April 2026

Monthly Market Outlook

Middle East Conflict To Constrain Monetary Policy Flexibility

Summary

- **Global economic resilience tested in Mar-26 by Middle East conflict.** The JPM Global Composite PMI fell to an 11- month low of 51.0 in Mar-26 (Feb-26: 53.3), as war in the Middle East led to wide-ranging impacts affecting demand, business confidence, supply chains and market prices. Rates of output expansion eased across the manufacturing and service sectors, hitting three- and 28-month lows respectively. Input price inflation hit a 38-month high in Mar-26, driven by rising commodity and energy costs, with supply chain strains evident in the steepest supplier delays. Meanwhile, the JPM Global Manufacturing PMI eased to 51.3 in Mar-26 (Feb-26: 51.8), as growth in output and new orders moderated amid near-stagnant global trade flows. Despite remaining above 50 for an eighth straight month, escalating Middle East tensions are testing global manufacturing resilience.
- **APAC market review – The MSCI APAC Index declined 13% in Mar-26 amid escalating Middle East tensions since late Feb-26, reversing earlier gains to end 1Q marginally lower by 0.5%.** Energy self-sufficiency emerged as the key performance differentiator across the region. Net energy importers such as Korea, Japan, Taiwan, India, Indonesia, Vietnam, and the Philippines recorded broad-based double-digit declines. In contrast, markets such as Malaysia and Singapore were relatively resilient, posting only low-single-digit declines.
- **Local equity review – The FBM KLCI declined 1.5% in Mar-26 amid escalating Middle East tensions since late Feb-26, but still closed 1Q up 0.6% due to stronger gains earlier in the year.** The index was relatively resilient, recording one of the smallest declines regionally due to its large-cap and defensive nature, while small-cap index underperformed sharply. The Middle East conflict triggered a broad increase in commodity prices, resulting in clear sector divergence. Commodity-linked sectors outperformed, led by plantation (+9%), industrials (+7%, mainly petrochemicals), and energy (+6%). Most other sectors ended lower on weaker sentiment and concerns that higher input costs and potential supply disruptions could weigh on growth and earnings.
- **Bond market review – Malaysian bond market performance in Mar-26 showed mixed conditions amid a strengthening economic outlook and rising yields.** Bond yields rose during Mar-26, reflecting broader market pressures. By late Mar-26, bond yields continued their upward trend as the ringgit approached its lowest level in over two months. The bond market operated against a backdrop of improved economic prospects. Bank Negara Malaysia raised its 2026 growth outlook to 4% to 5%, up from the government's earlier forecast of 4% to 4.5%, citing strong domestic demand and investment.
- **Macro – The thematic focus in Apr-26 centers on geopolitical tensions in the Middle East, inflation risks from elevated energy prices, and central bank policy uncertainty amid a resilient but slowing global economy.** Geopolitical risks remain the dominant driver of market sentiment, with the conflict keeping markets on edge. Oil prices rose and government bond prices fell as Trump stepped up threats against Iran, intensifying concerns over supply disruptions and stoking inflation worries that could prompt central banks to pause rate cuts for longer. Meanwhile, the disruption of the Strait of Hormuz has exposed structural vulnerabilities in energy-intensive and energy-importing emerging economies, especially in South and Southeast Asia, leading to a sharp repricing of energy risk and higher oil and gas prices that could strain external balances, fuel imported inflation, and constrain monetary policy flexibility.

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- **Local equity outlook – The outlook is highly sensitive to the duration of the Middle East conflict and the extent of supply chain disruptions, given the region's importance as a global commodity producer.** Sustained elevation in commodity prices could also delay US interest rate cuts, potentially dampening fund flows into emerging markets, including Malaysia. While near-term volatility is likely, equity markets have historically rebounded after geopolitical shocks. Despite external uncertainties, BNM projects Malaysia's economy to grow 4-5% in 2026 (2025: 5.2%), supported by resilient domestic demand. This, coupled with ample domestic liquidity, should help cushion downside risks in the local equity market.
- **APAC equity outlook – Near-term volatility is likely, as most key Asia Pacific economies (excluding China) remain reliant on energy imports, driving divergence across markets and sectors, with commodity producers outperforming.** Geopolitical developments will remain the primary near-term driver; however, a potential meeting between President Trump and President Xi - postponed from April due to the conflict - could provide a fresh catalyst if it materialises.
- **Fixed Income outlook – For Apr-26, we expect local yields to remain elevated amid the ongoing war.** However, de-escalation and eventual cessation of war will bring some reprieve to capital markets. Meanwhile, the probability of a Fed rate cut has been pushed to 2027 due to heightened geopolitics. The de-escalation of war may see rate cut bets back on the fray and support bond yields.

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