Fixed Income Market Outlook 2026

Global Markets

February 2026

Key Themes and Outlook for 2026

- **Uncertain growth outlook** – growth outperformed in 2025; stability and growth trajectory of the US and world economy remains fragile and uncertain

- **Monetary policy divergence –** major central banks on differing paths

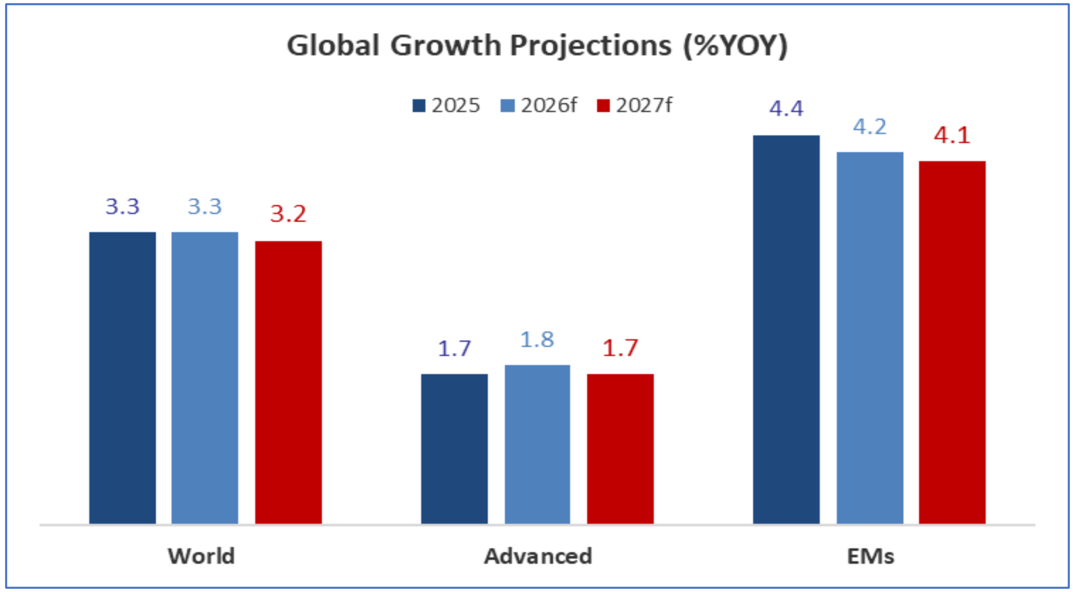
- **Change of guard at the Fed and Fed independence –** missteps could undermine the credibility of the Fed and the greenback at large

- **Debt/Fiscal sustainability concerns –** stretched government finances of major economies; little room for maneuvering should economies head south

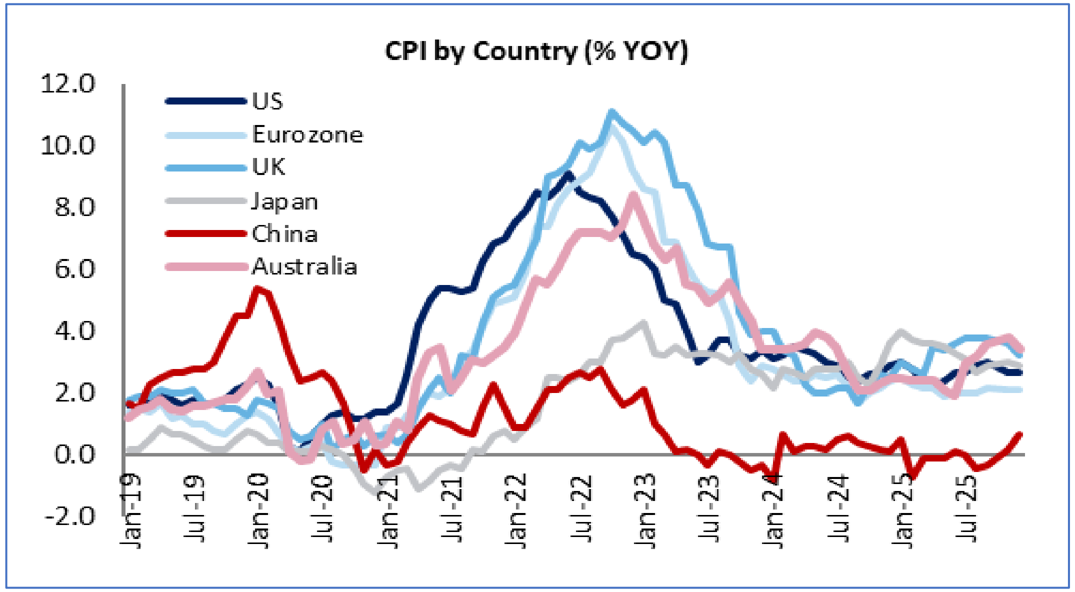
- **Geopolitical risks abound** – expansion of regional conflicts across the globe worrisome

