



# May bond market update

29 May 2026

## Executive Summary

Despite the recent selloff in UST as led by duration bonds, we posit that the tail end may show greater resilience amid supportive bids, given oversold levels and risks to macroeconomic growth, while short-dated notes' outlook remains downbeat amid near-term elevated inflation and interest rate risks. While insensitivity to rising global yields suggest sustained support for MGS through market volatility, 10Y MGS now stands less attractive relative to its 10Y UST counterpart – especially amid domestic fiscal slippage risks. We prefer positioning into front-end MGS, underpinned by expected neutral BNM MPC statements ahead.

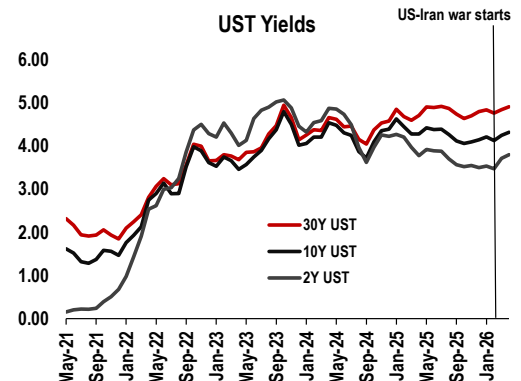
### Sovereign bond yields take fright from war

Sovereign bonds across major developed markets have experienced heightened volatility recently, with overall bond yields rising (Exhibit 1). The front end of the yield curve was jolted by an energy shock that has raised energy and headline inflation in recent months, suggesting that central bank policy rates may have to stay elevated for longer to curb spillovers into more sticky inflation categories. Meanwhile, duration bonds saw a sharper selloff recently – driven by an unanchoring of inflation expectations (with three inflationary shock events seen since 2020), investors' fiscal and debt supply concerns (especially in the UK and Japan – see Exhibit 2), as well as optimism that the ongoing AI boom would simultaneously boost global growth while requiring even more corporate debt issuances to fund ongoing initiatives.

### UST curve to flatten with tail-end poised for gains in ME deal

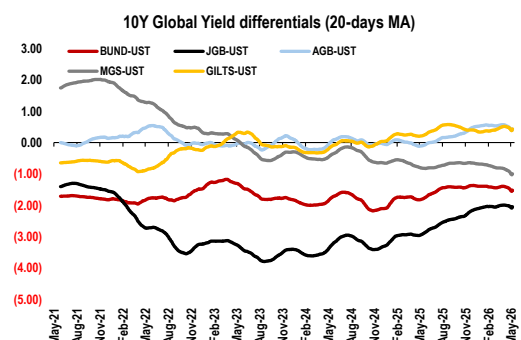
We posit that long-dated UST will remain more resilient despite a likely Middle East (ME) deal soon, given that damage to the global energy supply chain has already been done. Quickening energy-driven inflation means the Fed is primed to maintain a hawkish outlook to arrest spillovers into core inflation components – especially amid rising doubts about its credibility (following Kevin Warsh's contested Chairman appointment and the Fed's delayed response to curb inflation post-Covid). Hence, the outlook for short-dated bonds remains downbeat – pending greater clarity on a lasting US-Iran resolution and on inflation data developments. Meanwhile, with 30Y inflation-adjusted yields hovering at its highest since 2022 (Exhibit 3), we think the long-end may see bids from oversold positions, as investors subsequently look past the flip-flop in US-Iran negotiations towards an elevated energy prices' environment, and the ensuing demand destruction that weakens the US's medium-term growth outlook (due to damages to firms' and households' balance sheets). While higher government debt issuances to support growth and cost-of-living measures represent the main risks to our call, we opine that governments are likelier to resort to short-term debt markets to fund immediate needs, given the higher liquidity/demand from investors, and lower interest rates at the front of the curve.

Exhibit 1: Benign uptick in yields in 2026 (relative to post-Covid) driven by still-elevated rates and tempered inflation



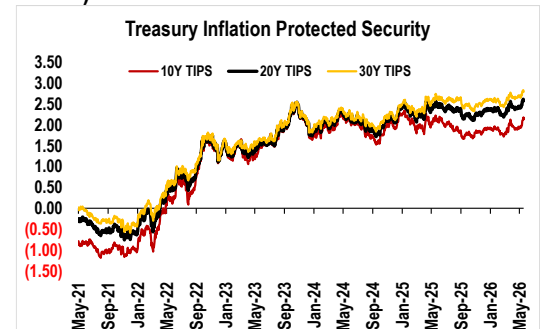
Sources: AmBank Economics, Bloomberg

Exhibit 2: JGB/Gilt-UST yield differentials have shrunk in recent months on growing investors' concern



Sources: AmBank Economics, Bloomberg

Exhibit 3: 20Y and 30Y TIPS yields are now back to May 2025 levels (post-Liberation day tariffs)

