September 2026

Monthly Market Outlook

Hiking Actions Arrive

Summary

- **Despite geopolitical uncertainty, the Aug-26 global composite PMI rose to a 27-month high.** The global composite PMI picked up notably in Aug-26, where both the manufacturing and services sectors recorded increases in activity, despite ongoing geopolitical uncertainty. The manufacturing sector improved again, with the global headline PMI rising by 0.2pts to 52.3. Gains in both new orders and output underpinned the move. Services strength was notable too. It seems that businesses appear to be taking the Middle East disruption as almost a 'new normal', with August data suggesting an easing of supply chain pressures.
- **APAC market review – The MSCI Asia Pacific Index rose 3% in Aug-26**, rebounding after 2 consecutive months of declines. Technology-heavy markets such as Taiwan, South Korea and Japan led the recovery, supported by robust earnings growth from global technology giants. Singapore was also among the better-performing markets, as its banks benefited from expectations that US interest rates could remain elevated for longer.
- **Local equity review – The FBM KLCI index was broadly unchanged in Aug-26, gaining just 0.1% following its strong rebound in Jul-26.** Foreign selling resumed, partly reflecting quarterly index rebalancing. However, broader market performance was more buoyant, with the FBM Small Cap and ACE indices advancing 3% and 6%, respectively. Sector rotation remained a key feature during the month. Utilities (+8%) and construction (+7%) sectors led gains, supported by continued optimism over Malaysia's data-centre build-out following new expansion plans and contract awards by major players.
- **Bond market review – Malaysian bonds were Southeast Asia's worst performer in Aug-26.** The 10Y MGS yield had the largest monthly rise in almost two years — while 10y yields in Indonesia, Thailand, the Philippines and Singapore fell an average ~10bps, opening the widest performance gap since at least Jan-20. Heavy long-end supply, the OPR normalisation repricing coupled with the imported duration pressure from higher-for-longer UST yields were attributed to overall bearish sentiment in the local bond market.
- **Macro – Central banks in action for hawkish moves.** September flips the policy question from how long do they hold to who hikes first. The Fed enters the 15–16 Sept. meeting as close to a coin flip as it has been all cycle, and Kevin Warsh used Jackson Hole to argue benign summer inflation prints did not prove the underlying trend had improved. Meanwhile, the ECB is expected to tighten, the BOJ is live in the same window, and the RBA has been repriced to a 25bp move to 4.60% on 29 Sept. It remains to be seen if we will evident some form of material sell down in financial markets in view of rates and carry trade adjustments ahead.

Etiqa Life Insurance Bhd (201701025113) Dataran Maybank, No.1 Jalan Maarof, 59000 Kuala Lumpur, Malaysia
T +603 2297 3800 | F +603 2297 3800 | E info@etiqa.com

Life Insurance

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- **Local equity outlook – With the second-quarter earnings season concluded, investors' attention will shift to Budget 2027 in Oct-26,** while domestic political developments remain in focus. The direction of global bond yields and shifting expectations for US interest rates will also influence market sentiment and foreign fund flows. Nevertheless, a resilient domestic economy and abundant liquidity should support Malaysian equities over the medium-term.
- **APAC equity outlook – Fundamentals remain strong in Asia Pacific, supported by continued investment in artificial intelligence by hyperscalers.** However, near-term equity returns will likely depend on the direction of global bond yields and shifting expectations for US interest rates. Higher bond yields could weigh on equity valuations, particularly for growth stocks, while signs that yields are approaching their peak would provide a more supportive backdrop. Market performance is therefore likely to remain sensitive to global monetary policies and macroeconomic developments until clearer catalysts emerge.
- **Fixed Income outlook – For Sep-26, we expect the 10Y MGS to remain lofty.** Meanwhile, the net negative supply of govvies is favourable (-RM17bn) and should be able to moderate some pressures on yield uptick caused by the sudden escalation of war. Robust GDP print has bolstered stronger views for an OPR normalisation. However, we foresee more hawkish MPC statement in Nov-26 (although the OPR is expected to be remain steady in 2026) - leading up to the OPR hike expected in early 2027.

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