- **Record high commodity prices –** gold, silver and other metals continue to scale new highs

Global Growth and Inflation Outlook



Source: IMF WEO Jan-26

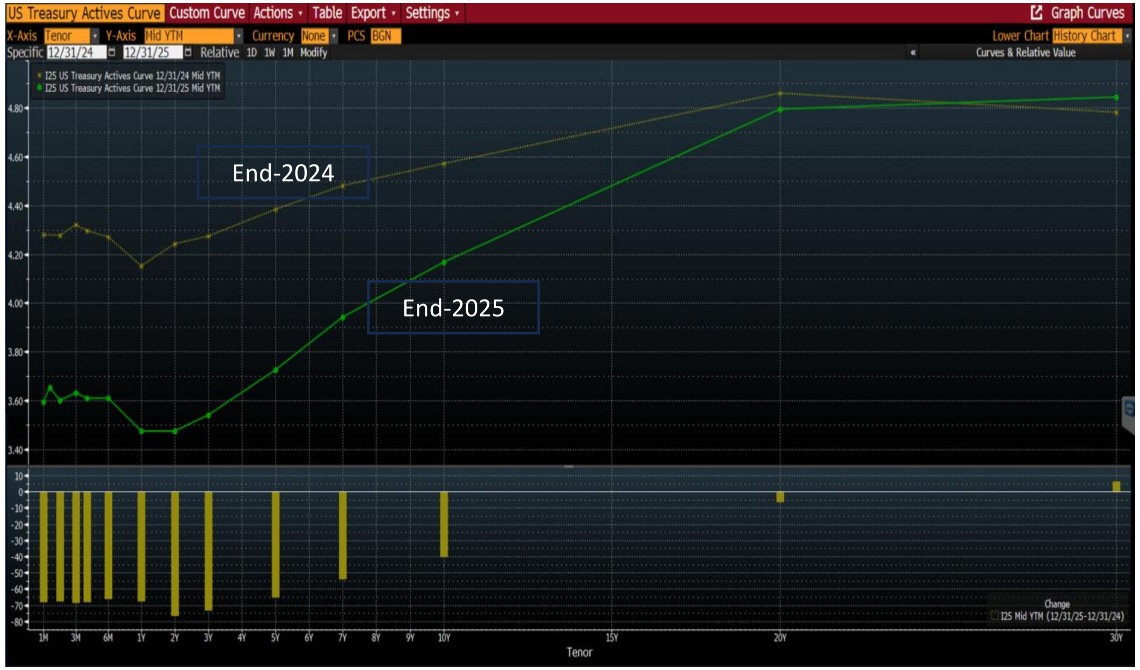


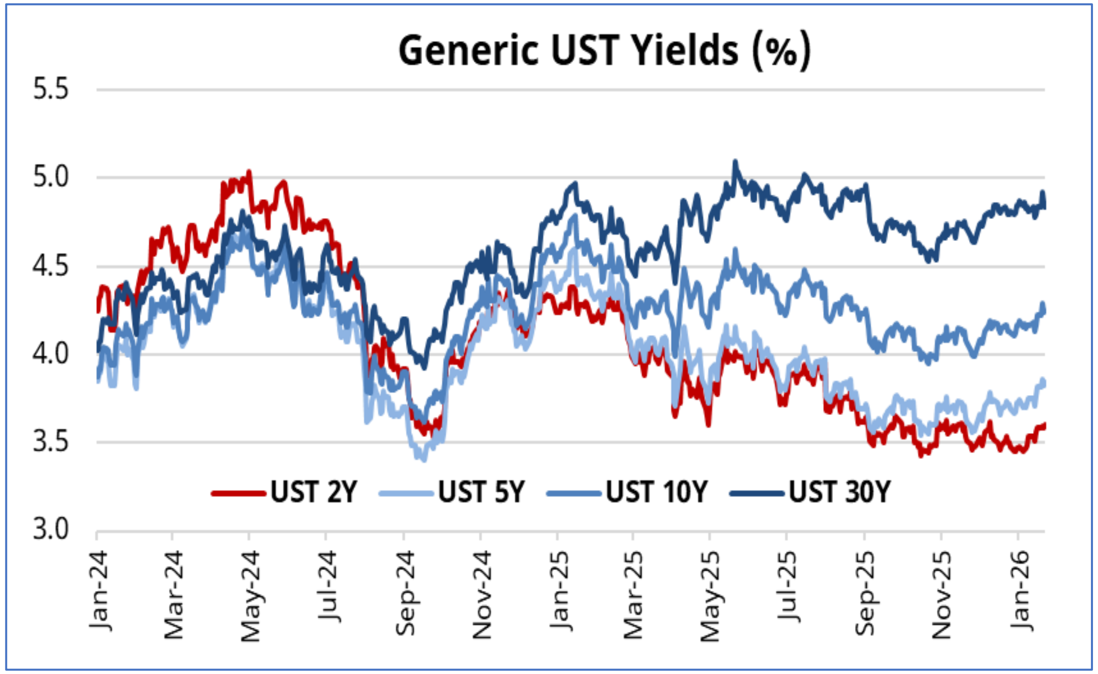
Source: Bloomberg

- Global growth in 2025 outperformed expectations, both in advanced economies and the emerging markets, with the anticipated fallout from the tariff wars that defined the year yet to materialize in the growth numbers in any significant manner.
- As we enter into 2026, a bumpier road lies ahead with a full year of tariffs expected to weigh more significantly on trade, with the chance of yet more tariffs to come. The US economy remains on good footing, but the weakening of the labour market there is likely to cause a drag on consumer spending. The rising geopolitical temperature across many parts of the globe adds further to the already uncertain growth prospects.

- Inflation in 2025 remained surprisingly well- behaved, with the numerous new tariffs not making their way through to consumer prices in any significant manner, allowing major central banks, with the exception of Japan, to ease policy during the year.
- Looking ahead in 2026, now that the tariff drama has stabilized somewhat and there is more certainty with regard to tariff rates, it is possible that we see more of a pass through from producers. Energy prices have remained well-contained thus far despite the rise in geopolitical tensions, and may help to keep a lid on price pressures.

