Quarterly Market Outlook 1Q2026

Global Markets

January 2026

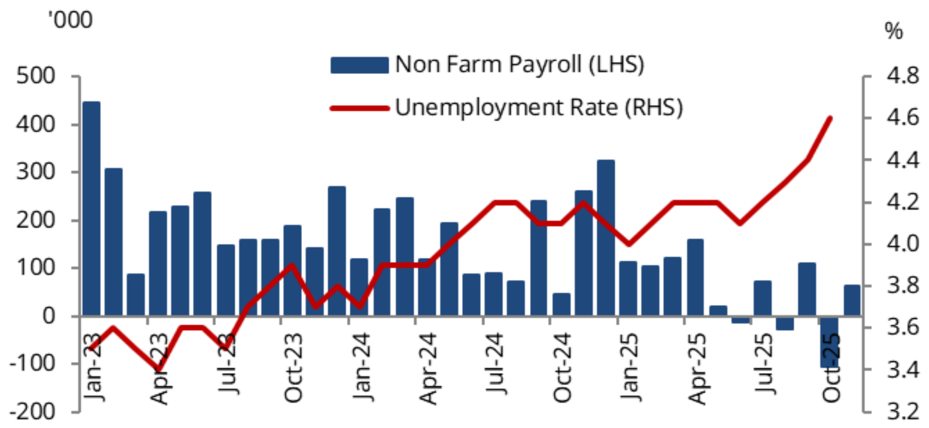
Global Central Banks Policy Rates Outlook

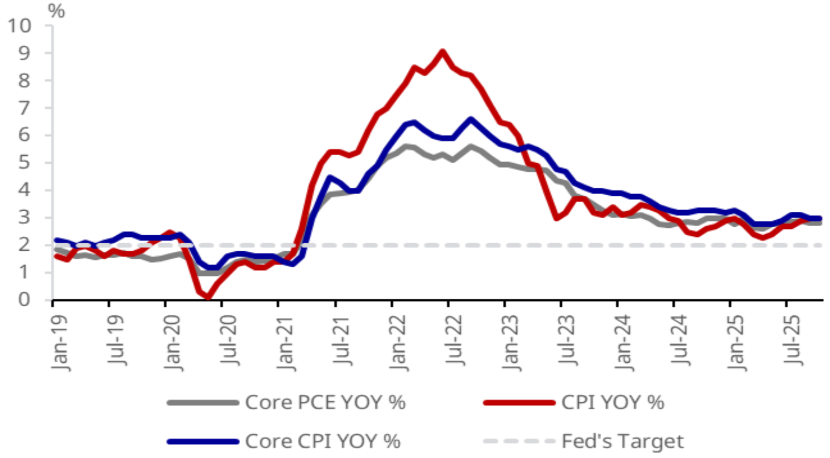
	Current	1Q25	2Q26	3Q26	4Q26	Remarks
United States Federal Reserve *Fed Funds Rate*	3.50-3.75	3.50-3.75	3.25-3.50 (-25bps)	3.00-3.25 (-25bps)	2.75-3.00 (-25bps)	**-75bps**
Eurozone European Central Bank *Deposit Rate*	2.00	2.00	2.00	2.00	2.00	**No change**
United Kingdom Bank of England *Bank Rate*	3.75	3.50 (-25bps)	3.50	3.50	3.50	**-25bps**
Japan Bank of Japan *Policy Balance Rate*	0.75	0.75	0.75	1.00 **(+25bps)**	1.00	**+25bps**
Australia Reserve Bank of Australia *Cash Rate*	3.60	3.60	3.60	3.60	3.60	**No change**
New Zealand Reserve Bank of New Zealand *Official Cash Rate*	2.25	2.25	2.25	2.25	2.25	**No change**
Malaysia Bank Negara Malaysia *Overnight Policy Rate*	2.75	2.75	2.75	2.75	2.75	**No change**
Thailand The Bank of Thailand *1-Day Repurchase Rate*	1.25	1.00 (-25bps)	1.00	1.00	1.00	**-25bps**
Indonesia Bank Indonesia *7-day Reverse Repo Rate*	4.75	4.50 (-25bps)	4.25 (-25bps)	4.25	4.25	**-50bps**

