eastspring investments

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Market commentary

# Fixed income market review and outlook

June 2026

# Review

- The Federal Reserve ("Fed") kept the federal funds rate unchanged at 3.50% to 3.75% for the fourth consecutive meeting, amid persistent inflation and uncertainty over how quickly price pressures will ease. The US economy added just 57,000 jobs in June 2026, the weakest gain in four months and well below the 100k forecast and the downwardly revised 129k in May (from 172k), largely dragged down by soft leisure and hospitality hiring linked to the World Cup. The unemployment rate edged down to 4.2% (May: 4.3%), reflecting a shrinking labour force rather than stronger job creation. Inflation remained sticky, with the headline PCE Price Index rose to 4.1% y-o-y in May (Apr: 3.8%), the highest since April 2023, and core PCE Price Index at 3.4% (Apr: 3.3%), both well above the Fed's 2% target. Consumer sentiment improved modestly, with the University of Michigan Consumer Sentiment index rose to 49.5 (May: 44.8), on moderating gasoline prices. Activity indicators softened, with Manufacturing PMI eased to 53.3 (May: 54.0) and Service PMI slipped to 54.0 (May: 54.5), both still in expansion territory but at a softer pace.

- The Bank of England ("BoE")'s Bank Rate was unchanged at 3.75% at its June 2026 meeting, balancing easing UK inflation and a cooling labour market against volatile global energy prices tied to Middle East tensions, which risk fuelling second-round effects on wages and prices. Headline inflation held steady at 2.8% y-o-y in May (Apr: 2.8%), as softer housing, food, clothing and recreation prices offset a sharp rise in transport inflation driven by higher fuel, air fares and vehicle excise duty. Core inflation edged up to 2.6% (Apr: 2.5%). Activity indicators were mixed: retail sales jumped 3.2% in May (Apr: revised 0.1%), while industrial production fell 0.2% y-o-y in April (Mar: 0%), and manufacturing output increased by 1.0% y-o-y (Mar: 1.2%).

- The European Central Bank ("ECB") raised interest rate by 25 basis points (bps) at its June 2026 meeting, the first hike since 2023, bringing the deposit facility rate to 2.25%, the main refinancing rate to 2.40% and the marginal lending facility to 2.65%. The move aims to anchor inflation at its 2% target amid rising energy costs and persistent price risks stemming from the Iran conflict and oil shipment disruptions through the Strait of Hormuz. The ECB revised its inflation forecasts upward to 3.0% in 2026 (from 2.6%) and 2.3% in 2027 (from 2.0%), with core inflation projected at 2.5% for both 2026 and 2027, while trimming GDP growth projections to 0.8% in 2026 (from 0.9%) and 1.2% in 2027 (from 1.3%). On the data front, headline inflation eased to 2.8% y-o-y in June (May: 3.2%) and core inflation slowed to 2.4% (May: 2.6%). Activity indicators improved, with industrial production increased 0.3% y-o-y in April (Mar: -2.1%) and manufacturing production up 0.3% y-o-y (Mar: -2.4%), supported by a strong rebound in non-durable goods and a recovery in durable goods.

- The Reserve Bank of Australia kept its cash rate unchanged at 4.35% at its June 2026 meeting, as earlier tightening is still filtering through to slow activity, while inflation remains elevated on capacity pressures and Middle East-driven fuel costs, warranting a cautious wait-and-see stance. In Asia, several central banks tightened policy by 25bps in June to contain inflationary pressure, largely stemming from the Iran war-driven energy shock: Bank Indonesia raised its rate to 5.75% (also to support the rupiah and underpin growth), the Bank of Japan lifted its short-term rate to 1.0% to prevent the energy shock from fuelling broader inflation, and the Central Bank of Philippines hiked to 4.75% to rein in persistent price pressures. In contrast, the Bank of Thailand held its policy rate unchanged at 1.0%. Meanwhile, the Bank of Korea and Bank Negara Malaysia ("BNM") did not hold monetary policy committee meetings in June 2026.