US Fixed Income – UST yields declined mostly in 2025 as Fed eased policy further

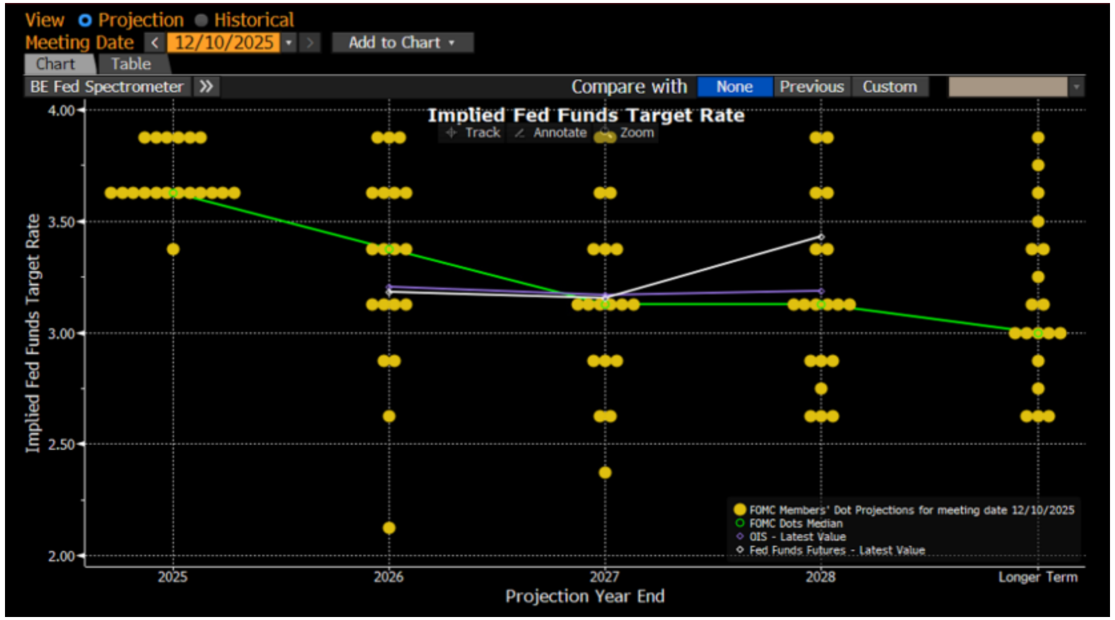


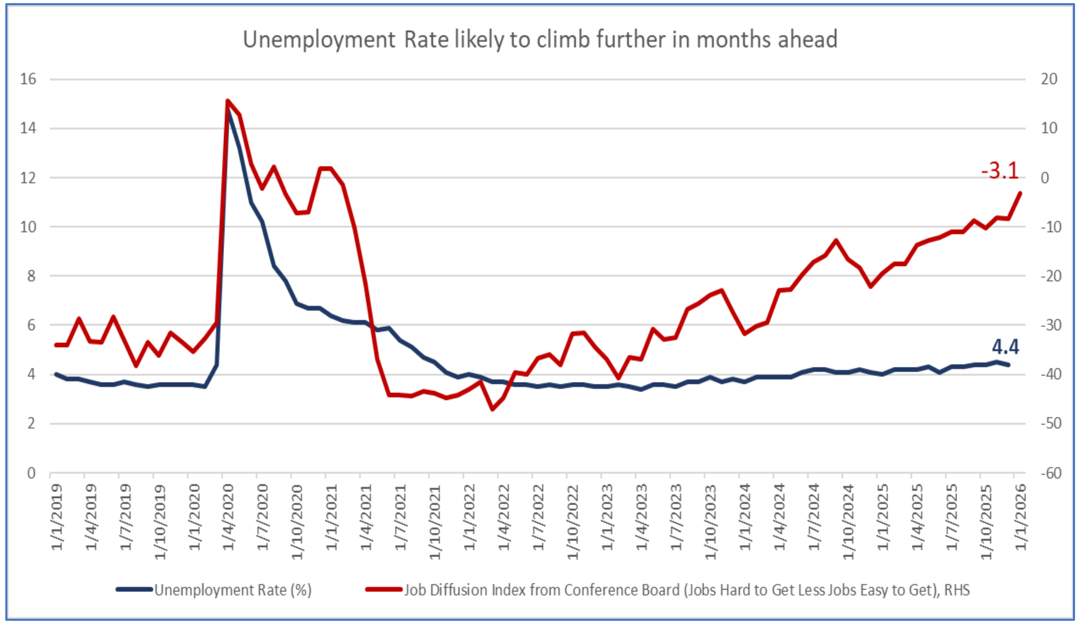


Source: Bloomberg, HLBB Global Markets Research

- It was a bullish year for Treasuries mostly, with yields ending 2025 lower save for the longer-dated end of the maturity spectrum, with the 10yr UST trading within a 3.95% to 4.79% range.
- The initial part of the year saw yields collapse with the US announcing reciprocal tariffs on its trading partners, including punitive rates on China in a tit-for-tat after they retaliated and raised tariffs on US goods. Negotiations led to a postponement and finally some paring back of the tariffs as the Fed held their ground on policy given fears of the impact of the planned tariffs on inflation.
- The second half of the year saw the US labour market cooling with the unemployment rate edging higher, while the economy held up and inflation remain surprisingly well contained. The Fed began to ease policy again in September and delivered 75bps of easing for 2025 as a whole, even as the longest running federal government shutdown in history took shape at the start of the new fiscal year in October and resulted in limited visibility with key economic indicators for the fourth quarter being postponed.
- 10yr USTs ended the year 40bps lower at 4.17%, with the yield curve bull-steepening as the front-end outperformed for the year as the Fed eased policy further, with 2s10s closing the year at +69bps from +33bps at the end of 2024.

