

Market commentary

# Fixed income market review and outlook

April 2026



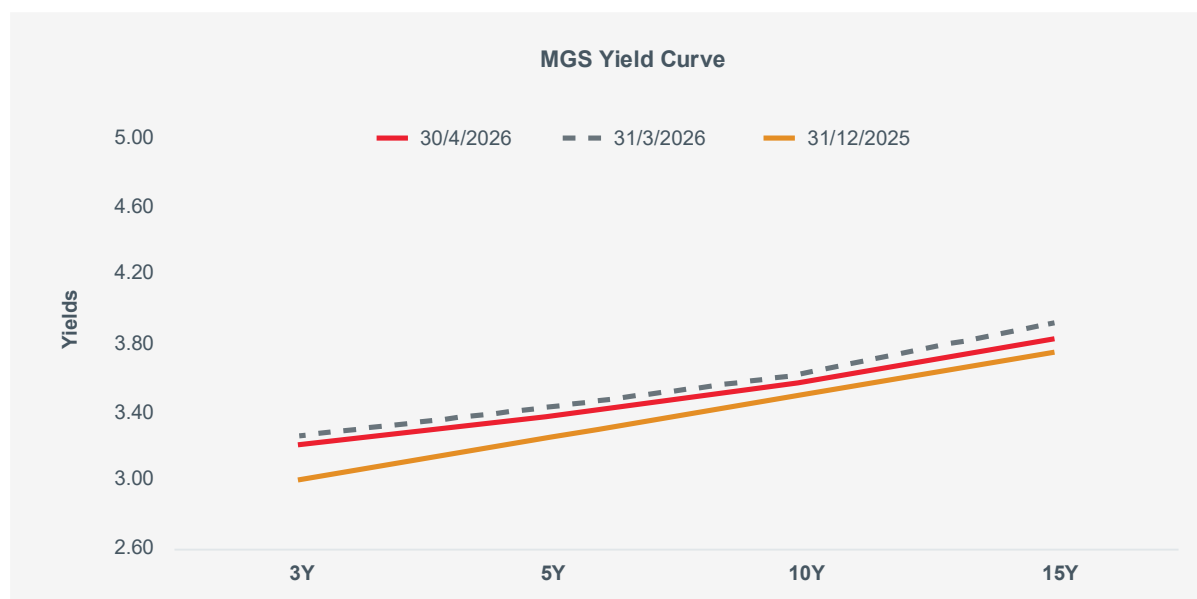
## Review

- ▶ The Fed kept its federal funds target range unchanged at 3.50% to 3.75% for a third consecutive meeting in April, focusing on persistent inflation driven by energy shocks. Oil prices saw extreme volatility, swinging between USD75 and USD130 per barrel amid escalating conflict between the US-Israel coalition and Iran. In April 2026, US nonfarm payrolls likely slowed to 62k jobs (Mar: +178k), reflecting the lagged impact of tighter policy while wage growth remains firm. The unemployment rate is also expected to hold at 4.3% (Mar: 4.3%). Inflation continues to run above the 2% target, with headline PCE Price Index at 3.5% y-o-y in March (Feb: 2.8%), and core PCE Price Index at 3.2% (Feb: 3.0%). The University of Michigan Consumer Sentiment index fell sharply to 49.8 in April (Mar: 53.3), amid concerns over the Iran conflict, rising prices and weaker asset values. Meanwhile, manufacturing PMI remained unchanged at 52.7 in April (Mar: 52.7), while Service PMI inched down to 53.6 (Mar: 54.0), reflecting weaker new orders and rising input costs linked to war-driven energy and tariff pressures.
- ▶ The Bank of England (“BoE”) kept its Bank Rate unchanged at 3.75% in April 2026, reflecting persistent energy-driven inflation risks and uncertainty from the Middle East conflict, balanced against a softening labour market and weaker growth that may ease price pressures. Headline inflation rose to 3.3% in March (Feb: 3.0%), mainly due to higher transport costs, while core inflation eased to 3.1% (Feb: 3.2%). Retail sales rose by 1.7% y-o-y in March (Feb: 2.5%), supported by stronger spending spring fashion and early Easter demand amid improved household disposable incomes. Meanwhile, industrial production fell 0.4% y-o-y in February (Jan: +0.4%), and manufacturing production fell 0.5% y-o-y (Jan: 1.3%).
- ▶ The European Central Bank (“ECB”) kept its key policy rates unchanged in April 2026, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. The decision reflects heightened uncertainty from the Iran war, with rising inflation risks balanced against weakening growth prospects, prompting a cautious wait-and-see stance. Headline Inflation rose to 3.0% in April (Mar: 2.5%) as energy costs surged 10.9% amid the Middle East conflict, while core inflation edged down to 2.2% (Mar: 2.3%). Meanwhile, industrial production contracted by 0.6% y-o-y in February (Jan: -1.2%), and manufacturing production decreased by 0.8% y-o-y (Dec: -2.2%), mainly due to soaring energy costs, geopolitical uncertainty and cooling global demand.
- ▶ The Reserve Bank of Australia’s cash rate at 4.1% in April 2026. In Asia, the Central Bank of the Philippines raised its policy rate by 25 basis points (“bps”) to 4.5% at its April 2026 meeting, reflects rising inflation risks driven by higher global oil and fertilizer prices feeding into domestic costs, prompting a pre-emptive move to anchor expectations. Meanwhile, Bank Indonesia, the Bank of Japan, the Bank of Thailand, and the Bank of South Korea kept their policy rates unchanged at 4.75%, 0.75%, 1.00% and 2.5%, respectively. Bank Negara Malaysia (“BNM”) did not hold a monetary policy committee meeting in April 2026.
- ▶ The People’s Bank of China kept its key lending rates unchanged in April, with the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively. The decision reflects a cautious stance amid external uncertainty from the Middle East conflict, while supporting still-resilient growth and managing lingering deflationary pressures. In 1Q2026, the economy expanded by 5% while the government lowered its 2026 GDP growth target to 4.5% to 5%. China’s imports surged 27.8% y-o-y in USD terms in March (Jan-Feb: 19.8%), supported by accelerated front-loading of strategic resource and high-tech purchases to secure supply amid war-related disruptions, rising costs and resilient domestic demand. Exports grew 2.5% y-o-y (Jan-Feb: 21.8%), reflecting seasonal distortions and a high base effect from prior tariff-driven shipments. Meanwhile, retail sales increased by 1.7% y-o-y (Jan-Feb: 2.8%), industrial production rose 5.7% y-o-y (Jan-Feb: 6.3%), and fixed asset investment rose by 1.7% in 1Q2026 (Jan-Feb: 1.8%).
- ▶ In March, headline and core inflation rose to 1.7% and 2.1% (Feb: 1.4% and 2%), respectively, mainly due to higher retail fuel prices. The unemployment rate remained unchanged at 2.9% in February. BNM’s international reserves stood at US\$128.8bn as of 15 April 2026 (31 Mar 2026: US\$126.6bn). The reserves position is sufficient to finance 4.7 months of imports and is 0.9x of the total short-term external debt. Meanwhile, the Ringgit appreciated by 2% m-o-m against USD to 3.967 at end-April (Mar: 4.046), supported by a weaker dollar amid heightened political risks.