Source: Bloomberg, HLBB Global Markets Research

HongLeong Bank

US – Jobs vs Inflation vs Incoming Fed Chair



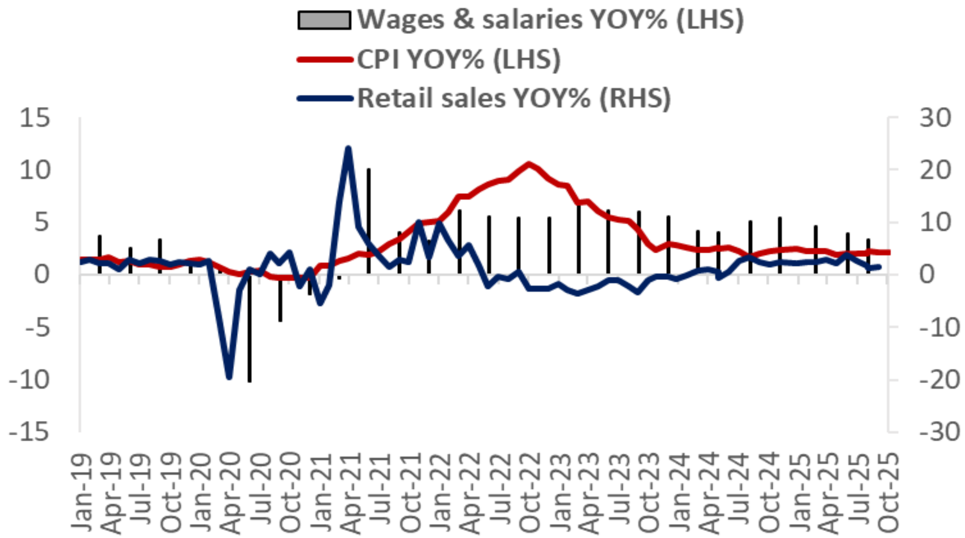


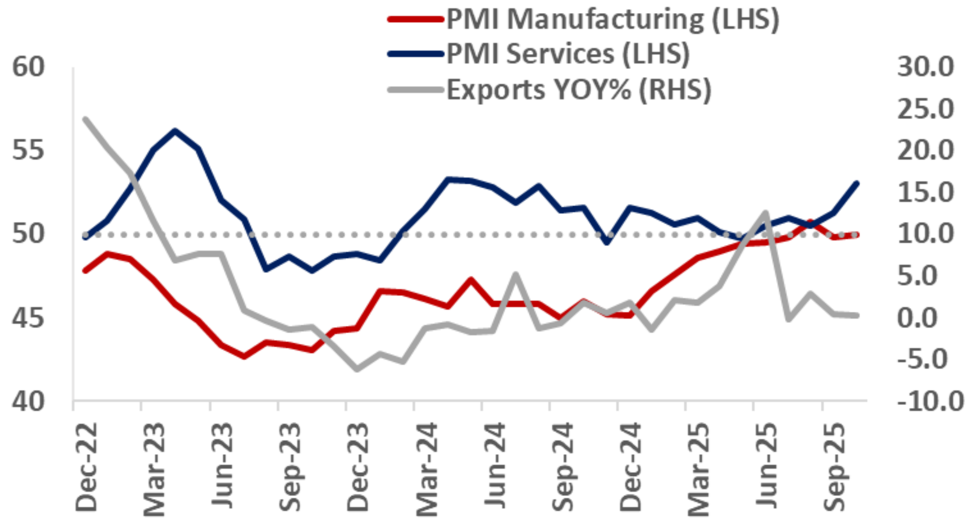
	2024	2025F	2026F
GDP (%)	2.8	1.7	2.3
Core PCE Inflation (%)	2.9	3.0	2.5
Fed Funds Rate (%)	4.25-4.50	3.50-3.75	2.75-3.00
Dollar Index (End of period)	108.48	98.32	95.49