- The People's Bank of China kept its key lending rates unchanged in June, holding the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, opting for caution amid Middle East conflict risks despite softening domestic growth. In USD terms, imports surged 27.4% y-o-y in May (Apr: 25.3%), supported by robust domestic demand and a low base effect, despite supply chain and energy cost pressures from the Middle East conflict. Exports jumped 19.4% y-o-y (Apr: 14.1%), driven by inventory front-loading ahead of Middle East-linked energy cost pressures and sustained demand for semiconductors and AI hardware. Retail sales swung to a 0.6% y-o-y decline in May (Apr: +0.2%), while industrial production grew 4.6% y-o-y (Apr: 4.1%). Fixed asset investment contracted by 4.1% y-o-y in Jan-May 2026 (Jan-Apr: -1.6%), weighed down by weak property investment. Excluding the property sector, fixed-asset investment declined 1.2%.

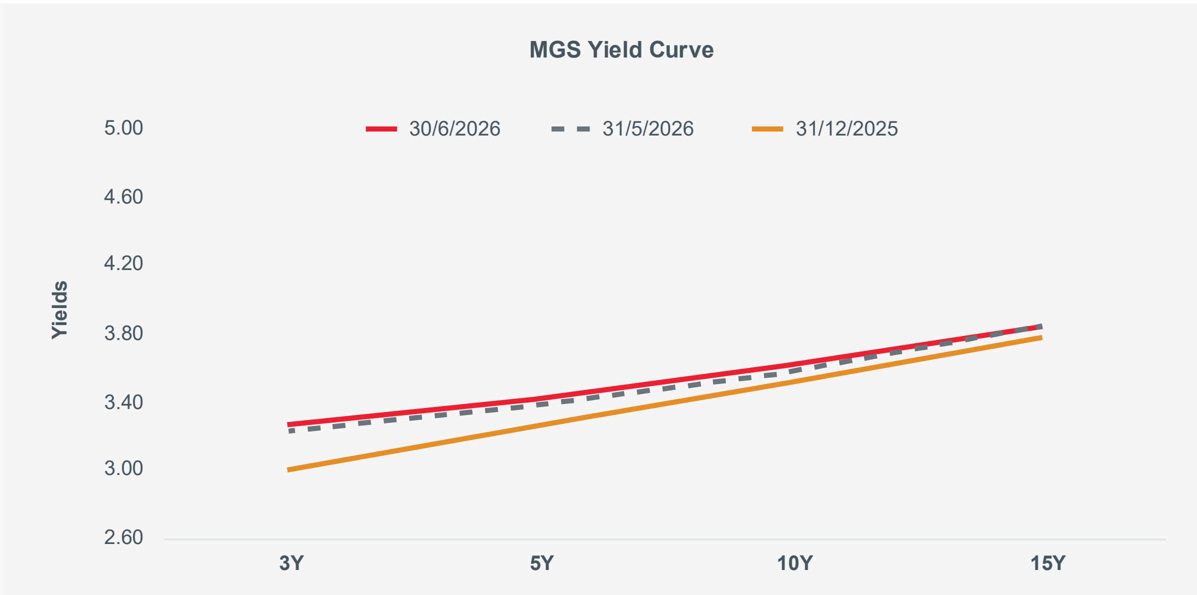
- In May, headline inflation edged up to 2.0% (Apr: 1.9%), driven by higher vegetable and electricity prices, while core inflation held steady at 2.0% (Apr: 2.0%). The unemployment rate ticked up to 3.0% in April (Mar: 2.9%). BNM's international reserves rose to US$132.6bn as of 30 June 2026 (15 May 2026: US$129.5bn), sufficient to finance 4.7 months of retained imports and cover 0.9x of short-term external debt. Meanwhile, the Ringgit weakened 2.9% m-o-m against the USD to 4.08 at end-June (end-May: 3.965), tracking broad USD strength.

