long – term value creation strategies to attract both domestic and foreign investors.

Lastly, Singapore's Straits Times Index gained +2.64% mom, led primarily by gains in the banking sector. May's Non – Oil Domestic Exports (NODX) expanded to +38.4% yoy, beating consensus' +30.5% (April: +24.4% yoy), driven by robust growth in both electronics exports (eg. integrated circuits, disk media products and PCs) and non – electronics export (eg.

pharmaceuticals, specialized machinery).

In June, the U.S. Treasury (UST) yields were volatile but ultimately ended the month higher between +2 to +5bps mom, except for the 5 – year UST yield which was down 2bps mom. The 10 – year UST yield varied by nearly 20bps in the month of June before ending the month 3bps higher at 4.47%. Inflation remained elevated with May CPI at +4.2% yoy (Survey: +4.2% yoy, April: +3.8% yoy), making it the largest acceleration in three years due to spike in energy prices stemming from global supply shocks. Labour market showed persistent underlying strength as the May nonfarm payrolls surged by 172k mom (Survey: +88k, April revised: +148k) while the unemployment rate stayed at a low 4.3% (Survey and April: 4.3%). At his first Federal Open Market Committee (FOMC) meeting as Chairman, Kevin Warsh surprisingly delivered a heavily hawkish pivot. While the committee voted unanimously to maintain the federal funds rate at 3.50% – 3.75%, the official statement was structurally revamped to be shorter and entirely stripped of its previous interest – rate cutting bias. Furthermore, the updated "dot plot" eliminated expectations for near – term relief, revealing that half of the FOMC officials now project at least one rate hike for the remainder of 2026. Fed fund futures responded accordingly by the end of June, completely discarding rate – cut probabilities and moved to price in a 34% chance of a rate hike as early as July.

Malaysian Government Securities (MGS) yields movement were mixed between -2 to +5bps mom across the curve. May's headline inflation rose slightly to +2.0% yoy (Survey: +2.1% yoy, April: +1.9% yoy), largely driven by non – core items, particularly vegetables and electricity prices. On the economic growth front, the April Industrial Production Index (IPI) staged a powerful acceleration, surging by +8.2% yoy (Survey: +4.5% yoy, March: +3.1% yoy) to mark its fastest growth rate since September 2022, as the manufacturing, mining and electricity sectors recorded stronger growth.

Foreign funds turned net buyers in June with net inflows of RM4.9bn (May: net outflows of RM4.3bn). The foreign share of MGS remained stable at 33.6% (May: 33.6%), while the foreign share of MGS+MGII edged down slightly to 20.6% (May: 20.8%), with foreign investors favouring shorter – dated Treasury bills. Malaysia's foreign reserves rose by USD2.0bn to USD132.6bn as of end – June (May: USD130.6bn).

Market Outlook

The signing of a U.S. – Iran MoU marked a constructive step towards de – escalation, helping to ease near-term geopolitical concerns. However, global investors are likely to remain attentive to further developments given the uncertainties surrounding the agreement's implementation and long – term durability. Domestically, investor attention is likely to focus on the upcoming state elections in Johor and Negeri Sembilan in the near term. Over the medium term, market sentiment will hinge on the execution of key national initiatives, including Budget measures, the National Energy Transition Roadmap (NETR) and the 13th Malaysia Plan (13MP), as well as the trajectory of the country's exports, tourism recovery and investment activities.

Against this backdrop, we maintain a constructive yet cautious stance on the market outlook given ongoing volatility and macro uncertainties. Our portfolio strategy continues to focus on fundamentally strong, long-term investment opportunities, while maintaining the agility to tactically capitalize on market dislocations through selective trading opportunities.

According to the June FOMC statement, U.S. economic activity remained solid though the 2026 real GDP growth forecast was nudged down slightly to 2.2% (from 2.4% in March) in part, due to the conflict in the Middle East. Productivity growth and capital investment were strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little. The Committee also reaffirmed its policy of maintaining ample reserves in the banking system. However, the meeting delivered a distinctly hawkish shift through heavily revised economic projections and changes to Fed communication under the new Fed Chair Kevin Walsh. Driven by a surge in median 2026 inflation forecasts to 3.6%, the Fed's updated "dot plot" revealed a significant reversal, raising the year-end rate projection to 3.8% and signaling that the next policy move will likely be a rate hike rather than a cut. While the Fed points towards tightening, there is a growing share of investors expecting the central bank to hold rates steady due to the mounting uncertainty around the inflation outlook as recent price pressures appear closely linked to energy markets, particularly elevated oil prices, which may prove temporary as supply conditions normalize.

For Malaysia, latest developments point towards resilient growth in the second quarter, driven by sustained domestic demand and stronger – than – expected export performance. Therefore, BNM has reaffirmed that the growth projection for 2026 is expected to be within the forecast range of 4% – 5%. The growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Upside potential to growth could arise from a better global growth outlook following de – escalation of the conflict, stronger demand for E&E goods and higher tourism activity. The impact on both headline and core inflation in 2026 is expected to remain contained, reflecting domestic policy measures and stable demand conditions, which will mitigate the pass – through of external cost pressures to domestic prices. At the current OPR level, the MPC considers the monetary policy stance to be appropriate. BNM remains vigilant to ongoing developments and will assess the balance of risks surrounding the outlook for domestic inflation and growth. We would continue to selectively accumulate bonds at reasonable valuations while prioritizing good quality names.