

Market commentary

Fixed income market review and outlook

March 2026



Review

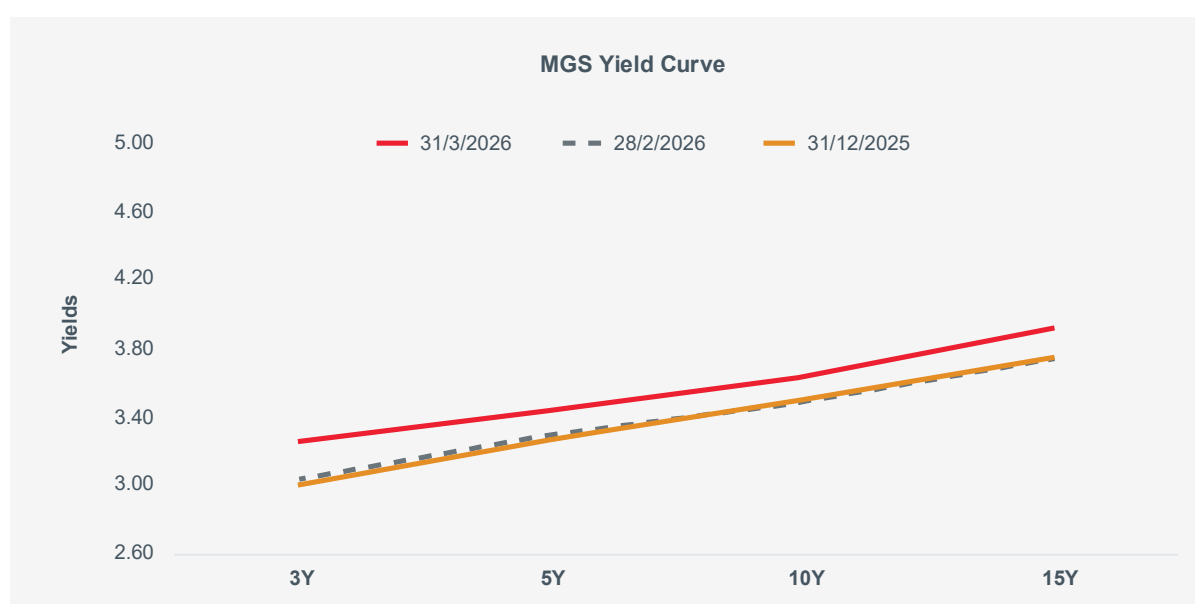
- ▶ The Federal Reserve (“Fed”) held interest rate steady at its first meeting of 2026 maintaining the federal funds rate at a range of 3.50%-3.75% to evaluate the impact of previous cuts amid solid economic growth, a stabilising labour market, and still-evaluated inflation. US nonfarm payrolls rose by just 50K in December (Nov: revised 56k) as gains in food
- ▶ The Fed kept the federal funds target range unchanged at 3.50% to 3.75% in the March meeting, citing persistent core inflation and new geopolitical risks. In March 2026, US nonfarm payrolls rose by 178k jobs (Feb: revised -133k), well above expectations of approximately 60k, driven by the resolution of labour strikes and weather-related normalisation. The unemployment rate edged down to 4.3% (Feb: 4.4%). Headline PCE Price Index eased to 2.8% in January 2026 (Dec: 2.9%), while core PCE Price Index rose to 3.1% (Dec: 3.0%), reflecting cooling goods prices alongside persistent services inflation. The University of Michigan Consumer Sentiment index fell sharply to 53.3 in March 2026 (Feb: 56.6), as short-term economic expectations weakened amid the Iran conflict and rising energy prices. Manufacturing PMI increased to 52.7 (Feb: 52.4), signalling continued expansion, while Service PMI declined to 54 (Feb: 56.1), indicating a moderation in service-sector activity.
- ▶ The Bank of England (“BoE”) kept its Bank Rate unchanged at 3.75% at the March 2026 meeting, balancing prior domestic disinflation against a Middle East-driven surge in energy prices that is expected to temporarily lift inflation while monitoring risks of second-round effects. Headline inflation held steady at 3% in February (Jan: 3.0%), driven by a rebound in clothing prices and firmer housing and utility costs, partially offset by slower fuel, food and services inflation, while core inflation stood at 3.2% (Jan: 3.1%). Retail sales rose by 2.5% y-o-y in February (Jan: 4.5%), supported by a surge in online shopping and strong performance in the health, beauty and art segments. Meanwhile, industrial production increased 0.4% in January (Dec: +0.5%), and manufacturing production rose by 1.3% y-o-y (Dec: 0.5%).
- ▶ The European Central Bank (“ECB”) kept its key policy rates unchanged at its March 2026 meeting, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. The ECB warned that the Middle East conflict has raised inflation risks while dampening growth, resulting in higher inflation forecasts, largely driven by energy prices, and lower GDP growth projections over the medium term. Headline inflation is projected at 2.6% in 2026, 2.0% in 2027 and 2.1% in 2028, while GDP growth is expected at 0.9%, 1.3%, and 1.4%, respectively. Headline Inflation rose to 2.5% in March (Feb: 1.9%) as energy costs soared 4.9% amid the conflict, while core inflation edged down to 2.3% (Feb: 2.4%). Meanwhile, industrial production contracted by 1.2% y-o-y in January (Dec: 1.2%), with manufacturing production declining by 2.2% y-o-y (Dec: +2.6%).
- ▶ The Reserve Bank of Australia raised its cash rate by 25 basis points (“bps”) to 4.1% at its March 2026 meeting, citing renewed inflationary pressures, modest labour market tightening, capacity constraints and heightened global uncertainty, while emphasising a data-dependent and flexible policy stance aimed at containing upside inflation risks. Meanwhile, the Central Bank of the Philippines, Bank Indonesia, Bank Negara Malaysia (“BNM”) and the Bank of Japan kept policy rates unchanged at 4.25%, 4.75%, 2.75% and 0.75%, respectively. The Bank of Thailand and Bank of South Korea did not hold monetary policy committee meetings in March 2026.
- ▶ The People's Bank of China kept its key lending rates unchanged in March, with the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively. This signals a preference for policy stability amid elevated inflation risks, Middle East-driven energy price pressures and a lower growth target, despite resilient early-year data as well as ongoing external and domestic headwinds. China's imports rose 19.8% YoY in USD terms in the combined Jan-Feb 2026 period (Dec: 5.7%), supported by solid domestic demand during the festive season. Exports jumped 21.8% YoY (Dec: 6.6%), reflecting firm global demand. Meanwhile, retail sales increased by 2.8% YoY (Dec: 0.9%), industrial production rose 6.3% YoY (Dec: 5.2%), and fixed asset investment expanded by 1.8% in the Jan-Feb 2026 period (2025: -3.8%).
- ▶ In February, headline and core inflation slowed to 1.4% (Jan: 1.6%) and 2% (Jan: 2.3%), respectively, mainly reflecting easing core inflation, including lower price pressures from streaming services and rental. The

