October 2026

Monthly Market Outlook

Bond Markets Just Being Realistic

Summary

- **The global composite PMI rose again in Sep-26 as manufacturing and services activity strengthened despite persistent geopolitical uncertainty.** There are three main drivers. First, the AI cycle continues to support manufacturing, particularly in Korea, Taiwan and the US, while defence demand is boosting European industry. Second, renewed supply-chain pressures mechanically lifted the headline PMI. Third, continued inventory stockpiling has raised orders and output in several countries.
- **APAC market review – The MSCI Asia Pacific Index slipped 1% in Sep-26, a modest decline that masked significant divergence across the region.** A sharp rise in global bond yields and a surge in oil prices weighed on sentiment and compressed equity valuations, particularly in emerging markets. Overall, the region was supported by continued strength in the AI investment cycle. The launch of Meta's Muse agent reinforced expectations that agentic AI could drive further growth, helping technology-heavy markets such as Taiwan (+4%) and Japan (+1%) outperform, while Korea was flat.
- **Local equity review – The FBM KLCI index fell 4% in Sep-26, bringing 3Q26 decline to 1%.** While September is seasonally a soft month, this year's decline was compounded by rising developed-market bond yields, which weighed on emerging-market risk appetite and contributed to continued foreign selling of Malaysian equities. However, the weakness was more pronounced in the mid- and large-cap segments, with the FBM Small Cap (-1%) and ACE indices (+5%) faring better, highlighting the opportunities that remained despite external headwinds. Most sectors ended the month lower, although certain themes continued to outperform. The energy sector gained 9%, led by renewable-energy companies following policy enhancements supportive of new solar capacity.
- **Bond market review – The global bond market was massacred as yields skyrocketed.** The Singapore and Malaysian government bond yields also rose, albeit at a lower quantum. Geopolitics continued to instil fear of sticky inflation as oil prices remained lofty with Brent prices still lounging at above USD100/Boe as ceasefire talks stalled, Saudi Arabia shutting its major oil pipeline and Trump threatening to resume airstrikes on Iran post mid-term elections. Separately, the Fed lifted its policy rates, as expected to 4% but signalled a further hike by end-2026 in the dot plot. Meanwhile, September was a volatile month for the Malaysian govvies, attributing partly to BNM's hawkish policy signal on Sept. 3, which repriced rate expectations higher even as the OPR was left unchanged.
- **Macro – Energy and geopolitical risk premiums are rising again.** Escalating Middle East tensions have pushed oil prices above levels consistent with central banks' inflation targets, lifting inflation expectations and complicating monetary policy. Food and broader commodity price pressures are also resurfacing globally, while the Fed remains in tightening mode.

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- **Local equity outlook – Key domestic catalysts in the fourth quarter include Budget 2027 in October and the expansion of the KLCI index from 30 to 50 constituents in December.** Externally, global bond yields and US dollar strength will influence fund flows into emerging markets, including Malaysia. Despite some external uncertainties, Malaysia's ample domestic liquidity and historically strong fourth-quarter seasonality should provide some support. Against this backdrop, market volatility could present attractive investment opportunities.
- **APAC equity outlook – The AI investment cycle and resilient earnings growth will continue to underpin Asia Pacific equities.** However, higher-for-longer US interest rates and elevated oil prices are likely to sustain the divergence across regional markets. In this environment, markets with direct exposure to AI-related earnings should be better positioned than those reliant on energy imports or more sensitive to higher interest rates.
- **Fixed Income outlook – We expect yields to remain lofty for now** as hefty net supply of govvies of RM20bn this month amid hawkish sentiments will add pressure on yields. However, Malaysia's Budget 2027 release is expected to continue put emphasis on fiscal consolidation should help moderate some pressures on yield uptick. Over to external factors, markets may be anxious in the lead up to the US mid-term elections in early November causing jittery movement in yields.

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