

Market commentary

Fixed income market review and outlook

May 2026



Review

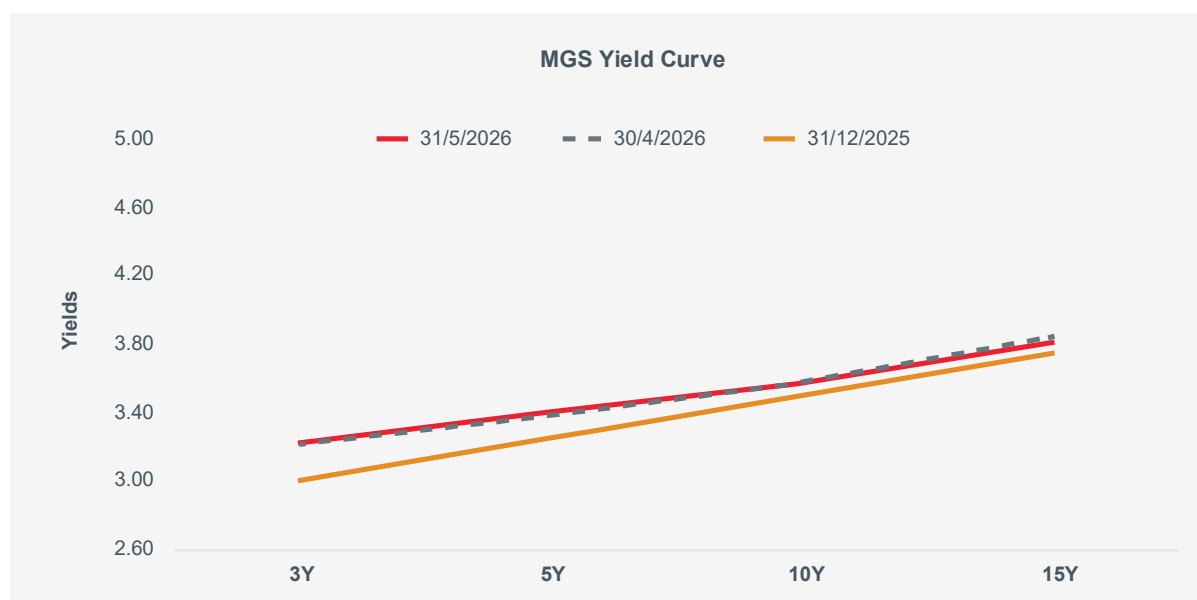
- ▶ The US economy added 172,000 jobs in May 2026 (Apr: +62k), significantly exceeding market expectations of 80,000 to 85,000 and signalling continued labour market resilience. The unemployment rate held steady 4.3% (Apr: 4.3%). Inflationary pressure remained elevated, with headline PCE Price Index rose to 3.8% y-o-y in April (Mar: 3.5%) and core PCE Price Index at 3.3% (Mar: 3.2%), both well above the Fed's 2% target. Consumer sentiment weakened further, with the University of Michigan Consumer Sentiment index falling to a record low of 44.8 in May (Apr: 49.8), reflecting persistent cost-of-living concerns and elevated inflation expectations. Meanwhile, economic activity strengthened across both sectors, with Manufacturing PMI rose to 54.0 in May (Apr: 52.7) on the back of improving demand and supply-side support, and Service PMI rose to 54.5 (Apr: 53.6), driven by robust demand and stronger business activity.
- ▶ The Bank of England ("BoE")'s Bank Rate was unchanged at 3.75%. Headline inflation moderated to 2.8% in April (Mar: 3.3%), mainly reflecting a sharp deceleration in housing and household service costs inflation following the implementation of the energy price cap on 1 April. Core inflation also eased to 2.5% (Mar: 3.1%). On the activity side, retail sales were flat in April (Mar: 1.7%), industrial production was stalled y-o-y in March (Feb: -0.4%), and manufacturing output rebounded modestly, increased by 1.2%y-o-y (Feb: -0.5%).
- ▶ The European Central Bank ("ECB")'s key policy rates were unchanged, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. Inflation remained slightly above the ECB's 2% target, with headline Inflation rose to 3.2% in May (Apr: 3.0%) and core inflation increased to 2.5% (Apr: 2.2%). Markets are expecting the ECB to raise its key rates by 25 basis points (bps) at the next meeting. Meanwhile, economy activity showed weakness, with industrial production decreased 2.1% y-o-y in March (Feb: -0.6%) and manufacturing production decreased 2.4% (Feb: -0.9%), pressured by higher energy costs linked to Middle East tensions, a sharp drop in consumer and immediate goods output, and ongoing supply chain disruptions.
- ▶ The Reserve Bank of Australia raised its cash rate by 25 bps to 4.35% at its May 2026 meeting, reflecting persistent inflationary pressures driven by domestic capacity constraints and higher energy and commodity prices amid geopolitical tensions, which are expected to keep inflation above target. In Asia, Bank Indonesia raised its policy rate by 50 bps to 5.25% at its May 2025 meeting to support the rupiah and strengthen external resilience amid currency weakness and global uncertainty, while pre-emptively containing imported inflation despite inflation remaining within target. Meanwhile, the Bank of Korea and Bank Negara Malaysia ("BNM") kept their policy rates unchanged at 2.5% and 2.75%, respectively. The Central Bank of Philippines, the Bank of Japan and the Bank of Thailand did not hold monetary policy committee meetings in May 2026.
- ▶ The People's Bank of China kept its key lending rates unchanged in May, with the 1-year and 5-year loan prime rates steady at 3.0% and 3.5%, respectively, reflecting a balance approach between supporting a slowing economy and managing rising inflation pressures alongside external uncertainties linked to the Middle East conflict. China's imports surged 25.3% y-o-y in USD terms in April (Mar: 27.8%), driven by firm domestic demand and front-loaded purchases amid supply chain disruptions and elevated global prices due to geopolitical tensions. Exports rebounded sharply by 14.1% y-o-y (Mar: 2.5%), as firms accelerated stockpiling of components amid concerns that the Iran conflict could further raise input costs. Meanwhile, domestic activity moderated, with retail sales rose just 0.2% y-o-y (Mar: 1.7%) and industrial production growth easing to 4.1% y-o-y (Mar: 5.7%). Fixed asset investment declined 1.6% y-o-y in January-April 2026 period due to continued weakness in the property sector. Excluding the property sector, fixed-asset investment rose 1.3%.
- ▶ Malaysia's economy expanded by 5.4% in the 1Q2026 (4Q 2026: 6.2%), driven by sustained domestic demand. In April, headline inflation edged up to 1.9% (Mar: 1.7%), while core inflation moderated slightly to 2.0% (Mar: 2.1%), partly reflecting higher retail fuel prices. The unemployment rate remained unchanged at 2.9% in March (Feb: 2.9%). BNM's international reserves stood at US\$129.5bn as of 15 May 2026 (15 April 2026: US\$128.8bn). 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 appreciated marginally by 0.2% m-o-m against USD to 3.965 at end-May (end-Apr: 3.972).