US Fixed Income – Lower bond yields and steeper curve seen as new Fed Chair looms

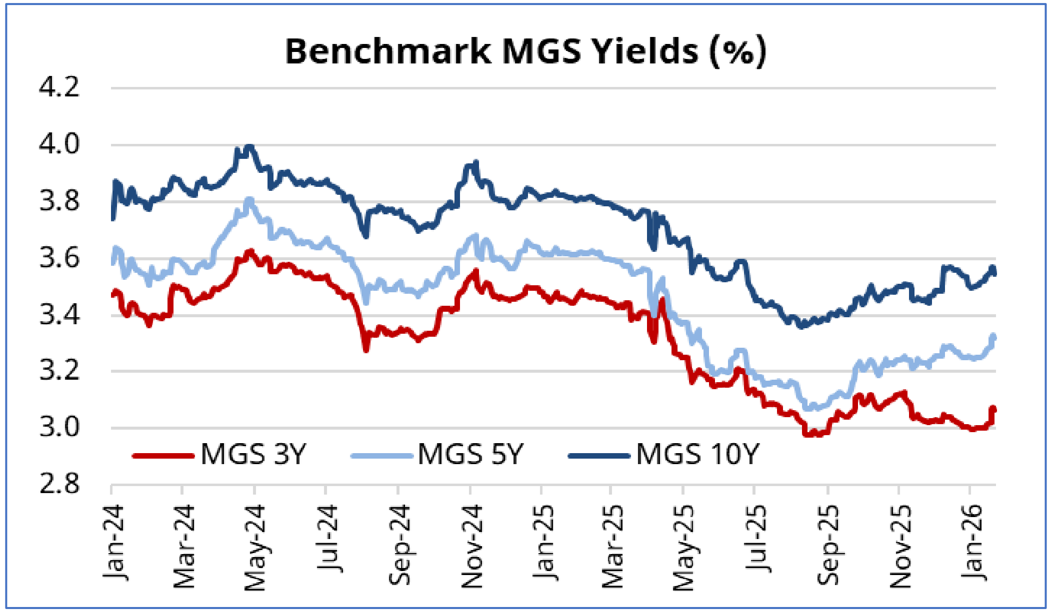




Source: Bloomberg, HLBB Global Markets Research

- We think that yields will continue to head south in 2026, with the easing of the labour market likely to continue and begin to translate into weakness in consumer spending as the year goes by.
- The change of guard at the Fed, with Jerome Powell's term as Fed Chair ending in May, will likely result in the appointment of a new Chair that is dovish, but the task of lowering rates further will not be a straightforward affair, with the Fed members rather divided between the need for further cuts to support the labour market and economy, and the need for vigilance against a rise in price pressures.
- Rising geopolitical tensions across the globe are likely to continue to be a theme for the coming year, with the unprecedented US action in Venezuela and rhetoric over Greenland at the turn of the year adding further to the uncertainty. The administration's attempts to undermine the Fed and pressure them into lowering rates more aggressively could have consequences for the USD and the longer end of the UST curve.
- **We are bullish on USTs for the year and see three eventual 25bps cuts by the Fed for the year as economic conditions moderate, versus one cut indicated in the latest dot plot and the two 25bps reductions priced in the futures markets. We see a decline in the 10yr UST yield towards 3.75% and a steepening in the yield curve for the year.**

