Market commentary

Fixed income market review and outlook

January 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 services, health care and social assistance were offset by retail job losses, broad-based sector stagnation, and downward revisions to earlier months, pointing to a slowdown in labour demand relative to 2024. The unemployment rate edged down to 4.4% (Nov: revised 4.5%). Both headline and core PCE price rose 2.8% in November (Oct: 2.7%). Consumer sentiment improved, with the University of Michigan Consumer Sentiment index rising to 56.4 in January 2026 (Dec: 52.9), supported by modest, broad-based improvements in consumer views and easing near-term inflation expectations despite ongoing concerns about high prices and labour market softening. Manufacturing activity returned to expansion, with the Manufacturing PMI unexpectedly rose to 52.6 in January (Dec 47.9), driven by rebounds in new orders, production, supplier deliveries, partly reflecting post-holiday reordering and front-loading ahead of potential tariff-drive price increases. Meanwhile, the Service PMI was steady at 53.8 (Dec: revised 53.8).

- The Bank of England ("BoE") kept its Bank Rate unchanged at 3.75%. Headline inflation rose to 3.4% in December 2025 (Nov: 3.2%), driven by higher alcohol, transport and food prices, while services inflation edged up modestly and core inflation remained steady at 3.2%, suggesting the increase maybe temporary despite complicating the BoE's path back to its 2% target. Retail sales grew by 2.5%y-o-y in December (Nov: 1.8%), led by strong online shopping and jewellery sales. Meanwhile, industrial production expanded 2.3% y-o-y in November (Oct: 0.4%), and manufacturing production rose 2.1%% y-o-y (Oct: -0.2%).

- The European Central Bank kept its key policy rates unchanged, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. Headline Inflation eased further to 1.7%% in January (Dec: 2.0%), while core inflation edged down to 2.2% (Dec: 2.3%). Industrial production rose 2.3% y-o-y in November (Oct: 0.4%), driven by a surge in capital goods output and a recovery in investment-led production, while manufacturing production increased by 2.1% (Oct: -0.3%).

- The Reserve Bank of Australia kept its cash rate unchanged at 3.60%. In Asia, Bank Indonesia, Bank Negara Malaysia ("BNM") and the Bank of South Korea maintained policy rates at 4.75%, 2.75% and 2.5%, respectively, while the Central Bank of Philippines, Bank of Thailand and Bank of Japan did not hold monetary policy committee meetings in January 2026.

- The People's Bank of China kept its key lending rates unchanged in January, with the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, as earlier targeted rate cuts and government stimulus continued to support credit growth despite ongoing property-sector strains, while GDP growth met the 5% target. In December, imports rose 5.7% YoY in USD terms (Nov: 1.9%), driven by strong year-end demand, policy support and pre-Lunar New Year restocking, while exports surged 6.6% YoY (Nov: 5.9%) as strong growth to ASEAN, the EU and other non-US markets offset a sharp decline in shipments to the US amid tariff pressures. Meanwhile, retail sales rose 0.9% YoY (Nov: 1.3%), industrial production advanced 5.2% YoY (Nov: 4.8%). The fixed asset investment fell 3.8% YoY in 2025 (Jan- Nov: -2.6%), weighed down by a steep contraction in property investment. Excluding property, fixed-asset investment declined a more modest 0.5%.

