Market Review and Outlook

May 2026

The content of this document is supplementary to the Monthly Fund Factsheets.

For the following funds:

Allianz Life Master Bond Fund ("MBF")
Allianz Life Master Equity Fund ("MEF")
Allianz Life Master Dividend Fund ("MDF")
Allianz Life Master Dana Ekuiti ("MDE")
Allianz Life Master ASEAN Plus Fund ("AMAF")
Allianz Life Managed Fund ("MF")
Allianz Life Equity Fund ("EF")
Allianz Life Dynamic Growth Fund ("DGF")
Allianz Life Equity Income Fund ("EIF")
Allianz Life Bond Fund ("BF")
Allianz Life Dana Padu ("DP")
Allianz Life ASEAN Plus Fund ("AAF")

Market Review

Global equity markets extended their upward momentum in May 2026, underpinned by sustained capital deployment into artificial intelligence (AI) infrastructure. The MSCI World Index rose by +4.37% mom, while the Dow Jones Industrial Average too advanced +2.78% mom, surpassing the 51,000 mark to reach a new all–time high. Technology – oriented indices also continued to outperform, with the Nasdaq Composite and the Philadelphia Semiconductor Index posting strong gains of +8.36% mom and +22.14% mom, respectively, reflecting robust investor appetite for AI – linked growth sectors. Risk sentiment was further supported by a temporary de – escalation in U.S. – Iran geopolitical tensions, which led to an easing in previously elevated Brent crude oil prices. Despite the constructive market backdrop, macroeconomic data pointed to persistent inflationary pressures, with U.S. core CPI rising to +2.8% yoy in April, up from +2.6% yoy in March, driven by higher sticky domestic service costs amid higher costs for shelter and transportation services.

In Europe, the Euro Stoxx 50 Index rose +2.87% mom, supported by easing Middle East geopolitical tensions that helped alleviate regional energy cost pressures. However, the macroeconomic backdrop remained fragile, as the S&P Global Eurozone Composite PMI declined to 47.5 in May 2026 from 48.8 in April, due to the contraction in private sector activity amidst high energy costs. Weaknesses in the services sector and slowing manufacturing activity prompted firms to reduce headcount for the fifth consecutive month. In Asia, South Korea's KOSPI index delivered a strong +28.45% mom return, closing at a record 8,476.15 points, underpinned by accumulation of memory heavyweights, Samsung Electronics and SK Hynix, amid a rise in high – bandwidth memory (HBM) pricing. Concurrently, Taiwan Stock Exchange index sustained its upward trajectory, gaining +14.92% mom to finish the month at a historic 44,732.94 points. This surge has reshaped the global equity landscape, elevating Taiwan and South Korea to the fifth – and sixth – largest equity markets globally, respectively.

On the commodities front, Brent crude oil declined sharply by 16.62% mom to USD 92.05 per barrel, as geopolitical risk premiums eased following reports of a 60 – day ceasefire extension between the U.S. and Iran and progress toward a broader diplomatic agreement. Meanwhile, crude palm oil (CPO) futures edged down -0.75% mom to RM4,470 per tonne, primarily weighed by weak export demand in May, with shipments falling due to the absence of festive buying, although downside was partially cushioned by continued support from biofuel mandates.

Closer to home, ASEAN markets delivered mixed performance. Thailand's SET Index extended its rally with a +5.00% mom gain which resulted in the index rising +26.07% on a YTD basis, partly spurred by improved sentiment from easing geopolitical tensions and expectations surrounding government stimulus measures. In contrast, Malaysia's FBM KLCI declined 2.26% mom, weighed by continued foreign outflows totaling RM3.56bn during the month under review, which reversed prior inflows, resulting in a YTD net outflow of RM300.08m. Nonetheless, Malaysia's economy remained resilient, with GDP expanding +5.4% yoy in 1Q2026, exceeding the preliminary estimate of +5.3%, supported by strong domestic demand, solid private investment, and continued growth in AI – and semiconductor – related manufacturing, which helped offset headwinds from rising fuel costs and global trade tensions. Singapore's Straits Times Index rose approximately +2.48% mom, underpinned by resilient economic fundamentals, including +6.0% yoy GDP growth in 1Q2026, supported by strong global demand for AI infrastructure. This was further supported by Singapore's Non – Oil Domestic Exports (NODX), which surged +24.5% yoy in April, accelerating from +15.3% in March on the back of strong electronics exports and a rebound in pharmaceuticals. Meanwhile, Indonesia's Jakarta Composite Index sharply declined 11.92%, making it one of the worst – performing markets globally, as it was affected by MSCI's concern over the investability of Indonesian equities. To defend its currency, Bank Indonesia embarked on a rate hike to 5.25%, which had fallen to record lows, and to curb imported inflation. Investors were also concerned about the Prabowo administration's move to take greater control over key commodity exports.