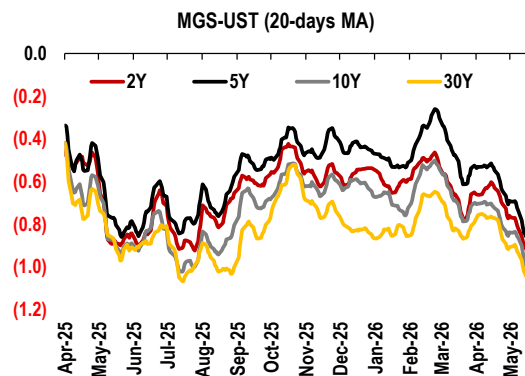


Source: AmBank Economics, Bloomberg

**Outlook for MGS remains constructive, though yields are elevated**

Despite MGS’s widening yield differentials with UST amid an upwardly revised Fed rates pathway (Exhibit 4), day-to-day MGS volatility remains subdued compared to DM peers, reflecting continued foreign interest amid Malaysia’s relatively resilient economic backdrop, as well as sustained demand and support from local investors, with opportune bids/puts seen on market pullbacks/rallies. That said, although there has been some decoupling between MGS and UST correlations (0.24), interest rate differentials still affect MGS returns relative to UST. The 10Y UST spread above the 10Y MGS has risen to about 90 bps in May (February: ~55 bps), driven by the larger jump in UST yields relative to MGS since March 2026. Hence, while relative valuations are not cheap for MGS right now in our opinion, a rebound from the belly-to-tail end for UST should tighten UST-MGS spreads and thereby improve attractiveness for 10Y MGS for foreign investors. Meanwhile, we also think the inter-MGS curve is a tad flat, with 3Y MGS yields around 3.20-3.30% pricing in a possible BNM hike within a year. Hence if BNM’s narrative remains neutral in the next 1-2 MPC statements (as per our expectations of no BNM rate hikes nor cuts), then we foresee short tenor MGS to receive better support, while duration bonds may see some challenges ahead on long-term fiscal concerns.

**Exhibit 4: Recent Ringgit resilience despite widening yield differentials suggests sustained support from foreign investors**

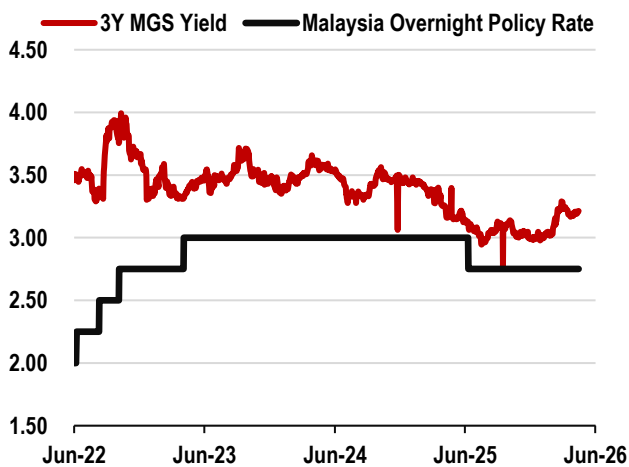


Sources: AmBank Economics, Bloomberg

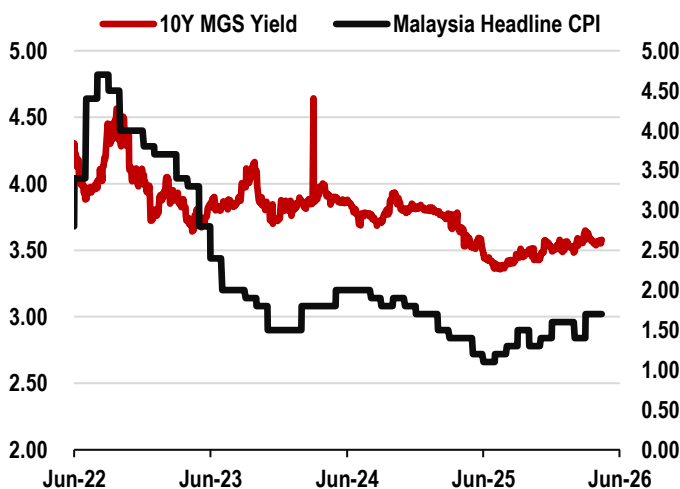
**Exhibit 5: AmBank Economics’ latest MGS and UST yield forecast (%)**

	2Q26	3Q26	4Q26	1Q27	2Q27
3Y MGS	3.20	3.15	3.15	3.10	3.10
10Y MGS	3.64	3.64	3.66	3.64	3.64
10Y UST	4.31	4.33	4.28	4.20	4.20

**Exhibit 6: 3Y MGS vs. OPR (%)**



**Exhibit 7: 10Y MGS vs. Malaysia CPI (%)**



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