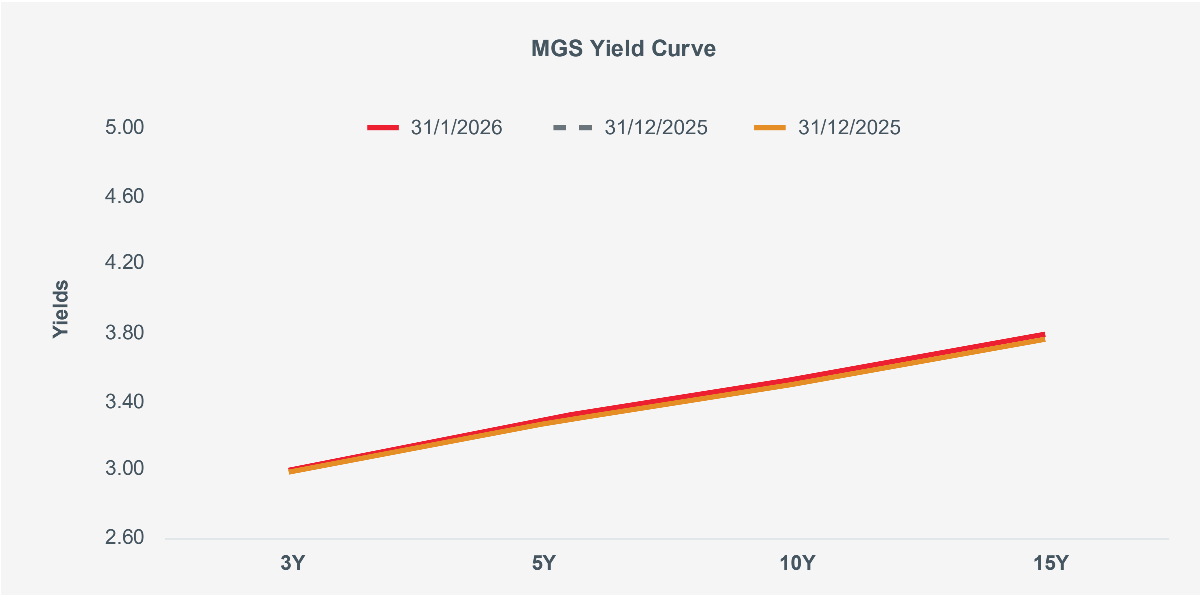
- In December, headline inflation rose to 1.6% (Nov: 1.4%), partly due to higher electricity prices and a slight increase in prices of selected vegetables, while core inflation edged up to 2.3% (Nov: 2.2%). The unemployment rate declined to 2.9%in November (Oct:3.0%), reflecting positive job growth and supportive economic conditions. BNM's international reserves amounted to US$126.9bn as of 30 January 2026 (31 Dec: US$125.5bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt. Meanwhile, the Ringgit appreciated by 3.2% m-o-m against USD, closing at 3.93 at end January (Dec: 4.060), supported by a weaker dollar and Malaysia's positive economic fundamentals.

- Three auctions were held in January 2026, reopening of 5Y MGII 8/30, new issuance of 15Y MGS 01/41 and new issuance of MGII 01/56. The auctions received an average bid-to-cover ratio of 2.104x.
  - RM5.0b reopening of 5Y MGII 8/30 averaging yield of 3.268% at a bid-to-cover ratio of 2.296x;
  - RM5.0b (including RM1.5b private placement) new issuance of 15Y MGS 01/41 averaging yield of 3.766% at a bid-to-cover ratio of 1.944x; and
  - RM5.0b (including RM2b private placement) new issuance of 30Y MGII 01/56 averaging yield of 4.044% at a bid-to-cover ratio of 2.071x.

- In January 2026, Malaysia's MGS and GII yields were broadly steady, moving within a narrow 1-2 bps range, as confidence was supported by a steady OPR, though global headwinds from rising term premia and geopolitical tensions persisted. Foreign fund flows remained firm with a net inflow of RM952 million in January (Dec: RM3.0 billion). Meanwhile, the 10Y UST yield rose to 4.26% as at end-January (Dec: 4.167%), driven by persistent inflation, elevated government debt supply, and shifting expectations for Fed policy.

