May 2026

Monthly Market Outlook

Resilient Growth, Inflationary Risks & Cautious Central Bankers

Summary

- **Global manufacturing growth accelerates in Apr-26 on front-loaded demand.** The start of 2Q26 saw rates of expansion in global manufacturing output and new orders strengthen. The JPM Global Manufacturing PMI rose to 52.6 in Ap-26 (Mar-26: 51.3), its highest level in over four years since Mar-22. However, the upturn in output could potentially prove unsustainable, given it partly reflected clients bringing forward purchases to mitigate expected supply chain disruptions and cost increases. Longer vendor lead times were experienced, resulting in input shortages that led to a solid upswing in purchase price inflation, as demand exceeded available supply.
- **APAC market review – The MSCI APAC index rose 13% in Apr-26 amid a global equity rebound, supported by the ceasefire between the US and Iran, even as the Strait of Hormuz remained closed.** In addition, strong 1Q26 earnings from the global technology sector drove significant gains across the region's AI supply chain, establishing technology as the clear leader of the rebound. With technology leading the rally, tech-centric markets such as Korea and Taiwan posted strong double-digit returns during the month.
- **Local equity review – The KLCI rose 1.9% MoM in Apr-26, marking its first monthly gain since Jan-26.** The index was weak early in the month owing to US-Iran tensions and Strait of Hormuz disruptions, but subsequently recovered on easing geopolitical risks. Policy support, including MSME financing and the MY Value Up Programme, provided some uplift, although global uncertainties capped gains. Foreign investors turned net buyers in Apr-26, recording RM241m in inflows versus a net sell of RM55m in Mar-26.
- **Bond market review – Global bond markets continued to be on tenterhooks, as energy prices remain elevated amid stalled peace talks – stoking persistent inflationary fears.** The 2y and 10y US Treasury yields jumped by 9bps and 10bps, respectively, MoM as at end-April. This is after a respective 50bps and 43bps MoM spike in March. The Fed's hawkish hold in April saw the largest dissent on votes (8:4) since 1992. Although the statement continued to flag solid growth, it acknowledged softer labour trends and renewed inflation pressures from higher energy, reinforcing a more balanced risk outlook. Meanwhile, Malaysian bond market performance in Apr-26 was closely tied to currency movements. The ringgit fluctuated against the US dollar throughout Apr-26, trading in a range around USDMYR3.95-3.98.
- **Macro – Growth Holding Up Amid Jittery Geopolitical Conditions.** The IMF has revised its global growth forecast downwards to 3.1% for 2026, citing rising tensions between the US and Iran which have increased global energy and food prices. Under an adverse scenario of prolonged oil supply disruptions, the IMF forecasts global growth slowing to around 2.5% and inflation rising to about 5.4%. Meanwhile, the Fed is likely to stay cautious because energy-driven inflation risk has risen while the US economy remains resilient.

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- **Local equity outlook – In the near term, Malaysian equities will be driven by the upcoming corporate earnings season, which should offer early indication on the impact of the Middle East conflict**, particularly in terms of cost pressures and supply chain disruptions, with differentiation across sectors and companies likely to emerge. Beyond near-term earnings, the market should be supported by structural tailwinds from the AI-driven technology upcycle, alongside policy support from the recently introduced "MY Value Up" programme.
- **APAC equity outlook – The global AI theme is expected to remain resilient, underpinned by a further increase in capital expenditure from US hyperscalers.** This continues to support Asia Pacific, which plays a critical role in the AI supply chain, with technology comprising about 30% of the MSCI Asia Pacific Index. Meanwhile, near-term sentiment could be influenced by geopolitical developments following the sharp market rebound. Key focal points include the potential reopening of the Strait of Hormuz, a critical conduit for Asia's energy imports, as well as the planned meeting between President Trump and President Xi, both of which could act as catalysts for market direction in the near term.
- **Fixed Income outlook – For May-26, MGS should trade range-bound** supported by the stable OPR as well as the strong local and foreign interest to be able to absorb higher net supply of RM15bn govvies this month. BNM's policy stance is supportive for bonds because the OPR remains at 2.75%, and the central bank views the current stance as appropriate for price stability and sustainable growth. This suggests front-end yields should stay anchored.

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