unemployment rate remained unchanged at 2.9% in January. BNM's international reserves amounted to US\$126.6bn as of 31 March 2026 (27 Feb2026: US\$128.3bn). The reserves position is sufficient to finance 4.6 months of imports and is 0.9x of the total short-term external debt. Meanwhile, the Ringgit depreciated 3.9% m-o-m against USD, closing at 4.046 at end March 2026 (Feb: 3.893), driven by a sharp rebound in the USD, geopolitical-driven risk-off sentiment linked to the Middle East conflict and market expectations for US rate cuts being pushed out.

- ▶ Three auctions were held in March 2026, reopening of 15Y MGII 7/40, new issuance of 3Y MGS 3/29 and new issuance of 7Y MGII 3/33. The auctions received an average bid-to-cover ratio of 2.067x.
 - ▶ RM5.0b (including RM1.5b private placement) reopening of 15Y MGII 7/40 averaging yield of 3.895% at a bid-to-cover ratio of 2.295x;
 - ▶ RM5.0b new issuance of 3Y MGS 3/29 averaging yield of 3.237% at a bid-to-cover ratio of 2.218x; and
 - ▶ RM5.0b new issuance of 7Y MGII 3/33 averaging yield of 3.624% at a bid-to-cover ratio of 1.688x.
- ▶ In March, Malaysia's MGS and GII yields rose by 12 to 23 bps, tracking firmer global yields amid escalating US-Iran conflict that lifted energy prices and revived inflation concerns. Foreign fund flows rebounded sharply, with net inflows of RM6.1 billion (Feb: -RM2.5 billion), bringing YTD net inflows to RM4.6 billion. Meanwhile, the 10Y UST yield jumped to 4.3166% as at end-March (Feb: 3.9375%) on renewed inflation concerns and reinforcement a higher-for-longer rates narrative amid geopolitical risks.