- ▶ Three auctions were held in May 2026, reopening of 10Y MGII 4/35, reopening of 7Y MSG 4/33 and reopening of 30Y MGII 1/56. The auctions received an average bid-to-cover ratio of 2.582x.
 - ▶ RM5.0b reopening of 10Y MGII 4/35 averaging yield of 3.60% at a bid-to-cover ratio of 2.868x;
 - ▶ RM5.0b reopening of 7Y MGS 4/33 averaging yield of 3.58% at a bid-to-cover ratio of 2.592x; and
 - ▶ RM5.0b (including RM2.0b private placement) reopening 30Y of MGII 1/56 averaging yield of 4.103% at a bid-to-cover ratio of 2.285x.

- ▶ In May, Malaysia's MGS and GII yields were mostly higher, moving between -2bps to + 4bps, driven by sustained persistent geopolitical uncertainties and elevated oil prices. Foreign investors sentiment turned negative, with net outflows of RM4.3 billion (Apr: RM3.8 billion), however YTD remained positive at RM4.12 billion. Meanwhile, the 10Y UST yield rose to 4.45% (Apr: 4.40%) as markets continued to price out rate cuts and increasingly factored in the possibility of a rate hike before end-2026.

BENCHMARK	Dec 2025 Yield	Apr 2026 Yield	May 2026 Yield	MOM Change	YTD Change
3-year MGS	3.00%	3.20%	3.23%	2 bps	23 bps
5-year MGS	3.26%	3.38%	3.40%	2 bps	14 bps
10-year MGS	3.49%	3.57%	3.56%	-1 bp	7 bps
15-year MGS	3.75%	3.82%	3.81%	-2 bps	6 bps

