Market commentary

Fixed income market review and outlook

February 2026

Review

- The Federal Reserve ("Fed") held interest rate steady at its first meeting of 2026 maintaining the federal funds rate at a range of 3.50%-3.75% to evaluate the impact of previous cuts amid solid economic growth, a stabilising labour market, and still-evaluated inflation. US nonfarm payrolls rose by just 50K in December (Nov: revised 56k) as gains in food

- In February 2026, US nonfarm payrolls unexpectedly fell by 92k (Jan: revised +126k), missing expectations for a 59k gain, with weakness driven by health-care job losses linked to strike activity and board-based declines across cyclically sensitive sectors. The unemployment rate held at 4.4% (Dec: 4.4%). Headline CPE Price Index increased 2.9% in December (Nov: 2.8%), while core PCE Price Index rose to 3% (Nov: 2.8%), driven by persistent service-side pressures and gradual impact of tariffs. Consumer sentiment improved marginally, with the University of Michigan Consumer Sentiment index rising to 56.6 (Jan: 56.4). Manufacturing PMI slipped slightly to 52.4 (Jan: 52.6), while Service PMI climbed to 56.1 (Jan: 53.8), reflecting stronger demand and activity.

- The Bank of England ("BoE") kept its Bank Rate unchanged at 3.75% in February, as inflation remains above target, prompting policymakers to balance downside growth risks against residual inflation persistence, even as easing price pressures, slower growth and a softening labour market support further easing. Headline inflation eased to 3.0% in January (Dec: 3.4%), driven by softer increases in transport and food prices, while core inflation edged down to 3.1%. Retail sales grew by 4.5% y-o-y in January (Dec: 2.5%), driven by a recovery in consumer confidence and sector-specific strength. Meanwhile, industrial production increased 0.5% in December (Nov: 2.3%), and manufacturing production rose 0.5% y-o-y (Nov: revised +1.3%).

- The European Central Bank kept its key policy rates unchanged in February, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%, citing expectations that inflation will stabilise at its 2% target over the medium term. Headline Inflation rose to 1.9% in February (Jan: 1.7%), driven by price pressures in services and non-energy industrial goods, while core inflation accelerated to 2.4% (Jan: 2.2%). Industrial production rose 1.1% y-o-y in December (Nov: 2.3%), while manufacturing production increased by 1.4% y-o-y (Nov: 2.1%).

- The Reserve Bank of Australia raised its cash rate by 25 basis points ("bps") to 3.85% in February in response to renewed inflation pressure from higher services cost and a tight labour market. In contrast, the Central Bank of the Philippines cut its policy rate by 25bps to 4.25% to support growth amid weak demand and eroding confidence despite manageable inflation, while the Bank of Thailand lowered its rate to 1.0% to support below potential and uneven growth, ease debt burdens and counter rising downside inflation risks. Meanwhile, Bank Indonesia, and the Bank of South Korea kept policy rates unchanged at 4.75% and 2.5%, respectively, while Bank Negara Malaysia ("BNM") and the Bank of Japan did not hold monetary policy committee meetings in February 2026.

- The People's Bank of China kept its key lending rates unchanged in February, with the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, as policymakers balanced growth support with financial stability and signalled no urgency for broad easing despite weak domestic demand and scope for further targeted measures later this year. In December, imports rose 5.7% YoY in USD terms (Nov: 1.9%), while exports surged 6.6% YoY (Nov: 5.9%) Meanwhile, retail sales rose 0.9% YoY (Nov: 1.3%), and industrial production advanced 5.2% YoY (Nov: 4.8%). Fixed asset investment fell 3.8% YoY in 2025 (Jan- Nov: -2.6%).