- Four auctions were held in June 2026, reopening of 3Y MGS 3/29, reopening of 15Y MGII 7/40, reopening of 5Y MGS 6/31 and reopening of 20Y MGII 5/45. The auctions received an average bid-to-cover ratio of 2.689x.
    - RM5.0b reopening of 3Y MGS 3/29 averaging yield of 3.243% at a bid-to-cover ratio of 1.928x;
    - RM5.0b (including RM1.5b private placement) reopening of 15Y MGII 7/40 averaging yield of 3.898% at a bid-to-cover ratio of 3.410x;
    - RM5.0b reopening of 5Y MGS 6/31 averaging yield of 3.439% at a bid-to-cover ratio of 2.282x; and
    - RM5.0b (including RM2.0b private placement) reopening of 20Y MGII 5/45 averaging yield of 3.995% at a bid-to-cover ratio of 3.136x.

- In June, Malaysia's MGS and GII yields edged slightly higher, moving within a narrow range of 1 bp to 4 bps, tracking parallel movements in US Treasuries (UST). Foreign investors returned as net buyers, recording net inflows of RM4.9 billion (May: RM4.3 billion net outflow), bringing YTD net inflows to RM9.0 billion. Meanwhile, the 10Y UST yield closed at 4.44% as of end-June 2026 (May: 4.45%), staying elevated amid expectations of tighter monetary policy and a possible rate hike

| BENCHMARK | Dec 2025 Yield | May 2026 Yield | Jun 2026 Yield | MOM Change | YTD Change |
|---|---|---|---|---|---|
| 3-year MGS | 3.00% | 3.23% | 3.26% | 3 bps | 26 bps |
| 5-year MGS | 3.26% | 3.40% | 3.40% | 0 bp | 14 bps |
| 10-year MGS | 3.49% | 3.56% | 3.60% | 4 bps | 11 bps |
| 15-year MGS | 3.75% | 3.81% | 3.82% | 1 bp | 7 bps |

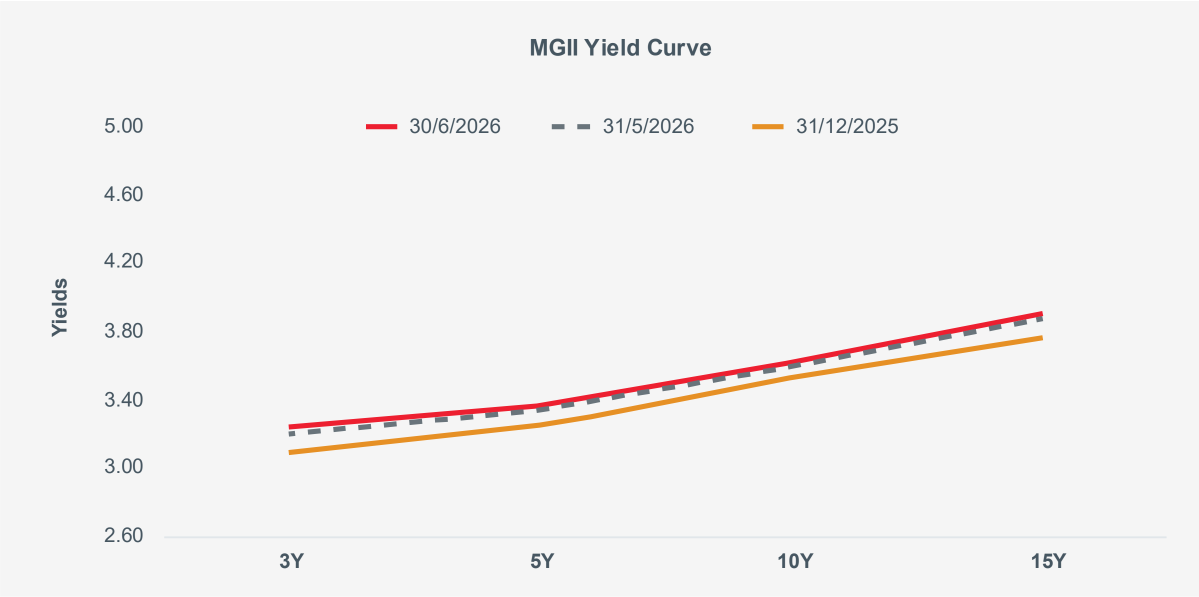
**Source:** Bloomberg




**Source:** Bloomberg

| BENCHMARK | Dec 2025 Yield | May 2026 Yield | Jun 2026 Yield | MOM Change | YTD Change |
|---|---|---|---|---|---|
| 3-year MGII | 3.09% | 3.23% | 3.24% | 2 bps | 15 bps |
| 5-year MGII | 3.25% | 3.33% | 3.35% | 2 bps | 11 bps |
| 10-year MGII | 3.52% | 3.60% | 3.61% | 1 bp | 10 bps |
| 15-year MGII | 3.74% | 3.87% | 3.89% | 2 bps | 15 bps |