Source: Fed, Bloomberg, HLBB Global Markets Research

- **The Fed will remain divided** – doves will focus on the weak household spending prints and softening labour market; still elevated and sticky core-PCE will keep hawks on their toes.
- **All eyes on the next Fed Chair** – Kevin Hassett, National Economic Council director will most likely get the nod; could precipitate pricing for further cuts and renewed bout of USD weakness in line with our house call.
- At this juncture, monetary policy easing and ongoing AI-related investment will help to negate downward pressure from higher effective tariff rates and cuts to government workforce; **1Q will benefit from added impetus of "recovery/pay-forward" from the government shutdown and supply disruption among vehicle producers due to the cyber attack;** Base case is for tariff-induced inflation to be temporary, supporting rate cut bets.

Eurozone – "Good place" stays



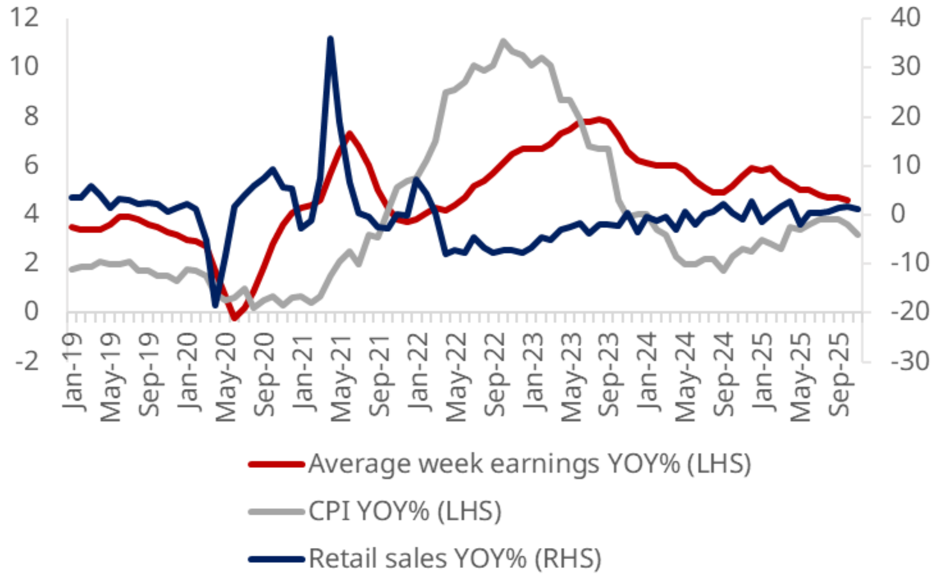


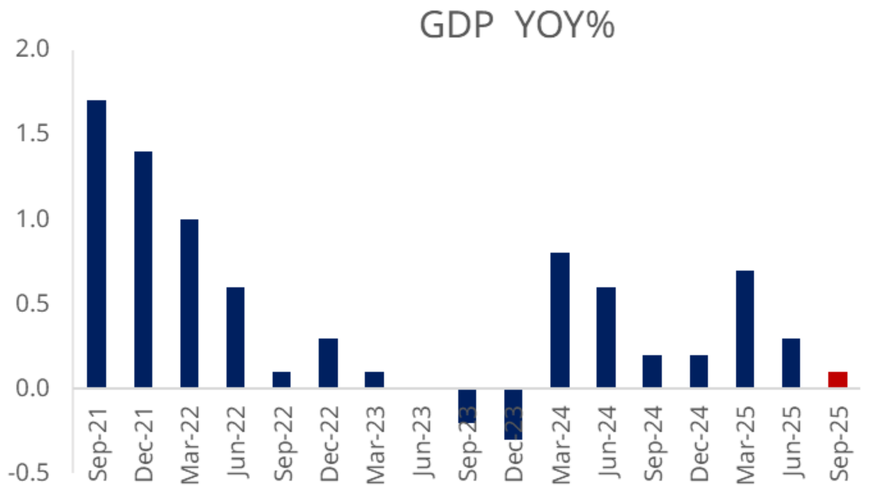
	2024	2025F	2026F
GDP (%)	0.9	1.4	1.2
Inflation (%)	2.4	2.1	1.9
Deposit Facility Rate (%)	3.00	2.00	2.00
EUR/USD (End of period)	1.0354	1.1746	1.21