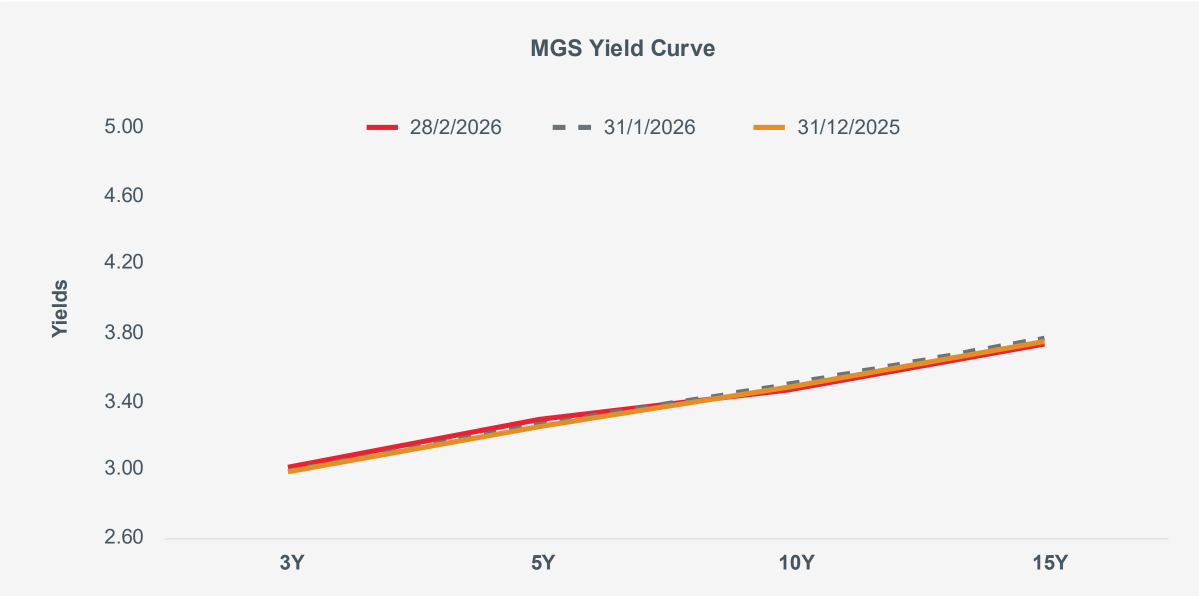
- Malaysia's economy expanded by 6.3% in 4Q2025 (3Q2025: 5.4%), driven primarily by strong domestic demand. For full-year 2025, growth reached 5.3%, supported by resilient domestic activity and favourable exports. In January, headline and core inflation were unchanged at 1.6% and 2.3%, respectively, while the unemployment rate remained unchanged at 2.9% in December. BNM's international reserves amounted to US$128.3bn as of 27 February 2026 (30 Jan 2026: US$126.9bn). 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 1.3%% m-o-m against USD, closing at 3.893 at end February (Jan: 3.945), supported by strong economic fundamentals.

- Three auctions were held in February 2026, reopening of 10Y MGS 7/35, reopening of 20Y MGII 5/45 and reopening of 5Y MGS 6/31. The auctions received an average bid-to-cover ratio of 2.473x.
  - RM5.0b reopening of 10Y MGS 7/35 averaging yield of 3.572% at a bid-to-cover ratio of 1.603x;
  - RM5.0b (including RM2.0b private placement) reopening of 20Y MGII 5/45 averaging yield of 3.990% at a bid-to-cover ratio of 2.896x; and
  - RM5.0b reopening of 5Y MGS 6/31 averaging yield of 3.359% at a bid-to-cover ratio of 2.921x.

- In February 2026, Malaysia's MGS and GII yields traded mixed, moving between -2 to 4 bps, supported by supportive domestic data and defensive flows amid global uncertainty. Foreign fund flows recorded a net outflow of RM2.5 billion in February 2026 (Jan: +RM952 mil), bringing YTD net outflows to RM1.5 billion. Meanwhile, the 10Y UST yield fell sharply to 3.97% as at end-January (Jan: 4.26%), supported by elevated safe heaven demand.

BENCHMARK	Dec 2025 Yield	Jan 2026 Yield	Feb 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	2.99%	3.03%	3 bps	3 bps
5-year MGS	3.26%	3.27%	3.31%	4 bps	6 bps
10-year MGS	3.49%	3.50%	3.48%	-2 bps	-1 bp
15-year MGS	3.75%	3.77%	3.75%	-2 bps	0 bp

