

February 2026

Monthly Market Outlook

Action-Packed Year of The Fire Horse

Summary

- **Global PMI lifts higher at start of 2026.** Global economic expansion accelerated slightly at the start of 2026, as rates of increase in output, new orders and employment all improved. The JPM Global Composite PMI registered 52.5 in Jan-26, up from Dec-25 of 52.0. The service sector continued to outperform its manufacturing counterpart in terms of output growth. Having led the developed world expansion throughout the 2H25, the US ceded the top spot in Jan-26. Meanwhile, the JPM Global Manufacturing PMI rose to a three-month high in Jan-26. Manufacturing confidence reached a 10-month high, alongside employment which rose for the first time in three months.
- **APAC market review – Asia Pacific equities carried their strong 2025 momentum into Jan-26.** The MSCI Asia Pacific index rose 8% during the month, supported by continued global inflows into emerging markets amid a softer US dollar. Performance across the region was broadly positive, with only a small number of markets lagging. Korea remained the clear outperformer, surging 24% in January after already delivering strong gains last year. The key driver was a global shortage of memory chips, which sharply lifted earnings for Korean memory chipmakers. In contrast, Indonesia and India were the only major markets to post losses.
- **Local equity review – Malaysian equities began 2026 on a strong footing amid a favourable global equity backdrop and renewed interest in emerging markets.** The FBM KLCI rose 3.6% in January, surpassing the 1,700 level for the first time since 2019. Market gains were broad-based, with mid- and small-cap indices also posting positive returns. The rally in banking stocks, buoyed by foreign inflows, was the primary driver of the KLCI's strong start to the year. Macro conditions remain supportive. Malaysia's advance estimate for 4Q 2025 GDP growth came in at 5.7%, exceeding consensus expectations of 5.4% and marking the second consecutive quarter of upside surprise. The Ringgit strengthened further to below RM4.00 against the US dollar, an encouraging signal given its historically positive correlation with domestic equity performance. Foreign investors returned as net buyers in January, recording inflows of RM1bn and lifting foreign ownership by market capitalisation.
- **Bond market review – US Treasuries saw sell-offs in Jan-26 as concerns mounted on geopolitics, Fed independence and uncertainties in macro data.** The issue of Fed independence (DOJ subpoenas) added concerns on UST. Towards month-end, Kevin Warsh, a well-known "hawk" was announced as the new Fed Chair which brought some calm to markets. Meanwhile, the Fed held rates steady as widely expected and reinforced a "wait and see" approach, with Chair Powell emphasizing uncertainty in the data and no immediate policy shift. Locally, yields saw minor upticks as the advanced GDP estimates for 4Q25 came in stronger-than-expected.
- **Macro – Reshuffling of asset allocation amid new Fed chair nomination.** So far, the world is doing alright economically and fundamentally, but what has changed is the nomination of new Fed Chair. Trump had picked Kevin Warsh to succeed Powell as Fed chair when Powell's leadership term at the Fed ends in mid-May. This development keeps investors globally pondering on the course of monetary path to be taken by Kevin Warsh of which has somewhat turned the table on USD diversification and reversing the rally in hard commodity like gold and silver as well as cryptocurrencies.

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- **Local equity outlook – Domestically, investor focus will shift to 4Q25 earnings season, which should offer clearer insight into the durability of the recent market strength.** Corporate earnings growth is widely expected to recover in 2026 following a subdued 2025, which was weighed down by US tariff uncertainties and interest rate cut that pressured banking sector earnings. Beyond earnings, consumption should receive incremental support from Visit Malaysia Year 2026, alongside the second round of SARA cash assistance scheduled for Feb-26. While domestic fundamentals remain supportive, external developments warrant close monitoring. Recent sell-downs across commodity markets and cryptocurrencies, coupled with concerns over elevated equity valuations in the US, could trigger periods of near-term volatility in equities globally. That said, the Malaysian market is likely to remain relatively defensive, underpinned by domestic liquidity and valuation that remain in line with historical average.
- **APAC equity outlook – Asia Pacific equities may see some near-term volatility following recent sell-downs in commodity markets and cryptocurrencies, alongside ongoing concerns over elevated equity valuations in the US.** That said, the region’s fundamentals remain supportive, underpinned by its close integration with the global technology cycle. Guidance from major US technology companies pointing to another year of record-high capital expenditure is expected to continue benefiting Asia Pacific technology supply chains, particularly semiconductor and hardware companies linked to the AI investment cycle. In addition, election victories by incumbent governments in Japan and Thailand in early February have removed a key political overhang, enabling growth-supportive policies and improving near-term market sentiment.
- **Fixed Income outlook – For Feb-26, we expect local yields to be range-bound. Higher net supply of RM15bn in Feb-26 will likely keep local yields heading higher.** We expect the Fed to deliver only 1 cut in mid-2026. However, the appointment of a well-known “hawk”, Kevin Warsh as the next Fed chair has not changed market expectations of 2 rate cuts for 2026 amid the cooling labour market as he may not be as hawkish as before. For the rest of the year, our 10Y MGS yield projection typically mimics local govvy supply dynamics, the theme of continued fiscal consolidation and resilience in the local economy. As such, we do not expect OPR changes for 2026.

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