July 2026

Monthly Market Outlook

Broadening Trade

Summary

- **Global economic expansion at a four-month high, supported by stronger services activity.** The JPM Global Manufacturing PMI eased to 52.2 in Jun-26 from May's 50-month high of 52.7, suggesting that global manufacturing growth may have peaked as output and new orders expanded at a slower pace for the second consecutive month. In contrast, services sector activity strengthened to its fastest pace since Feb-26, although it remained below that of manufacturing. As a result, the JPM Global Composite PMI rose to 52.0 in Jun-26 from 51.9 in May-26, its highest level in four months, supported by the strongest increase in new business over the same period. Emerging markets outperformed developed markets.
- **APAC market review – The MSCI Asia Pacific Index declined 1% in Jun-26 but still delivered a robust 22% gain in 1H26.** Beneath the modest monthly decline, however, market volatility rose sharply amid renewed concerns over higher US interest rates and a stronger US dollar. Despite the volatility, technology-heavy markets continued to outperform in Jun-26, with Japan (+5%) and Taiwan (+3%) posting gains, while Korea ended broadly unchanged. In contrast, China, Hong Kong and Indonesia weighed on regional performance.
- **Local equity review – Malaysia equities had a soft Jun-26, with the FBM KLCI down 1.13% MoM, as persistent foreign selling, lack of domestic catalysts and geopolitical/global rate uncertainty outweighed selective bargain hunting in blue chips.** By late June, foreign investors had sold Malaysian equities for six consecutive weeks, with cumulative net outflows of nearly RM5.5bn. The selloff was led by financial services while plantation was relatively resilient. The Jun-26 FTSE Bursa Malaysia semi-annual review saw IOI Properties Group enter the FBM KLCI, replacing Sime Darby.
- **Bond market review – The US Treasury yield curve bear flattened as the Jun-26 FOMC acknowledged that the US economy remains solid despite the Middle East conflict.** Productivity growth and capital investment remained strong while unemployment looks stable. Notably, the FOMC expects 1-2 hike in 2026 – a total reversal from the 25bps cut in previous projection. On the other hand, Malaysia government bonds were largely range-bound in June, but with a slight bearish bias at month-end as the 10Y yield rose modestly. Meanwhile, foreign inflows, stable OPR, contained inflation and strong auction demand kept the local bond market resilient.
- **Macro – Still not a soft landing yet.** The world economy is still growing, but the IMF Jul-26 WEO update will reshape macro narratives quickly once the IMF updates its forecasts. Meanwhile, the US dollar has regained strength in July as interest-rate differentials, higher-for-longer Fed expectations and resilient US data support the greenback. As such, July 2026 financial markets are still risk-on, but no longer easy. The best-performing assets are likely to be those with earnings visibility, AI infrastructure exposure, strong balance sheets and income support.

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- **Local equity outlook – The upcoming state elections in Johor and Negeri Sembilan are likely to be among the factors shaping near-term market sentiment** even though the current parliamentary term only ends in late 2027. Over the medium term, Malaysia continues to benefit from structural tailwinds such as supply chain diversification into Southeast Asia and strong foreign direct investments. The recent launch of the MY Value Up programme guidebook also advances the government's value creation agenda.
- **APAC equity outlook – The large-scale investment initiatives announced by both Korea and Japan governments in June further reinforce Asia's role in the global buildout of artificial intelligence infrastructure.** While this structural tailwind remains firmly intact, strong year-to-date gains and increasingly crowded positioning could leave parts of the Asia Pacific market vulnerable to volatility and profit taking. Against this backdrop, the market is likely to become more discerning, with performance increasingly driven by company-specific catalysts instead of broad-based momentum.
- **Fixed Income outlook – For Jul-26, we expect the 10Y MGS yields to be range-bound** as Brent oil prices have trended lower to around USD70/barrel thereby lessening pressures on inflation and global yields amid ongoing peace negotiations and despite occasional retaliatory strikes. Favourable net supply in July due to a large maturity of RM20bn should provide further support for local yields. Separately, Bank of Japan is expected to pause before raising rates again by year-end while the Fed is expected to raise rates in Sep-26 following a surprisingly hawkish June FOMC.

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