- ▶ Three auctions were held in April 2026, reopening of 30Y MGS 7/55, new issuance of 3.5Y MGII 10/29 and new issuance of 20Y MGII 4/46. The auctions received an average bid-to-cover ratio of 2.610x.
  - ▶ RM5.0b (including RM2.0b private placement) reopening of 30Y MGS 7/55 averaging yield of 4.197% at a bid-to-cover ratio of 2.029x;
  - ▶ RM5.0b new issuance of 3.5Y MGII 10/29 averaging yield of 3.227% at a bid-to-cover ratio of 2.921x; and
  - ▶ RM5.0b (including RM1.5b private placement) new issuance of 20Y MGS 4/46 averaging yield of 3.987% at a bid-to-cover ratio of 2.881x.
  
- ▶ In March, Malaysia's MGS and GII yields fell by 3 to 9 bps across the curve, supported by both domestic and foreign demands. Foreign fund flows remained positive, recording net inflows of RM3.8 billion (Mar: RM6.1 billion), bringing YTD net inflows to RM8.4 billion. Meanwhile, the 10Y UST yield rose to 4.40% as at end-April (Mar: 4.32%) as market continued to reprice the Fed's reaction following its hawkish hold and elevated inflation expectation, alongside uncertainty stemming from Middle East developments.

BENCHMARK	Dec 2025 Yield	Mar 2026 Yield	Apr 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.26%	3.20%	-5 bps	20 bps
5-year MGS	3.26%	3.43%	3.38%	-5 bps	12 bps
10-year MGS	3.49%	3.63%	3.57%	-6 bps	7 bps
15-year MGS	3.75%	3.92%	3.82%	-9 bps	8 bps