Malaysia Fixed Income – 2025 saw yields head lower amidst stable corporate spreads



Source: BNM, Bloomberg, HLBB Global Markets Research

- MGS/GII yields headed south in 2025, closing between 19 to 47bps lower for the year amidst a year of tariff-related uncertainty and eventual better than expected growth with inflation remaining well contained.
- BNM undertook a single 25bps reduction in its OPR in July, which was characterized as an insurance cut given the long period of uncertainty as the reciprocal tariff drama played out.
- The government curves steepened during the year, with the shorter dated maturities outperforming the longer end of the curve, amidst a backdrop of the rate cut supporting the front end and anxiety over longer-dated government bonds globally on debt/fiscal concerns.
- Corporate spreads were roughly stable during the year, with 10yr AAA spreads widening slightly from 27 to 28bps, and 10Y AA spreads were stable at 44bps, with the larger supply for the year (GG and Corp/Sukuk supply rose to RM174.4bn versus the RM125.5bn in 2024) easily absorbed by the continued solid demand for higher quality paper.

Malaysia Fixed Income – Bullish bias amidst moderate growth and contained inflation

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2024	2025E	2026F
Revenue	324.6	334.1	343.1
Operating Expenditure	321.5	332.2	338.2
Current balance Surplus/(Deficit)	3.1	2.0	4.9
Gross Development Expenditure	84.0	80.0	81.0
less: loan recoverables	1.7	1.3	1.5
Net Development Expenditure	82.3	78.7	79.5
Overall surplus/(deficit)	(79.2)	(76.7)	(74.6)
Fiscal Deficit as a % of GDP	4.1	3.8	3.5

Source: MOF, HLBB Global Markets Research

Bond Issuance Forecast	2024	2025	2026E
	(figures in RM 'billion)		
Federal Govt Deficit	79.2	76.7	74.6
MGS/GII Maturities	93.0	83.5	108.7
Non-MYR Maturities	0.0	4.8	4.2
Non-MYR Issuance	0.0	0.0	-4.2
Reduction in Outstanding MTB/MITB	5.0	5.0	1.7
Gross Supply (MGS+GII only)	**175.0**	**168.5**	**185.0**

- We are slightly bullish on Malaysian government bonds in 2026.
- Economic growth has been outperforming expectations, with advanced 2025 annual GDP coming in at 4.9%, with the anticipated weakness in the external sector in the second half of the year not materializing. Going forward, we expect growth to moderate slightly but remain healthy (2026: 4.0 - 4.5%), with inflation rising slightly but remaining manageable (2026: 2.0%)
- BNM maintained their neutral bias at the most recent MPC on Jan 22 and we expect them to continue to hold rates steady throughout 2026.
- The fiscal situation is expected to continue to register gradual improvement with the budget deficit projected by the government to come down to 3.5% of GDP this year from the expected 3.8% of GDP in 2025
- Although the fiscal deficit is expected to be lower at RM74.6bn in 2026 (2025e: RM76.7bn), gross MGS and GII bond supply is expected to increase to RM185.0bn (2025: RM168.5bn) due to a larger amount of bond maturities in 2026
- **Expect the 10Y MGS yield declining from 3.49% at the close of 2025 to around 3.30% by the end of 2026**
- **After a rather stable 2025, corporate spreads are expected to widen marginally in 2026 as the market continues to digest the increased supply in 2H25**

Govt bond supply – increased gross issuance in 2026; shorter-dated issuances rise

