June 2026

Monthly Market Outlook

Focus On Major Monetary Policies In 2H26

Summary

- **Global growth stabilises in May-26, downside risk reflected in weaker business sentiment.** While manufacturing remained resilient in the midst of the ongoing Middle East conflict, growth in many cases was buoyed by precautionary stockpiling ahead of potential supply disruptions and price increases. There remained downside risks to the growth outlook, once the boost from temporary price and supply factors subside. Additionally, business optimism fell to its second-lowest level since mid-2020. The cautious outlook was also evident in the labour market, where employment declined for the second time in the past three months.
- **APAC market review – The MSCI Asia Pacific index gained 8% in May-26, continuing to outperform global equities and recording fresh all-time highs.** The rally was led by Korea (+28%) and Taiwan (+15%), bringing their year-to-date gains to above 100% and 50%, respectively, in the first five months of 2026. As the rally was mainly driven by the technology sector, markets with less tech representation remained laggards.
- **Local equity review – Malaysia equities had a soft May-26 ended down 2.26% for the month**, despite starting the month positively and briefly testing above 1,760 in the first week. The market tone shifted from early-month optimism, supported by foreign buying, tech/AI rotation and resilient domestic data, to late-month weakness as foreign selling resumed and investors took profit into the end of earnings season. Escalating tensions in West Asia weighed on investor sentiment, prompting a defensive posture and dampening risk appetite across the broader market. Persistent selling in banking and financial heavyweights was a recurring drag throughout the month.
- **Bond market review – Malaysia bonds performed steadily in May-26** where yields were volatile intra-month but ended broadly flat. However, the path was not linear, with the 10y MGS yields rising to an intra-month high of 3.631% on May 20 before retracing. BNM held the OPR at 2.75% on May 7, which helped anchor yields and briefly pushed the ringgit to its strongest level since late Feb-26.
- **Macro – Global Monetary Policy Path in Focus.** Jun-26 is shaped by a confluence of energy-driven inflation, hawkish major central bank repricing, renewed US tariff escalation, and AI-driven equity momentum. All set against a backdrop of slowing global growth and elevated geopolitical risks from the US-Iran conflict. Fed Chair Kevin Warsh's first FOMC meeting is a key event in Jun-26. If markets price out rate cuts entirely, a higher-for-longer stance could strengthen the USD and reduce global risk appetite. For Malaysia specifically, the Johor State Election is expected to shift domestic market attention in June. A strong performance by BN or PH could reignite discussions of an earlier general election.

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

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- **Local equity outlook – Near-term market sentiment is likely to be driven by the Middle East conflict, the sustainability of the global equity rally, and the upcoming state elections in Johor and Negeri Sembilan.** While state elections typically have limited market impact, investors are likely to monitor the political landscape for any developments that could influence sentiment. Over the medium term, Malaysia continues to benefit from structural themes such as supply chain diversification into Southeast Asia and sustained foreign direct investments. In addition, the recently introduced “MY Value Up” programme could provide further support.
- **APAC equity outlook – While artificial intelligence is a multi-year structural driver, the pace and magnitude of the rally in markets such as Korea and Taiwan increase the risk of near-term profit-taking and volatility.** At the same time, Asia remains deeply embedded in the global technology supply chain, as reinforced by developments highlighted at the recent Computex conference in Taiwan. This structural positioning supports continued participation in the artificial intelligence-led capex cycle. Overall, the market could transition into a more selective phase, with returns driven by stock-specific fundamentals rather than broad-based momentum.
- **Fixed Income outlook – For Jun-26, we expect the 10Y MGS to range higher as the BoJ’s potential rate hike in Jun-26 and potentially another one by year-end would cause global yields to stay lofty** due to the unwinding of carry trades and capital repatriation due to portfolio rebalancing. While markets are now pricing in a probability of a rate hike by year-end by the Fed due to inflation worries and resilient macro data so far, we are keeping our expectations that the Fed will likely keep policy rate intact for 2026. Positive developments on the Mid East War would offer some relief to debt capital markets.

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