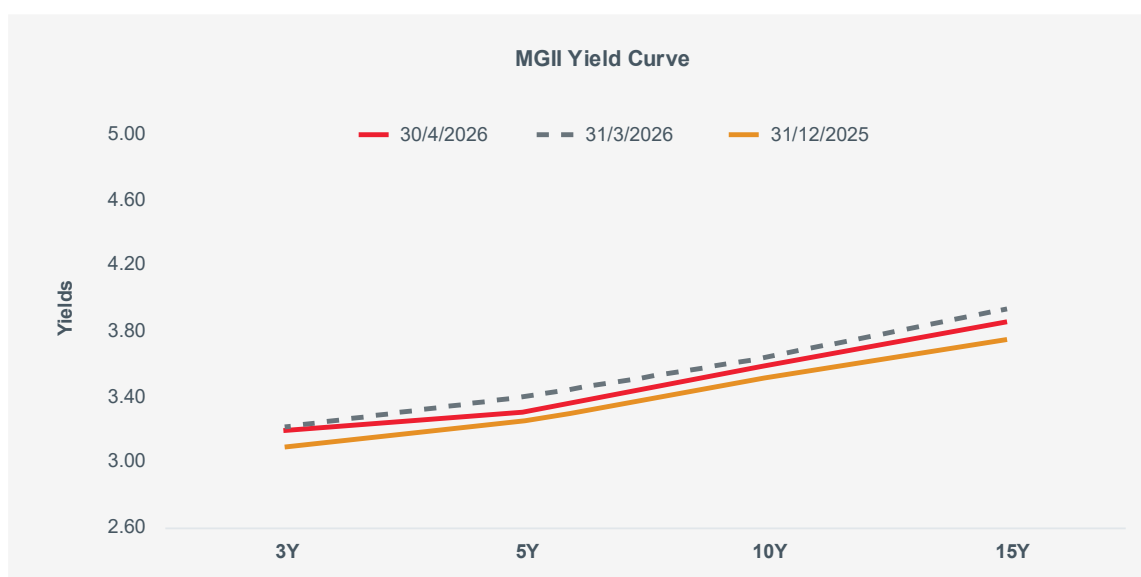
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Mar 2026 Yield	Apr 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.23%	3.19%	-3 bps	10 bps
5-year MGII	3.25%	3.40%	3.31%	-9 bps	6 bps
10-year MGII	3.52%	3.63%	3.58%	-5 bps	6 bps
15-year MGII	3.74%	3.93%	3.85%	-8 bps	11 bps

Source: Bloomberg. \*MGII3Y Index



Source: Bloomberg

## Outlook

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- ▶ The Fed kept rates unchanged at 3.50% to 3.75% at its April 2026 meeting, marking a third consecutive hold but signalling a more cautious and less dovish stance amid persistent inflation and rising geopolitical risks. Inflation remains elevated around 3%+, partly driven by higher energy prices linked to the ongoing Iran conflict, complicating the outlook by simultaneously posing upside risks to inflation and downside risks to growth. The FOMC reiterated its data-dependent stance, assessing incoming data, evolving risks and the broader economic outlook, while highlighting increased uncertainty, particularly from Middle East developments. In line with this backdrop, market expectations have shifted firmly towards a “higher for longer” regime, with little to no probability of rate cuts priced in for the remainder of 2026 and some risk of further tightening should inflation persists. Meanwhile, the upcoming leadership transition from Powell to Kevin Warsh (nominated for 15 May) has reinforced a wait-and-see approach, with expectations that Warsh will favour a more hawkish stance on inflation and a smaller balance sheet. Beyond Fed policy shift and Middle East conflict, key risks include energy-driven inflation pressures, persistent US fiscal concerns, China’s ongoing structural deflationary pressures rising geoeconomic conflict, trade fragmentation and geopolitical tensions.
- ▶ BNM expects the economy to grow by 4% to 5% in 2026, supported by resilient domestic demand, a strong labour market, ongoing investment realisation and a diversified external sector, despite external headwinds. Headline inflation is projected at 1.5% to 2.5%, with underlying pressures remaining broadly stable, supported by steady demand and domestic policy measures, although subject to global cost and geopolitical uncertainties. The current monetary policy narrative suggests that the OPR is likely to be maintained at 2.75% in the near term, as monetary policy continues to balance price stability with support for sustainable growth, while remaining data-dependent amid an uncertain external environment.
- ▶ Three auctions are expected in the month of May 2026, reopening 10-yr MGII 4/35, reopening 7-yr MGS 4/33 and reopening 30-yr MGII 1/56. While there is ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment both from local and foreign investors. On the corporate front, we expect demand to remain resilient given institutional demand for bonds even though we have seen spreads being compressed significantly.

<b>Table 1: Indicative Rates (%)</b>	
	<b>30 Apr 2026</b>
MBB O/N*	1.00
MBB 1-Week*	1.10
MBB 1-Mth FD*	1.75
MBB 6-Mth FD*	1.95
MBB 1-Year FD*	1.95
1-mth BNM MN	2.89
3-mth BNM MN	2.93
3-mth KLIBOR	3.35
<b>CP</b>	
1-mth (P1)	3.47
3-mth (P1)	3.60

Source: Bloomberg/Bondstream

\* Maybank2u.com.my

<b>Table 2: Indicative Bond Yields (%)</b>					
	<b>3Yr</b>	<b>5Yr</b>	<b>7Yr</b>	<b>10Yr</b>	<b>15Yr</b>
<b>MGS</b>	3.21	3.35	3.47	3.61	3.85
<b>GII</b>	3.12	3.37	3.51	3.64	3.88
<b>Swap rate*</b>	3.42	3.48	3.58	3.70	3.94
<b>AAA</b>	3.60	3.71	3.79	3.90	4.06
<b>AA1</b>	3.67	3.77	3.86	3.98	4.16
<b>AA2</b>	3.72	3.83	3.93	4.05	4.27
<b>AA3</b>	3.78	3.89	3.99	4.11	4.40
<b>A1</b>	4.52	4.82	5.05	5.36	5.85
<b>A2</b>	5.17	5.59	5.91	6.33	6.92
<b>A3</b>	5.81	6.35	6.74	7.26	7.99

Source: Bloomberg\*/Bondstream

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