MGS/GII issuance pipeline in 2026

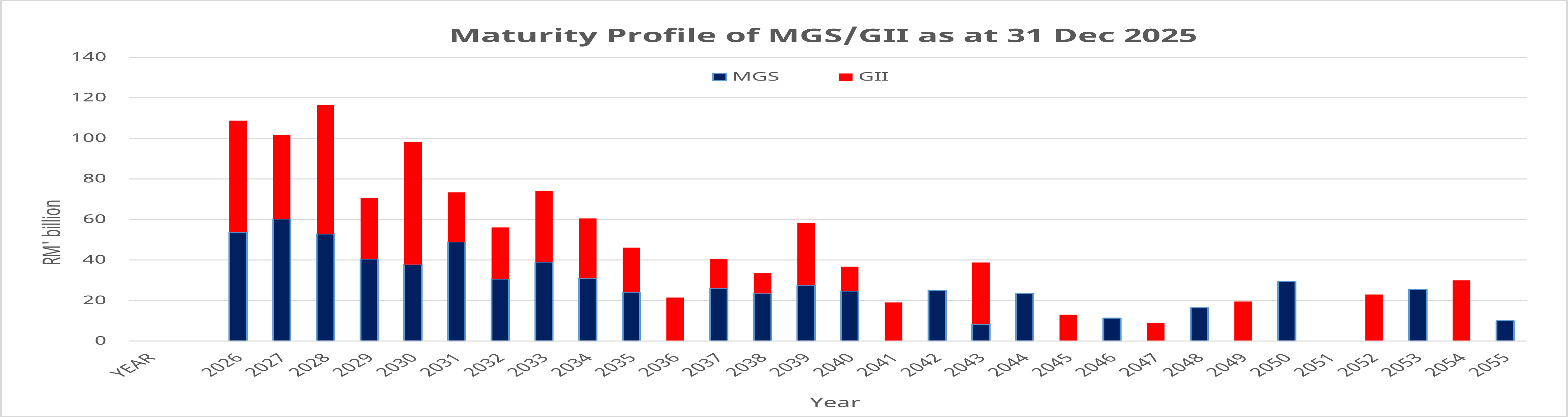
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement
1	5-yr Reopening of MGII 08/30	5	Jan	Q1	5,000	
2	15-yr New Issue of MGS (Mat on 01/41)	15	Jan	Q1	5,000	*
3	30-yr New Issue of MGII (Mat on 01/56)	30	Jan	Q1	5,000	*
4	10-yr Reopening of MGS 07/35	10	Feb	Q1	5,000	
5	20-yr Reopening of MGII 5/45	20	Feb	Q1	5,000	*
6	5-yr Reopening of MGS 06/31	5	Feb	Q1	5,000	
7	15-yr Reopening of MGII 7/40	15	Mar	Q1	5,000	*
8	3-yr New Issue of MGS (Mat on 03/29)	3	Mar	Q1	5,000	
9	7-yr New Issue of MGII (Mat on 3/33)	7	Mar	Q1	5,000	
10	30-yr Reopening of MGS 07/55	30	Apr	Q2	5,000	*
11	3.5-yr New Issue of MGII (Mat on 10/29)	3	Apr	Q2	5,000	
12	20-yr New Issue of MGS (Mat on 04/46)	20	Apr	Q2	5,000	*
13	10-yr Reopening of MGII 4/35	10	May	Q2	5,000	
14	7-yr Reopening of MGS 4/33	7	May	Q2	5,000	
15	30-yr Reopening of MGII 1/56	30	May	Q2	5,000	*
16	3-yr Reopening of MGS 3/29	3	Jun	Q2	5,000	
17	15-yr Reopening of MGII 7/40	15	Jun	Q2	5,000	*
18	5-yr Reopening of MGS 6/31	5	Jun	Q2	5,000	
19	20-yr Reopening of MGII 5/45	20	Jun	Q2	5,000	*
20	10-yr Reopening of MGS 07/35	10	Jul	Q3	5,000	
21	3.5-yr Reopening of MGII 10/29	3	Jul	Q3	5,000	
22	15-yr Reopening of MGS 01/41	15	Jul	Q3	5,000	*
23	5-yr Reopening of MGII 10/31	5	Aug	Q3	5,000	
24	30-yr Reopening of MGS 7/55	30	Aug	Q3	5,000	*
25	7-yr Reopening of MGII 3/33	7	Aug	Q3	5,000	
26	20-yr Reopening of MGS 4/46	20	Aug	Q3	5,000	*
27	10-yr Reopening of MGII 7/36	10	Sep	Q3	5,000	
28	7-yr Reopening of MGS 04/33	7	Sep	Q3	5,000	
29	30-yr Reopening of MGII 1/56	30	Sep	Q3	5,000	*
30	3.5-yr Reopening of MGII 10/29	3	Oct	Q4	5,000	
31	15-yr Reopening of MGS 1/41	15	Oct	Q4	5,000	*
32	20-yr Reopening of MGII 5/45	20	Oct	Q4	5,000	*
33	10-yr New Issue of MGS (Mat on 10/36)	10	Oct	Q4	5,000	
34	15-yr Reopening of MGII 7/40	15	Nov	Q4	5,000	*
35	3-yr Reopening of MGS 3/29	3	Nov	Q4	5,000	
36	10-yr Reopening of MGII 7/36	10	Nov	Q4	5,000	
37	30-yr Reopening of MGS 07/55	30	Dec	Q4	5,000	*
	Gross MGS/GII supply in 2026				185,000	

Source: BNM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	**2025**	**2026**	**Change**
3Y	4	6	2
5Y	4	4	0
7Y	4	4	0
10Y	6	6	0
15Y	6	6	0
20Y	6	5	-1
30Y	6	6	0
Total	**36**	**37**	**0**

- **Overall, we expect an increase in government bond supply this year to RM185.0bn** from RM168.5bn in 2025, which is mainly due to the larger maturities coming due in 2026.
- We project quarterly issuances to be rather uniform in the first three quarters before tapering off in the final quarter of the year.
- The 3Y sector may see some underperformance this year, given the increase in the number of planned auctions in that tenor, with the steeper curve over the past year likely to have prompted the switch.
- The supply dynamics could result in a marginal flattening bias for the domestic government bond yield curves.

