Life Insurance

August 2026

Monthly Market Outlook

Economic Activity Chugging Along

Summary

- **Developed markets saw an acceleration in activity, while emerging markets saw a slowdown.** The global composite PMI edged up slightly in Jul-26, rising by 0.6ppt to 52.6. That pickup was led by services, while manufacturing showed a marginal loss of momentum. And despite geopolitical uncertainty, the PMI readings suggest businesses remain fairly resilient. Some economies such as the US, the UK, and the eurozone saw manufacturing activity accelerate, while EM markets saw a slowdown, led by India and mainland China.
- **APAC market review – The MSCI Asia Pacific Index declined 2% in July, but the modest fall masked a sharp rotation across regional markets.** Investors took profits in markets that had benefited most from the artificial intelligence rally and reallocated towards earlier laggards. South Korea, the region's strongest market in the first half of 2026, reversed to become the weakest in July (-22%), while Hong Kong (+13%) and Indonesia (+11%) rebounded.
- **Local equity review – Jul-26 was the KLCI's best month since Jan-26.** The index rose +3.7% MoM to 1,724.90, turning positive YTD after a 1% decline in 1H26. The move was driven by a global rotation out of crowded AI/tech winners into laggard markets, plus the first month of net foreign buying since Apr-26 — concentrated in banks — and strength in commodity-linked large caps. Foreigners snapped an eight-week selling streak in the week to 10 Jul with +RM75.3m, having dumped RM6.43bn over the prior two months.
- **Bond market review – Sold off across the curve in Jul-26, with the move most pronounced in the belly.** Yields were broadly stable in the first half of the month before accelerating higher from July 20 onward, coinciding with the pickup in foreign outflows and the sovereign dollar sukuk issuance. The 10Y MGS yield was up and driven almost entirely by imported duration pressure due to a hawkish Fed rather than domestic factors. Local fundamentals were supportive where BNM held the OPR unchanged at 2.75% and Jun-26 CPI eased to 1.9%.
- **Macro – Jackson Hole Symposium yet again.** August is defined by a supply-side inflation regime that policy cannot easily fix. A hawkish-but-opaque Warsh Fed colliding with White House pressure, and an AI capex supercycle that keeps growth and equities aloft even as bubble anxiety builds. Beneath near-record indices, violent sector rotations are reshaping markets — money leaving crowded tech into defensives, financials, industrials and commodities.

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- **Local equity outlook – Investors' near-term focus will be on the upcoming second-quarter results season**, which should provide greater clarity on the impact of the US-Iran conflict. With the Johor and Negeri Sembilan state elections concluded, attention may gradually turn to the timing of the next general election, although the current parliamentary term extends to late 2027. Against this backdrop, resilient economic growth, deep domestic liquidity and the MY Value Up programme should support Malaysian equities over the medium term.
- **APAC equity outlook – Continued capital expenditure by US hyperscalers will support demand for the region's technology companies.** However, strong year-to-date gains and crowded positioning could leave parts of the Asia Pacific market vulnerable to further volatility. While South Korea has tightened requirements for trading in leveraged exchange-traded funds, the full extent of leverage unwinding remains to be seen. Nevertheless, July's correction and continued earnings momentum have made valuations among some AI beneficiaries more reasonable. Against this backdrop, future returns are likely to depend increasingly on earnings delivery and valuation discipline.
- **Fixed Income outlook – For Aug-26, we expect the 10Y MGS to remain lofty at 3.70%. Inflationary fears could still linger if the war continues.** Net supply of govvies locally is also hefty in August with RM20bn. Meanwhile, continued robust GDP print could trigger speculation on potential OPR hike. However, most economists are still expecting the OPR to be maintained in 2026.