Source: ECB, Bloomberg, HLBB Global Markets Research

- **Better than expected growth**, resulting in upward revisions to GDP growth forecasts by the ECB. On the demand side, jobs and wages are still increasing and thus, spurring spending. Corporates are also increasing investments while exports have held up. Services sector should continue to drive growth on the supply side.
- **For 2026, bumper fiscal stimulus from the ongoing Recovery & Resilience Facility Fund to major infrastructure as well as defense investments from Germany should support the rest of Europe.**
- Inflation is around 2% target, with softer goods and food prices offset by elevated services inflation. Risk of undershooting this inflation target looms given still fragile domestic demand, lower energy prices and a stronger EUR.

UK – Kicking the can down the road



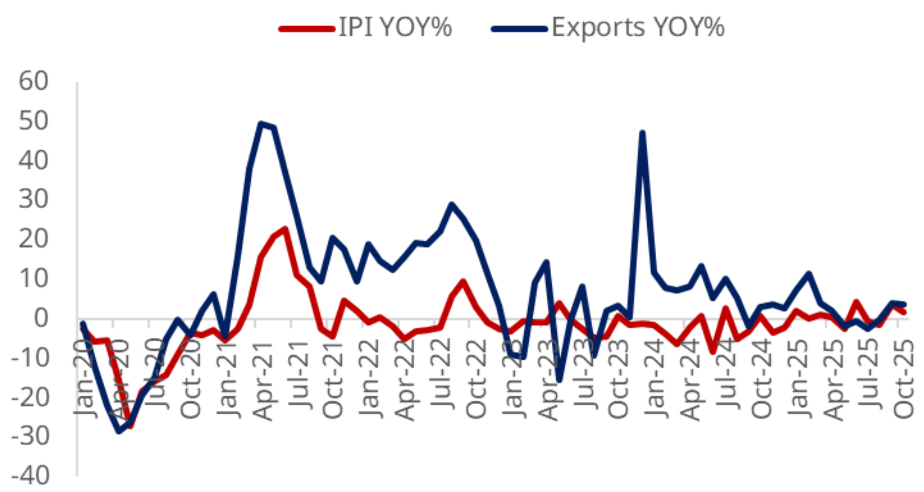


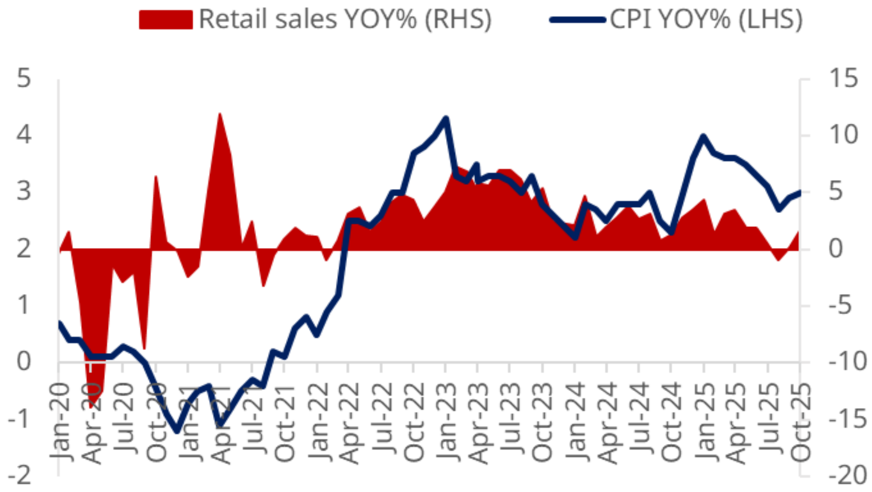
	2024	2025F	2026F
GDP (%)	0.9	1.5	1.2
Inflation (%)	2.5	3.5	2.5
Bank Rate (%)	4.75	3.75	3.50
GBP/USD (End of Period)	1.2516	1.3475	1.35