Maturity profile of MGS/GII for 2026 and beyond

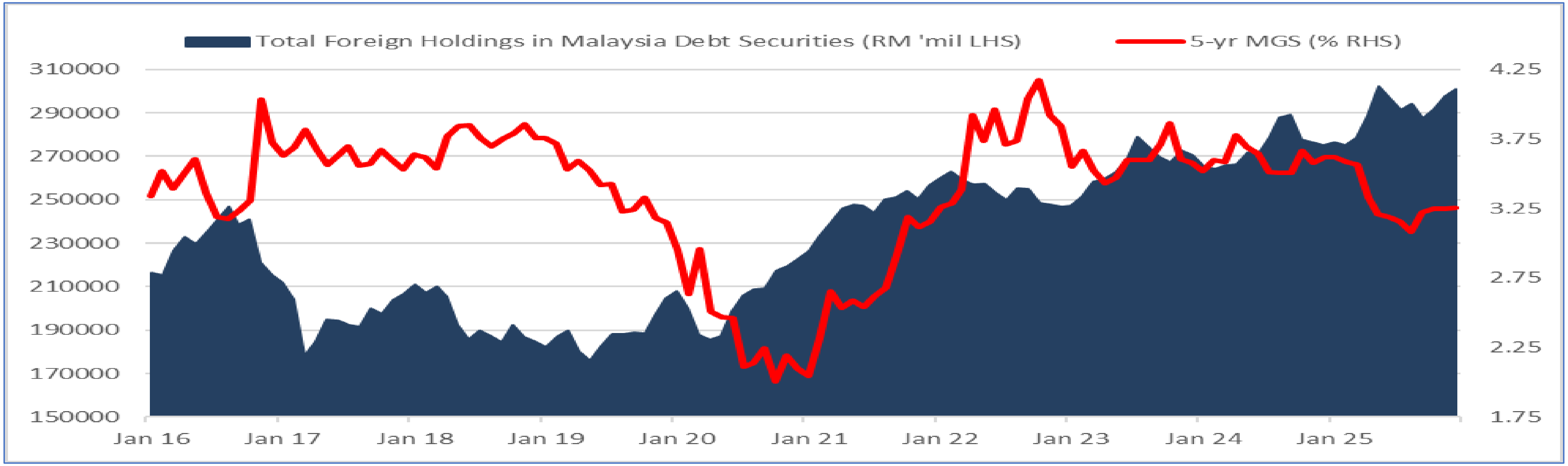


MGS/GII maturities for 2026				
Quarter	**2026**	**Stock**	**Monthly Maturity (RM'm)**	**Quarterly Maturity (RM'm)**
	JAN			
1	FEB			
	MAR	GII 3/26	25,500	25,500
	APR	MGS 4/26	8,434	
2	MAY			
	JUN			8,434
	JUL	MGS 7/26	20,019	
3	AUG			
	SEP	MGS 9/26 and GII 9/26	31,810	51,829
	OCT			
4	NOV	MGS 11/26	22,980	
	DEC			22,980
	Total		**108,743**	**108,743**

Source: Bloomberg, BPAM, HLBB Global Markets Research

- Government bond maturities for 2026 see a marked increase to RM108.7bn (2025: RM83.5bn)
- The fiscal deficit picture is expected to continue to improve gradually with 2026 deficit expected at RM74.6bn (2025e: RM76.7bn)
- The supply dynamics look to be brighter in the second half of the year as the bulk of the maturities take place between July through November
- The maturity of the USD1bn of MALAYS 26 in April is expected to be refinanced with a new non-MYR issuance given the strength of the domestic currency and tight spread environment