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

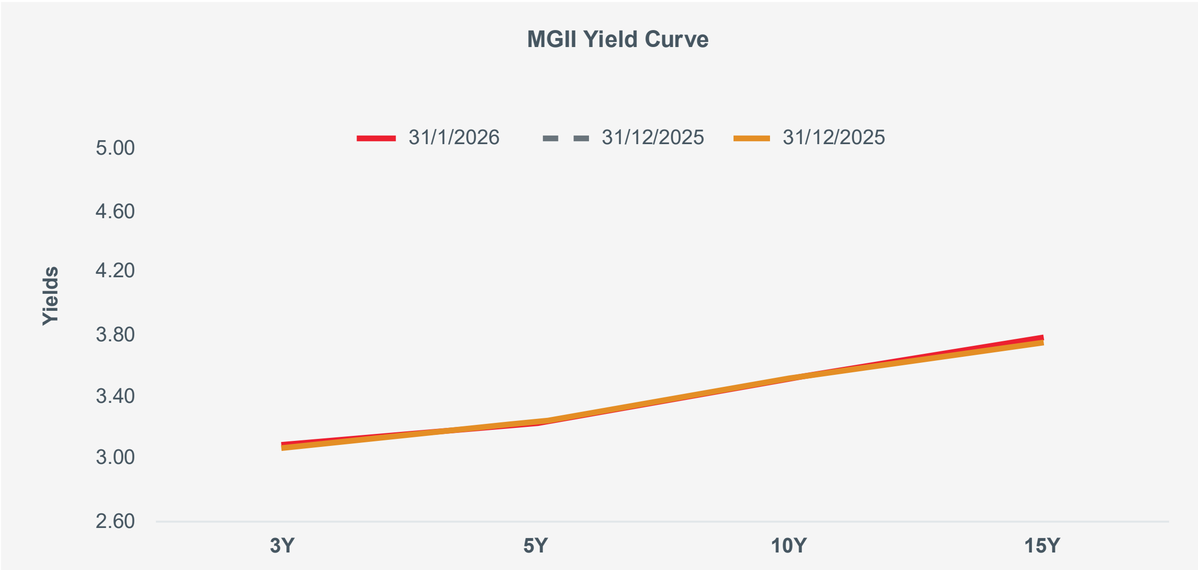
Source: Bloomberg



Source: Bloomberg

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

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- The Fed held interest rate steady at its January 2026 meeting, maintaining the target range of 3.5% to 3.75%, as policymakers judged monetary policy to be near neutral as inflation continued to ease towards 2% target and labour market showed signs of stabilisation, making a near term rate cut unlikely. While both the FOMC's "dot plot" and market consensus point to a gradual path toward a 3.0% to 3.4% terminal rate by year-end, policy markets continue to signal a data-dependent path that leaves scope for gradual easing later in the year if conditions allow. The Fed's policy outlook remains balanced between resilient growth and a cooling labour market. Meanwhile, President Trump has nominated Kevin Warsh to succeed Jerome Powell when his term expires on 15 May 2026, introduces the prospect of a policy mix combining potential rate cuts to support growth with a more aggressive balance-sheet reduction. Warsh is expected to favour interest rate cuts alongside efforts to shrink the Fed's $6.6 trillion balance sheet to contain long-term inflation risks. While easing US-China trade tensions provide some near-term relief, on-going tariff-related legal uncertainties, China's structural shift toward high-tech self-reliance, persistent concerns over US fiscal sustainability, and elevated geopolitical risks continue to weigh on the global outlook.

- Malaysia's 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 spending growth. Economic momentum is expected to be supported by resilient domestic demand and government reforms. For 2025, BNM projects GDP growth between 4.0-4.8%, underpinned by steady employment, wage growth, infrastructure projects and structural reforms, with headline inflation is forecasted to remain contained at 1.5-2.3%. At its January 2026 meeting, BNM maintained the OPR at 2.75%, reaffirming that the current policy stance remains appropriate and supportive of the economy amid price stability. The MPC reiterated a cautious, data-dependent approach, with the OPR expected to remain unchanged over the next 6-12 months unless the balance of risks to growth and inflation shifts materially, amid ongoing uncertainties from tariffs, geopolitical tensions and global financial market volatility.

- Three auctions are expected in the month of February 2026, reopening 10-yr MGS 7/35, reopening 20-yr MGII 5/45 and reopening 5-yr MGS 6/31. 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 (%)	
	31-Jan-26
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	2.82
3-mth BNM MN	2.84
3-mth KLIBOR	3.23
CP	
1-mth (P1)	3.44
3-mth (P1)	3.55

Source: Bloomberg/Bondstream
* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)					
	3yr	**5yr**	**7yr**	**10yr**	**15yr**
MGS	3.11	3.33	3.45	3.52	3.77
GII	3.16	3.30	3.42	3.57	3.82
Swap rate*	3.36	3.46	3.54	3.72	3.93
AAA	3.58	3.67	3.74	3.83	3.99
AA1	3.65	3.73	3.82	3.92	4.09
AA2	3.71	3.79	3.88	3.99	4.23
AA3	3.78	3.87	3.96	4.07	4.37
A1	4.54	4.83	5.06	5.35	5.85
A2	5.18	5.60	5.92	6.32	6.92
A3	5.82	6.36	6.75	7.25	7.99

Source: Bloomberg*/Bondstream

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