

January 2026

## Monthly Market Outlook

# US Monetary Policy Path To Direct Risk Asset Prices

### Summary

- **Global economic growth slows at the end of 2025.** The JPM Global Composite PMI registered 52.0 in Dec-25 (Nov-25: 52.7), its lowest level in 6 months. Growth remained stronger in the service sector compared to manufacturing, although rates of expansion eased in both cases. The JPM Global Manufacturing PMI fell slightly to 50.4 in Dec-25 (Nov-25: 50.5) but above the neutral mark of 50.0 for the fifth consecutive month. Companies maintained a generally positive outlook for 2026, with business optimism reaching its second-highest level during the past 7 months.
- **APAC market review –The MSCI Asia Pacific Index rose 2% in Dec-25, driven primarily by strength in selected large-cap technology stocks in Korea and Taiwan,** despite lingering global concerns over elevated tech valuations. For full-year 2025, the index delivered its strongest performance since 2017, gaining 25% and outperforming US equities. The AI-led technology upcycle was the defining theme of 2025. Korea (+76%) was the standout market, underpinned by outsized gains in memory manufacturers that dominate the local index. Japan and Taiwan, both technology-heavy markets, also delivered strong performance.
- **Local equity review – The FBM KLCI index rose 4.7% in December, marking its best monthly performance in 2025.** The year-end rally helped the market recover earlier losses and close a turbulent year with a modest 2.3% gain. While December strength is broadly consistent with seasonal patterns, the magnitude of this year's rebound was slightly above historical norms. The rally, however, was largely confined to large-cap stocks. Mid- and small-cap indices were broadly flat in Dec-25 and ended the year with double-digit declines of 11% and 12%, respectively. The December rally was driven by local institutional investors, as foreign investors remained net sellers of Malaysian equities.
- **Bond market review – US Treasury yield curve bear steepened MoM as the FOMC delivered a hawkish cut in Dec-25 and sees only one cut in 2026 and 2027, respectively.** Meanwhile, the 10Y MGS yields rose as speculation about a possible cancellation of the 10-year MGS 07/35 auction faded. For 2025, govvy auctions amounted to RM168.5bn (2024: RM176.7n) where demand was favourable with average BTC of 2.56x (2024: 2.39x). Meanwhile, PDS issuances (excl quasi-govvies) was higher at RM175.3bn (2024: RM138.5bn). There was a noticeable jump in AAA and AA issuers of 41% and 33%, respectively, compared to 2024.
- **Macro – Diverging expectations on Fed rates & legality of Trump tariff.** So far, the Fed dot plot only indicates a rather conservative 1 Fed rate cut were to happen in 2026. However, the Fed fund futures priced in 3 rate cuts to 3% level in 2026. As such, there's still a huge discrepancy in expectations between the Fed and market players. The new Fed Chair and macro data ahead to determine the convergence. Meanwhile, the US mid-term election this year and legality of Trump tariff will create uncertainties and spice up volatility along the year.

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- **Local equity outlook – Despite recording its first back-to-back positive annual return since 2013, Malaysia lagged regional peers in 2025, leaving scope for catch-up in 2026 amid resilient economic growth.** Recent corporate earnings showed fewer earnings misses, pointing to potential improvement in earnings stability. In addition, Visit Malaysia Year 2026, alongside the second round of SARA cash assistance in Feb-26, should provide incremental support to consumption.
- **APAC equity outlook – The outlook for Asia Pacific equities remains closely linked to the technology cycle,** given that the index is dominated by technology leaders that are direct beneficiaries of AI investments. The region's central role in the global AI supply chain, however, also implies sensitivity to correction in US equities or a moderation in AI-related capex. Corporate governance reform, which is still at an early stage in several markets, remains a structural catalyst. In addition, the expected US monetary easing cycle into 2026 should be supportive, creating policy space for Asian central banks, including India and Thailand, to ease monetary conditions and stimulate domestic growth.
- **Fixed Income outlook – For Jan-26, we expect local yields to be supported by noises of rate cut by the Fed and continuing weak US labour data.** This will likely persist throughout 1Q26. We expect the Fed to deliver 1-2 cuts in 2026 versus market expectations of 2-3 cuts at this point. The potential appointment of a dovish Hasset as the next Fed chair (announcement in Feb-26) will likely cause market to price in further cuts. As such, the 10Y MGS yield will likely hover around 3.50% in Jan and Feb 2026. For the rest of the year, the 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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