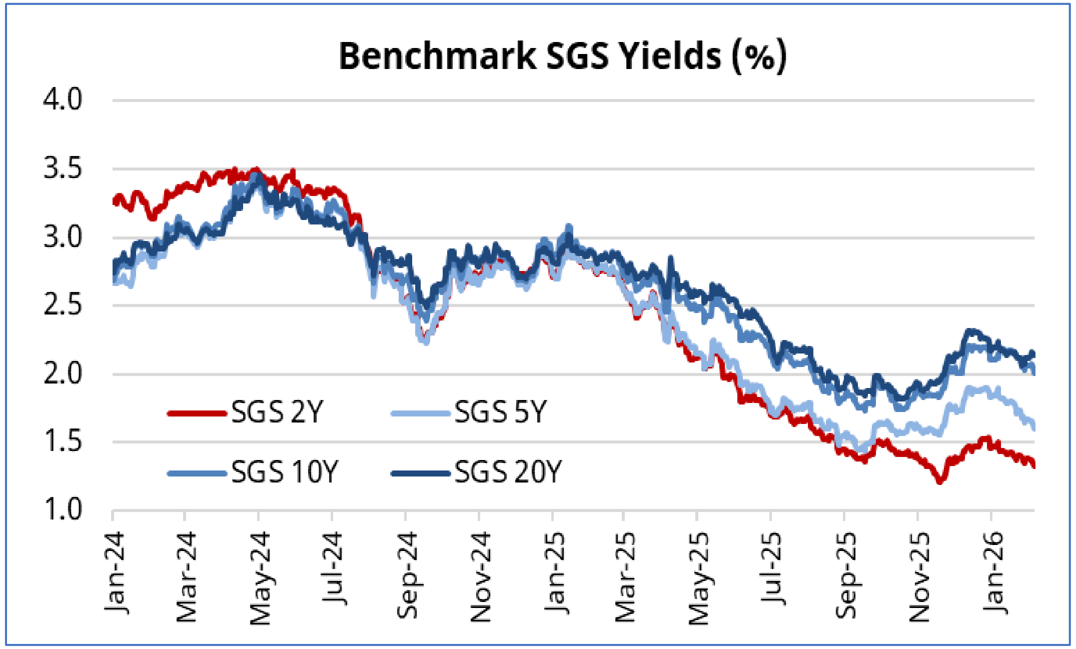
Foreign holdings of MYR Debt Securities rose in 2025, driven by MGS and Corp Bonds



Source: BNM, HLBB Global Markets Research

- 2025 saw a rise of RM25.6bn in foreign holdings of MYR debt securities with RM300.8bn held as at year end (2024: RM275.2bn), driven by rises in MGS and Corporate bonds holdings, with holdings of bills seeing a reduction for the year:
    - MGS holdings: RM225.9bn (2024: RM204.7bn)
    - GII holdings: RM52.0bn (2024: RM50.3bn)
    - Corporate bonds holdings: RM13.9bn (2024: RM8.4bn)
    - Sukuk holdings: RM7.7bn (2024: RM6.6bn)
    - Short-term bills: RM1.3bn (2024: RM5.3bn)
- In terms of share, foreign holdings of government bonds showed a mixed picture, rising to 33.7% (2024: 32.3%) of overall outstanding issuances of RM669.9bn for MGS, and edging lower to 8.4% (2024: 8.8%) of overall outstanding issuances of GII of RM619.8bn as at end 2025

Singapore Fixed Income – Marginally constructive in 2026



Source: Bloomberg, HLBB Global Markets Research

- We are marginally constructive for SGS in 2026, after the solid bond market performance seen in 2025, where SGS outperformed US Treasuries, led by the shorter dated maturities.
- Economic conditions in 2026 are expected to moderate after the unexpectedly strong pace of growth seen in 2025, with the external sector likely to pull back after the massive amount of front-loading seen in 2025, while domestic growth in expected to continue to hold up.
- Inflation is likely to have bottomed in 2H25, and should head higher for the year.
- Bond supply is likely to increase gradually, with MAS announcing during the release of the 2026 auction calendar that outstanding SGS bonds are expected to grow at a similar pace to 2025.
- **The 10yr SGS yield is seen to decline to around the 1.85% level at the end of 2026.**

2026 Yield Projections

	CURRENT	1Q2026	2Q2026	3Q2026	4Q2026
UST 10Y	4.21%	4.00%	3.85%	3.75%	3.70%
MGS 10Y	3.56%	3.40%	3.35%	3.30%	3.30%
SGS 10Y	2.00%	1.95%	1.90%	1.85%	1.85%

Sovereigns – Constructive outlook for bonds in 2026 overall with government yield curves likely to continue steepening

UST	Bond yields to head lower in 2026 as the economy moderates with the labour market continuing to soften. The FOMC is likely to continue to cut rates in the later part of 2026 with inflation remaining under control, amidst an upcoming change of guard at the helm of the Fed UST curve likely to continue to steepen as longer-dated maturities underperform on fiscal and debt concerns
MGS	Slightly constructive on MGS/GII in 2026 BNM continued to espouse a neutral tone during the most recent MPC on Jan 22. Extended pause in OPR seen Growth likely to moderate slightly from 2025 levels as trade tariffs begin to weigh on external sector
SGS	SGS yields seen declining marginally with growth likely to moderate in 2026 after a bumper 2025 MAS is likely to continue to remain on hold in the first half of 2026 Inflation likely to have bottomed and expected to inch higher

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad (“HLBB”) to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group (“HLB Group”). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in ‘market making’ of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.