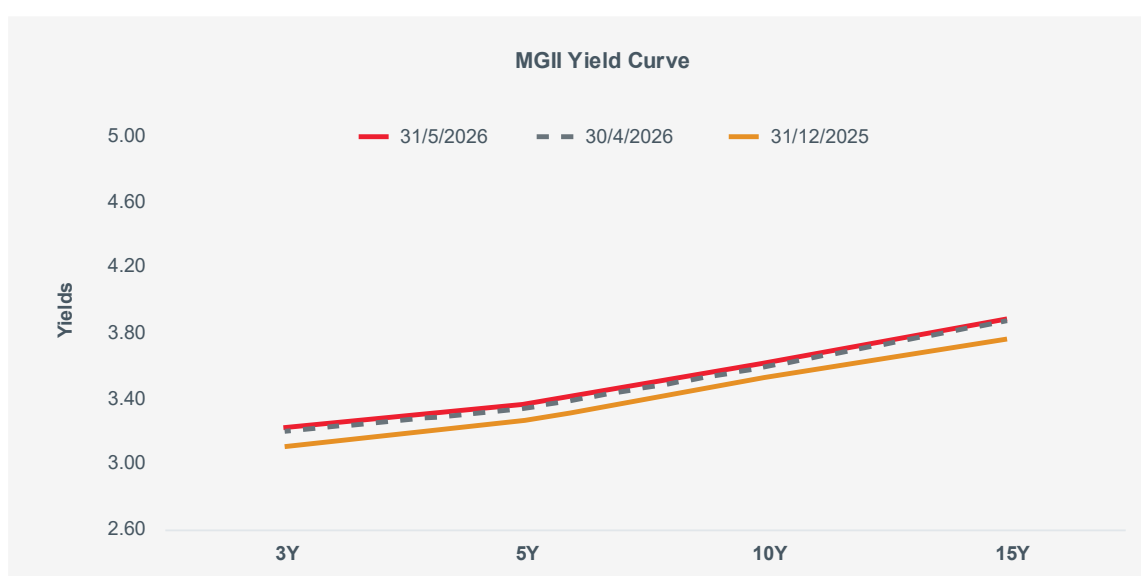
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2025 Yield	Apr 2026 Yield	May 2026 Yield	MOM Change	YTD Change
3-year MGII	3.09%	3.19%	3.23%	4 bps	13 bps
5-year MGII	3.25%	3.31%	3.33%	2 bps	8 bps
10-year MGII	3.52%	3.58%	3.60%	2 bps	8 bps
15-year MGII	3.74%	3.85%	3.87%	1 bp	13 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- ▶ Stronger-than-expected economic data have materially shifted market expectations, with the latest labour market strength reinforcing concerns that the economy remains overheated. This has driven fears that the Fed will maintain higher rates for longer or potentially resume tightening later in 2026. The April's FOMC minutes, the first under new Chair Kevin Warsh, were distinctly hawkish, highlighting upside risks to inflation amid escalating Middle East tensions, persistent demand strength and concerns over resilient employment and the risk of a wage-price spiral. Markets are closely watching for the Fed's inflation tolerance, any removal of "easing bias" language and indications of Warsh's policy approach stance. Notably, a majority of officials indicated that further policy firming could be warranted should inflation remain persistently above target, leading markets to largely price out rate cuts in 2026 and increasingly anticipate a potential hike. Beyond the evolving Fed policy outlook and geopolitical tensions in the Middle East, additional risks stem from heightened tariff and trade frictions, which could exacerbate supply chain disruptions and cost pressures, alongside sustained energy-driven inflation, 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, supported by steady 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 and commodity prices following the Middle East conflict, although the impact is likely to be contained by targeted policy measures and moderate demand conditions. The current monetary policy stance suggests that the OPR will likely remain at 2.75% in the near term, as BNM views it as appropriate in balancing price stability and sustainable growth, while remaining vigilant and data-dependent amid heightened external uncertainties.
- ▶ Four auctions are expected in the month of June 2026, reopening 3-yr MSG 3/29, reopening 15-yr MGII 7/40, reopening 5-yr MGS 6/31 and reopening 20-yr MGII 5/45. 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 May 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	2.90%
3-mth BNM MN	2.93%
3-mth KLIBOR	3.35%
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	3.25	3.40	3.53	3.61	3.84
GII	3.17	3.40	3.56	3.66	3.89
Swap rate*	3.47	3.53	3.62	3.75	3.97
AAA	3.62	3.73	3.82	3.92	4.09
AA1	3.68	3.79	3.88	3.99	4.18
AA2	3.73	3.84	3.94	4.06	4.28
AA3	3.79	3.90	4.00	4.13	4.39
A1	4.52	4.83	5.06	5.36	5.84
A2	5.17	5.60	5.92	6.33	6.91
A3	5.81	6.36	6.75	7.26	7.98

Source: Bloomberg*/Bondstream

Disclaimer

This document is prepared for information purposes only and may not be published, circulated, reproduced or distributed in whole or part, whether directly or indirectly, to any other person without the prior written consent of Eastspring Investments Berhad. It should not be construed as an offer or solicitation for the subscription, purchase or sale of any securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this document is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness. Any opinion or estimate contained in this document is subject to change without notice. Investors may wish to seek advice from a professional adviser before making a commitment to invest in units of any of our funds. Eastspring Investments Berhad and its related and affiliated corporations together with their respective directors and officers may have or may take positions in the securities mentioned in this document and may also perform or seek to perform other investment services for the corporations whose securities are mentioned in this document as well as other parties. The graphs or charts are included for illustrative purposes only. Past performance is not necessarily a guide to future performance. The predictions, projections, or forecast on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments Berhad or any funds managed by Eastspring Investments Berhad. The value and any income accruing to the investments, if any, may fall as well as rise. An investment is subject to investment risks, including the possible loss of the principal amount invested. Eastspring Investments is an ultimately wholly owned subsidiary of Prudential plc. Prudential plc, is incorporated and registered in England and Wales. Registered office: 5th Floor, 10 Old Bailey, London, EC4M 7NG, UK. Registered number 1397169. Prudential plc is a holding company, some of whose subsidiaries are authorized and regulated, as applicable, by the Hong Kong Insurance Authority and other regulatory authorities. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc, a company incorporated in the United Kingdom.