March 2026

Monthly Market Outlook

Middle East Conflict To Destabilize Global Growth

Summary

- **Global economic growth gathers pace in Feb-26, before the onset of the Iran war.** The JPM Global Composite PMI rose to a 21-month high of 53.3, from 52.6 in Jan-26 and above its long-run average (53.2) for the first time since May-24. Feb-26's growth was supported by solid gains in new work received, rising business confidence and the first increase in international trade flows since Mar-25. However, Feb-26 index calculations were all closed before the onset of the US-Israel-Iran war. Although the global service sector outperformed its manufacturing counterpart for the twelfth month, the differential was the narrowest. The JPM Global Manufacturing PMI rose to a 44-month high of 51.9, up from 50.9 in Jan-26. The upturn remained uneven, with stronger output in Asia and Europe contrasting with a slowdown in North America.
- **APAC market review – The MSCI Asia Pacific index extended its strong momentum from January, rising 7% in February, although performance varied significantly across markets.** Continued strong demand for AI-related capex remained the key regional theme, while elections in several countries also influenced market performance during the month. Sentiment was briefly lifted after the US Supreme Court ruled that reciprocal tariffs imposed by the US were illegal, as the US is a key export destination for many Asian economies.
- **Local equity review – The KLCI fell 1.4% MoM in Feb-26, reversing earlier gains amid rising geopolitical tensions and US tariff uncertainties.** The index reached a year-high weekly close of 1,753 points on 20 Feb, supported by stronger-than-expected 4Q25 GDP growth of 6.3% and a stronger ringgit at USDMYR3.89. Sentiment later turned cautious owing to regional risk-off sentiment linked to technology valuation concerns and rising geopolitical risks. Most sectors ended the month lower, with the telecommunications sector the worst performer (-3%). Foreign investors posted a second month of net inflows, but value fell 84% to RM171m in Feb-26. As a result, foreign shareholding by market capitalisation was flat MoM at 19.2% in Feb-26.
- **Bond market review – For Feb-26, US Treasury yields shifted lower MoM.** This was due to a confluence of dovish factors such as the softer-than-expected 4Q25 US GDP, indicating moderating expansion. Growth was constrained by slower factory orders and softened demand in services, alongside persistent, elevated input cost inflation. Artificial intelligence related volatility in equities has also increased risk aversion towards UST. In contrast, the Malaysian govvy yield movement was rather muted in Feb-26.
- **Macro – Iran conflict to safeguard Trump's approval rate.** As the US mid-term elections happen towards this year end, the Trump administration leverages on geopolitical developments to trigger Iran crisis at the start of 2026 to lift the president's popularity and approval rate. As the Gulf region is a major oil and gas producing hub, a prolonged conflict could disrupt global energy supply and potentially trigger an energy crisis. While such a scenario would benefit commodity producers, it would be negative for the broader economy as many Asia Pacific countries are energy importers, including China, India, Japan and Korea, which rely significantly on energy supplies from the Gulf region. Higher commodity prices could also delay interest rate cuts in the US, dampening fund flows into emerging markets such as Asia Pacific.

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- **Local equity outlook – Although domestic factors remain supportive for Malaysian equities, the market is not immune to external developments.** Despite the economy outperforming the official forecast in 2025, the government has maintained its 2026 GDP growth projection at 4.0-4.5% for now, reflecting uncertainty following the recent war between the US and Iran that began in late February, with the duration of the conflict remaining the key variable. However, equity markets have historically rebounded after geopolitical shocks, especially when conflicts are short-lived. The KLCI index is above its 2022 level, when the Russian invasion of Ukraine began. Against this backdrop, Malaysia's resilient domestic growth drivers and abundant domestic liquidity provide continued support to the local equity market.
- **APAC equity outlook – While the outlook for AI capex, which has been the key driver of the MSCI Asia Pacific index, remains strong, markets may experience heightened volatility in the near term following the recent tensions between the US and Iran that began in late February.** While such developments may lead to periods of heightened volatility, these episodes are not uncommon in equity markets, and the region's medium-term growth prospects remain encouraging.
- **Fixed Income outlook – For Mar-26, we foresee the 10Y MGS yield to trend higher** as we expect foreign interest to dissipate from emerging markets amid the Iran conflict due to flight to safety. This will be moderated by favourable supply dynamics where net demand is expected to be at RM10.5bn owing to a large maturity of RM25.5bn.

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