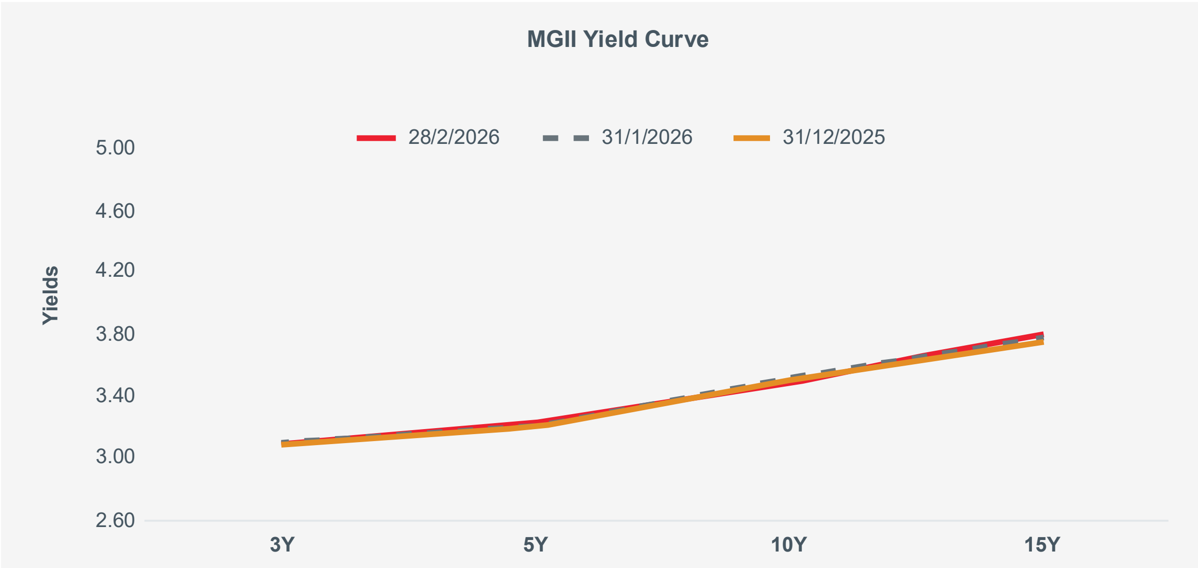
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Jan 2026 Yield	Feb 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.11%	3.10%	0 bp	1 bp
5-year MGII	3.25%	3.24%	3.25%	1 bp	0 bp
10-year MGII	3.52%	3.53%	3.50%	-2 bps	-1 bp
15-year MGII	3.74%	3.79%	3.79%	0 bp	5 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- Market expectations for Federal Reserve interest rates shifted significantly in February, moving from a near-certainty of rate cuts to a “higher-for-longer” stance. This repricing was reinformed by the release of the Jan FOMC minutes and further accelerated by the sudden escalation of conflict in the Middle East. The minutes delivered a modest hawkish surprise, with some officials nothing that rate hikes could not be ruled out should inflation remain stubbornly above the 2% target, while most preferred to hold rates steady until there was clearer evidence that disinflation was firmly back on track. The Middle East conflict triggered a spike in energy prices, with oil surging amid disruption in the Strait of Hormuz. The inflationary impulse from higher energy prices has kept bond yields elevated, reducing the likelihood of a near-term Fed rate cut. As a result, markets have pushed expectations for the first potential cut into the second half of 2026, with some now expecting only one cut (or none) for the entire year. Meanwhile, uncertainty grew surrounding President Trump’s nomination of Kevin Warsh to succeed Jerome Powell in May, Warsh is widely expected to favour interest rate cuts alongside a more aggressive reduction of the Fed’s roughly US$6.6 trillion balance sheet to contain long-term inflation risks. In addition, the landscape of US trade policy underwent a significant shift following a landmark Supreme Court ruling in February that struck down most of the administration’s “reciprocal” and country-specific tariffs, prompting a rapid pivot toward alternate legal authorities and a new phase of global uncertainty. China’s structural shift toward high-tech self-reliance, persistent concerns over US fiscal sustainability, geoeconomic confrontation, trade fragmentation, AI uncertainty and geopolitical conflict continue to weigh on the global outlook.

- BNM kept the OPR unchanged at 2.75% at its 5 March 2026 meeting, reiterating that “at the current OPR level, the MPC considers the monetary policy stance to be appropriate and supportive of the economy amid price stability”. The policy statement adopted a more cautious tone, citing the Middle East conflict and potential tariff increases as downside risks. Nevertheless, Malaysia’s strong fundamentals have helped cushion the impact of recent volatility. Budget 2026 projects GDP growth of 4.0-4.5%, inflation between 1.3-2.0% and a reduced fiscal deficit of 3.5% of GDP, driven by improved tax collection and moderate expenditure growth. Economic momentum is expected to remain underpinned by resilient domestic demand and ongoing government reforms.

- Three auctions are expected in the month of March 2026, reopening 15-yr MGII 7/40, new issuance 3-yr MGS 3/29 and new issuance 7-yr MGII 03/33. 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.

Table 1: Indicative Rates (%)	
	28 Feb 2026
MBB O/N*	1.00%
MBB 1-Week*	1.10%
MBB 1-Mth FD*	1.80%
MBB 6-Mth FD*	2.05%
MBB 1-Year FD*	2.05%
1-mth BNM MN	2.81%
3-mth BNM MN	2.84%
3-mth KLIBOR	3.23%
CP	
1-mth (P1)	3.43%
3-mth (P1)	3.56%

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3Yr	**5Yr**	**7Yr**	**10Yr**	**15Yr**
MGS	3.12	3.29	3.42	3.52	3.78
GII	3.15	3.30	3.40	3.55	3.82
Swap rate*	3.32	3.39	3.48	3.65	3.89
AAA	3.56	3.64	3.73	3.84	4.00
AA1	3.62	3.71	3.80	3.90	4.09
AA2	3.69	3.78	3.86	3.98	4.22
AA3	3.76	3.85	3.92	4.05	4.36
A1	4.34	4.81	5.04	5.33	5.85
A2	5.18	5.58	5.90	6.32	6.92
A3	5.82	6.34	6.73	7.25	7.99

Source: Bloomberg*/Bondstream

Disclaimer