BENCHMARK	Dec 2025 Yield	Feb 2026 Yield	Mar 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.03%	3.26%	23 bps	26 bps
5-year MGS	3.26%	3.31%	3.43%	12 bps	18 bps
10-year MGS	3.49%	3.48%	3.63%	14 bps	13 bps
15-year MGS	3.75%	3.75%	3.92%	17 bps	17 bps

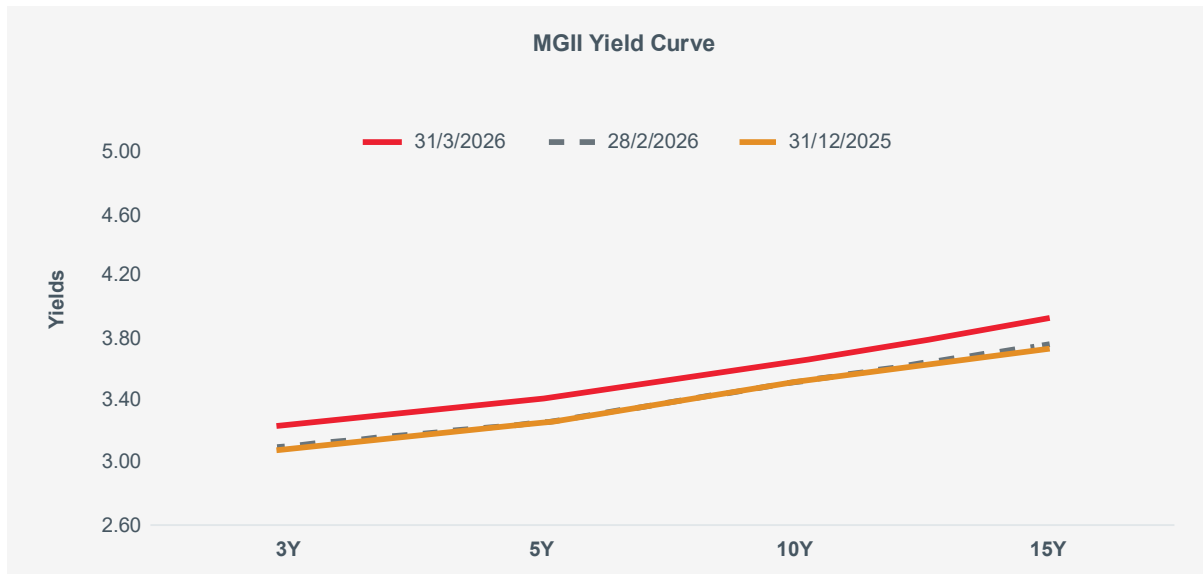
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Feb 2026 Yield	Mar 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.10%	3.23%	13 bps	13 bps
5-year MGII	3.25%	3.25%	3.40%	15 bps	15 bps
10-year MGII	3.52%	3.50%	3.63%	13 bps	12 bps
15-year MGII	3.74%	3.79%	3.93%	15 bps	19 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- ▶ Following the March 2026 FOMC meeting, the Fed held rates at 3.50% to 3.75%, acknowledged elevated inflation and Middle East-related uncertainties, and signalled that policy easing is likely delayed. Market pricing now implies at most one cut in late-2026, with some scenarios pricing no cuts this year, reinforcing a higher-for-longer stance. The escalation in the Middle East and the disruption to the Strait of Hormuz triggered a sharp rise in energy prices, keeping bond yields elevated and complicating the inflation outlook, thereby further reducing the likelihood of near-term easing. Nonetheless, the committee reiterated its data-dependent approach to the timing and extent of any further policy adjustments. Meanwhile, Kevin Warsh's nomination to succeed Chair Powell has reinforced expectations of a more focused on balance-sheet reduction, even if rate cuts eventually materialise. In parallel, the Supreme Court's February ruling striking down most reciprocal tariffs has reshaped US trade policy implementation, adding another layer of policy and geopolitical uncertainty to an already fragile global environment. Structural shifts in China, persistent US fiscal concerns, rising geoeconomic conflict, trade fragmentation and geopolitical tensions continue to weigh on the global outlook.
- ▶ Based on BNM's annual report 2025, Malaysia's economy is expected to expand by 4% to 5% in 2026, underpinned by firm domestic demand, robust labour market conditions, 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 remain 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 external uncertainties.
- ▶ Three auctions are expected in the month of April 2026, reopening 30-yr MGS 7/55, new issuance 3.5-yr MGII 10/29 and new issuance 20-yr MGS 04/46. 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 Mar 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	2.86%
3-mth BNM MN	2.90%
3-mth KLIBOR	3.37%
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	3.27	3.42	3.55	3.66	3.93
GII	3.29	3.47	3.62	3.69	3.94
Swap rate*	3.44	3.51	3.58	3.73	3.97
AAA	3.61	3.70	3.79	3.89	4.06
AA1	3.67	3.76	3.85	3.96	4.15
AA2	3.72	3.82	3.90	4.02	4.27
AA3	3.77	3.88	3.97	4.10	4.41
A1	4.56	4.84	5.07	5.38	5.88
A2	5.20	5.61	5.93	6.35	6.95
A3	5.84	6.37	6.76	7.28	8.02

Source: Bloomberg*/Bondstream

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