

Market Review and Outlook

February 2026

Market Review

MSCI World Index continued its upward momentum in February 2026, having gained +0.64% mom. In U.S., the Dow Jones Index rose +0.17% mom while the broader S&P500 declined -0.87% mom. Artificial Intelligence (AI) related companies have generally faced selling pressure amid concerns of return on investments. Meanwhile, the U.S. Supreme Court rejected the use of the International Economic Emergency Powers Act as the legal basis for April 2025's reciprocal tariffs. On the geopolitical front, a flashpoint suddenly erupted on 28 February 2026 when Israel and U.S. launched a joint attack on Iran. However, throughout the month under review, economic indicators remained benign with the U.S. Core Consumer Price Index (CPI) for January coming in within expectations at +2.5% yoy (Survey: +2.5% yoy, December: +2.6% yoy). Meanwhile, the S&P Global U.S. Composite Purchasing Managers Index (PMI) chalked an expansionary reading despite declining slightly to 51.9 in February 2026 from 52.3 in January 2026.

Europe's Stoxx 50 Index gained +3.20% mom, having outperformed the US, supported partly by stronger than expected macro data. The HCOB Eurozone Manufacturing PMI came in at 50.8 in February 2026 (50.8 in the previous month). The Eurozone unemployment rate was 6.2% in December 2025, down compared to 6.3% in November 2025 while Eurozone Core CPI came in at +2.2% YoY in January 2026, lower than expectations of +2.3% (December 25: +2.3%).

In China, Shanghai Composite index gained +1.09% mom in February, supported by gains in the industrial and utilities sectors. China's RatingDog China PMI Composite in February 2026 came in at 55.4 versus January 2026's 51.6. CPI came in at +1.3% yoy in February 2026, as compared to +0.2% yoy in the previous month (Survey: +0.9% yoy). Apart from that, the People's Bank of China kept its 1 – year and 5 – year Loan Prime Rate (LPR) unchanged at 3.00% and 3.50% respectively, signifying the central bank's steady stance on monetary policy.

During the month under review, Brent crude oil was up +2.5% mom to USD72.48/bbl. Of note that the escalation in Middle East tensions right at the end of the month triggered a spike in oil prices when markets reopened at the beginning of March. On the other hand, post a 3 – month high in January 2026, crude palm oil (CPO) price slipped -4.4% mom to RM4042/MT amid concerns of weakening export demand.

Focusing on the ASEAN front, the Stock Exchange of Thailand (SET) surged by +15.29% mom to close at 1,411.76 pts in February. The market was again driven by strong foreign inflows on the back of clearer political landscape following the 8 Feb 2026 election and a 25 bps surprised interest rate cut on 25 February by the Bank of Thailand to reinforce its economy which was afflicted by US tariff concerns. Foreign investors were net buyers of USD1.7bn in February and USD1.9bn in 2M26, respectively. Moving onto Indonesia, the Jakarta Composite Index declined -1.10% mom in February to 8,235. In terms of subsector performances, Metals and Multifinance were top performers while poultry and technology underperformed. Foreign investors were net buyers of equities to a tune of USD22mn in the month.

As for Malaysia, the FBMKLCI retraced slightly -1.40% mom in February, reversing earlier gains amid rising geopolitical tensions and U.S. tariff uncertainties. The index did reach a year – high weekly close of 1,753 points on 20 February, partly supported by an above expectation 4Q25 GDP growth of +6.3% (Survey: +5.7%). Ringgit Malaysia firmed up further, strengthening to RM3.89 against the U.S. Dollar from RM3.94 at end January.

Lastly, Singapore's Straits Times Index was up +1.83% mom, a decent performance given that January Non – Oil Domestic Exports (NODX) came in below expectations at +9.3% yoy, against survey of +12.0% YoY. Electronics (+56.1% yoy) exports were a bright spot though this was offset by a 3% yoy decline in non-electronics exports, with weakness in specialized machinery, food preparations and petrochemical sectors.