In May, U.S. Treasury (UST) yields increased by 1 – 16 bps across the curve. Yields spiked sharply towards mid-month with the 30 – year yield fleetingly surpassing the 5.19% threshold to a multi-year high due to the lack of meaningful progress in resolving the Iran conflict and the ensuing energy inflation predicament. Yields retraced toward the end of the month as temporary ceasefire dialogues eased immediate inflationary fears. Mirroring the rise in core CPI, war – driven energy spikes also caused wholesale inflation to surge to +6.0% yoy (Survey: +4.8% yoy; March revised: +4.3% yoy), marking its fastest acceleration since December 2022. Nevertheless, the labor market demonstrated resilience as April revised job gains surpassed expectations at +179k mom (Survey: +65k mom, March revised: +214k mom) while the unemployment rate held steady at 4.3% (Survey and March: 4.3% yoy). Against the uncertain economic backdrop, a scheduled leadership transition took place at the Federal Reserve (Fed), with Kevin Warsh succeeding Jerome Powell as Fed Chair.

Locally, Malaysian Government Securities (MGS) yields were mixed, moving between -1 to +5 bps mom across the curve, apart from the 15 – year and 20 – year tenors, which remained unchanged at 3.82% and 4.07%, respectively. At the May Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 2.75% as widely expected. In its statement, BNM highlighted that while supply chain disruptions stemming from Middle East conflicts, along with rising energy and commodity prices, are beginning to weigh on global growth momentum, Malaysia's strong fundamentals are expected to sustain domestic economic stability. April's headline inflation rose to +1.9% yoy (Survey: +1.9% yoy, March: +1.7% yoy), mainly due to higher transport costs.

Market Outlook

In the near term, market conditions are expected to remain volatile amid heightened geopolitical tensions in the Middle East. Nonetheless, a degree of cautious optimism persists on the prospect of a diplomatic resolution involving the U.S., Iran, and Israel. A successful outcome would likely pave the way for the long – awaited reopening of the Strait of Hormuz, facilitating the normalization of energy exports from the region. Such a development could alleviate energy price pressures and, in turn, contribute to a moderation in global inflation dynamics. Domestically, attention would center on the execution of key national priorities, including Budget measures, the National Energy Transition Roadmap (NETR) and the 13th Malaysia Plan (13MP), as well as the trajectory of exports, tourism and investment activities.

Against this backdrop, we maintain a constructive yet cautious stance on the market outlook amid persistent volatility and macro uncertainties. The portfolio strategy will remain anchored on fundamentally strong, long – term investment opportunities, while retaining flexibility to tactically and opportunistically capitalise on market dislocations through selective trading strategies. At the same time, we will remain vigilant on geopolitical developments and other emerging risks, while retaining flexibility to adjust our strategy as market conditions evolve.

According to the recent FOMC statement, U.S. economic activity continues to expand at a solid pace, though inflation remains elevated, in part reflecting the recent increase in global energy prices. Job growth has remained resilient and the unemployment rate has shown little change in recent months, holding steady at 4.3%. While the implications of Middle East developments for the U.S. economy remains uncertain, the FOMC continues to be attentive to dual – mandate risks, maintaining the fed fund rate target range of 3.50% - 3.75% while staying committed to returning inflation to 2% over the longer run. Markets had reacted by pricing in a higher – for – longer hold through the rest of the year with growing implied probabilities of an interest rate hike if upcoming CPI prints continue to trend higher.

Following a better – than – expected growth performance of 5.2% in 2025, Malaysia's growth momentum has officially carried into the new year, with GDP expanding by 5.4% in 1Q2026. Despite the escalation of the situation in the Middle East, both BNM and International Monetary Fund (IMF) have recently raised their Malaysian 2026 GDP growth forecasts to 4% – 5% and 4.7% respectively. These affirmations provide a degree of comfort that Malaysia is better positioned to weather the current external uncertainties. Both headline and core inflation in 2026 are 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. BNM remains vigilant, with the MPC ready to manage excessive volatility and support sustainable growth with price stability. We would continue to selectively accumulate bonds at reasonable valuations while prioritizing good quality names.