**Source:** Bloomberg. *MGII3Y Index




**Source:** Bloomberg

# Outlook

- The Federal Reserve kept its target benchmark rate steady at 3.5% to 3.75% during its June 2026 meeting, which also marked the debut of newly appointed Chair Kevin Warsh, who succeeded Jerome Powell. Warsh led a unanimous decision to hold rates but introduced a notable shift in Fed communication by removing traditional forward guidance. He also established five task forces to review Federal Reserve Board policies and emphasized that future monetary decisions will be guided strictly by incoming data rather than a predetermined path. Following the meeting, markets repriced toward a more hawkish outlook, with investors now assigning a higher probability to at least one rate hike by late 2026. This shift reflects a combination of persistent economic pressures, the leadership transition and evolving policy priorities. Geopolitical tensions, particularly the conflict involving Iran, have triggered energy supply shocks, with rising oil and gas prices threatening to spill over into food and utilities and potentially fuelling a sustained inflationary spiral. Beyond the Fed outlook and Middle East tensions, additional risks include heightened tariff and trade frictions that could worsen supply chain disruptions, lingering US fiscal concerns, China's structural deflationary pressures, and rising geoeconomic fragmentation.

- BNM expects the economy to grow by 4% to 5% in 2026, driven by resilient domestic demand and continued export expansion despite external headwinds. Headline inflation is projected to average at 1.5% to 2.5%, with some upward pressure from elevated global energy costs, though the impact should be largely contained by targeted policy measures and stable domestic demand. The current monetary policy stance suggests that the OPR will likely be maintained at 2.75% in the near term, as BNM views the current level as appropriate for balancing price stability with sustainable growth, while remaining vigilant and data-dependent amid heightened external uncertainties.

- Three auctions are expected in the month of July 2026, reopening of 10-yr MGS 7/35, reopening of 3.5-yr MGII 10/29 and reopening of 15-yr MGS 1/41. 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 (%)**

| | 30 June 2026 |
|---|---|
| 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 | 2.91 |
| 3-mth BNM MN | 2.94 |
| 3-mth KLIBOR | 3.45 |
| | |
| **CP** | |
| 1-mth (P1) | 3.48 |
| 3-mth (P1) | 3.61 |

**Source:** Bloomberg/Bondstream
* Maybank2u.com.my

| Table 2: Indicative Bond Yields (%) | | | | | |
|---|---|---|---|---|---|
| | 3Yr | 5Yr | 7Yr | 10Yr | 15Yr |
| **MGS** | 3.28 | 3.40 | 3.55 | 3.64 | 3.84 |
| **GII** | 3.21 | 3.42 | 3.56 | 3.67 | 3.90 |
| **Swap rate*** | 3.47 | 3.53 | 3.62 | 3.75 | 3.97 |
| **AAA** | 3.65 | 3.76 | 3.83 | 3.95 | 4.10 |
| **AA1** | 3.68 | 3.80 | 3.87 | 3.99 | 4.15 |
| **AA2** | 3.74 | 3.86 | 3.93 | 4.05 | 4.25 |
| **AA3** | 3.80 | 3.91 | 3.99 | 4.11 | 4.35 |
| **A1** | 4.18 | 4.39 | 4.55 | 4.75 | 5.13 |
| **A2** | 4.86 | 5.23 | 5.51 | 5.86 | 6.39 |
| **A3** | 5.50 | 5.99 | 6.36 | 6.81 | 7.46 |

**Source:** Bloomberg*/Bondstream