In February 2026, U.S. Treasury (UST) posted a strong rally with yields declining by 14 – 31 bps mom as weakening U.S. equities and indications of easing inflation boosted demand for UST. With the sharp sell – off in U.S. technology stocks during the month, the 10y UST yield ended the month 30 bps lower at YTD low of 3.94% as core CPI came in within expectations. The new 30y UST bond auction during the month recorded a strong bid – to – cover (BTC) ratio of 2.66x. It was among the highest on



record compared to an average of 2.36x for the past six new – issue auctions. Consensus expectations for Fed interest rate cuts in 2026 went higher with the Fed fund futures as of end – February 2026 now indicate total implied rate cuts of 61 bps by end of 2026 compared to 53 bps as of end – January 2026.

Locally, the Malaysian Government Securities (MGS) yields movement were mix at -3 to +4 bps mom whilst Malaysia's economy ended 2025 with full year growth at +5.2% (2024: +5.1%). Headline inflation remained steady at +1.6% yoy in January (Survey: +1.6% yoy, December: +1.6% yoy). Malaysia's Industrial Production Index (IPI) on the other hand expanded by 4.8% yoy in December (Survey: +4.5% yoy, November: +4.3% yoy), led by strong manufacturing output growth. Due to the shorter work week on the back of Chinese New Year festivities, the first auction of the month for MGS 7/35 drew a soft BTC of 1.603x, the lowest YTD. The remaining two auctions, however, drew strong demand with a BTC of 2.896x for the MGII 5/45 and 2.921x for the MGS 6/31.

Foreign funds turned net sellers in February with net outflows of RM2.5bn (January: net inflows of RM1.0bn). The foreign share of both MGS and MGS+MGII declined to 33.6% (January: 34.1%) and 21.2% (January: 21.5%) respectively. Malaysia's foreign reserves expanded by USD1.4bn to USD128.3bn as of end – February (January: USD126.9bn) despite the outflows.

Market Outlook

Looking ahead, markets are expected to remain dynamic. Taking centre stage would be the escalating conflict in Iran which will be closely watched, as it has introduced fresh uncertainties across global supply chains, energy market and risk sentiment. Other than that, investors would continue to monitor global monetary policy developments, shifts in trade dynamics, and evolving geopolitical conditions. Domestically, attention will focus on the implementation of national priorities such as Belanjawan initiatives, the National Energy Transition Roadmap, and the 13th Malaysia Plan (13MP), alongside trends in exports, tourism, and investments.

At this juncture, we are adopting a constructive yet cautious stance on our market's prospects given the volatility permeating markets and would continue investing in fundamentally good long – term investments. As always, we will seek opportunities to engage in trading activities to capitalise on any prevailing market volatility. Nevertheless, we will keep constant watch over any potential geopolitical and other risks that may necessitate the gravitation towards new strategies to adjust to the ever-volatile market conditions.

Based on the recent Federal Open Market Committee (FOMC) statement, indicators suggest that whilst U.S. economic activity had been expanding at a solid pace and the unemployment rate has shown signs of stabilisation, job gains have remained somewhat muted. In any case, the FOMC remains attentive to the risks to both sides of its dual mandate and committed to supporting maximum employment and returning inflation to its 2% objective. Markets are currently anticipating the FOMC to pause at the next meeting to digest the impact of tariff – induced inflation and data distortions following the government shutdown. While some easing is expected later in 2026, the pace of rate cuts is likely to be slower than previously hoped.

Following a better – than – expected growth performance in 2025, Bank Negara Malaysia (BNM) expects Malaysia's growth momentum to continue in 2026, anchored by resilient domestic demand. The central bank also cautioned that the growth outlook remains subject to uncertainties surrounding global developments, including the recent conflict in the Middle East. Downside risks remain from slower global trade and lower – than – expected commodity production. Meanwhile, upside potential to growth could arise from a better global growth outlook, stronger demand for electrical and electronics (E&E) goods, and more robust tourism activity. While core inflation in 2026 is expected to remain stable and close to its long – term average, BNM would continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation. We would selectively accumulate bonds at reasonable valuations while prioritizing good quality names.

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