Source: BOE, Bloomberg, HLBB Global Markets Research

- **Risks from greater inflation persistence had become less pronounced** - BOE is expecting CPI to ease further to around 3.0% in 1Q of 2026 and 2.0% in 2Q amid: 1) One-off reductions to regulatory costs levied on households' energy bills and changes to fuel duty announced in the Autumn Budget. 2) Easing Average Weekly Earnings (AWE) private sector regular pay growth to around 3.5% in 4Q from 3.9% currently, helping to contain services inflation.
- BOE is pencilling in zero growth for 4Q, weaker than expected and marked a deceleration from 3Q's 0.1%; Beyond that, **Autumn Budget measures (reversals to previously announced welfare cuts and the removal of the two-child limit within universal credit) could increase GDP by around 0.1–0.2% ppts over the next couple of years** but fiscal tightening through future tax increases will weigh on GDP beyond the 3Y horizon.

Japan – Moderate growth momentum to continue



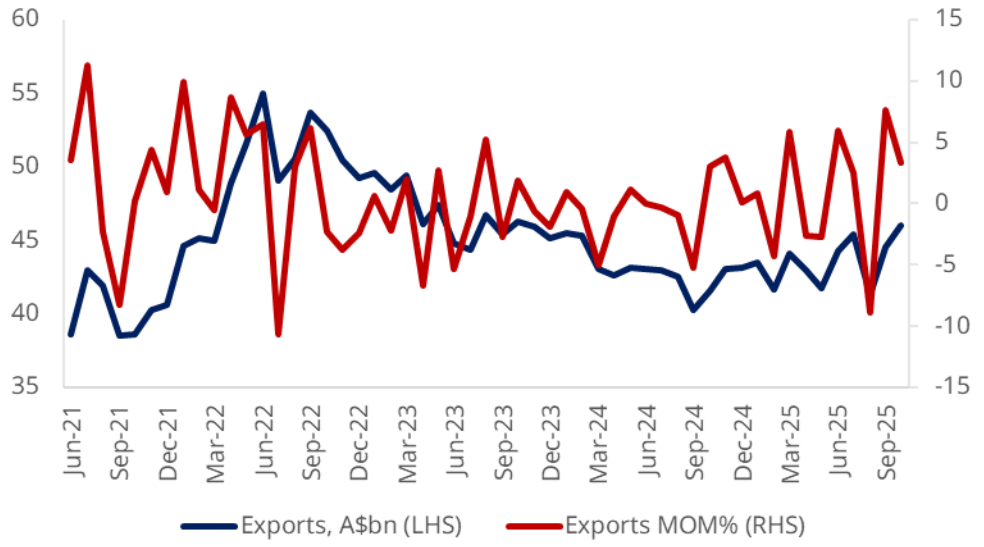


	2024	2025F	2026F
GDP (%)	0.2	0.7	0.7
Core Inflation (%)	2.7	2.7	1.8
Policy Balance Rate	0.25	0.75	1.00
USD/JPY	157.20	156.71	147

Source: BOJ, Bloomberg, HLBB Global Markets Research

- **Moderate growth momentum is expected to continue into 2026,** albeit with pockets of weaknesses like the more or less flat exports and industrial output.
- **Substantial fiscal stimulus and government subsidies** aimed at lifting investment and easing cost-of-living pressures to trickle down to household consumption and business investment, the former supported by higher income and the latter by healthy profit.
- **Real interest rates at significantly low levels** leaves BOJ with more room to tighten, albeit at a cautious pace. Future hikes is nonetheless dependent on: 1) The developments in US economy and trade policies. 2) Shunto wage agreement and if firms will pass on wage increases to selling prices.

Australia – Hawkish hold with an upside risk

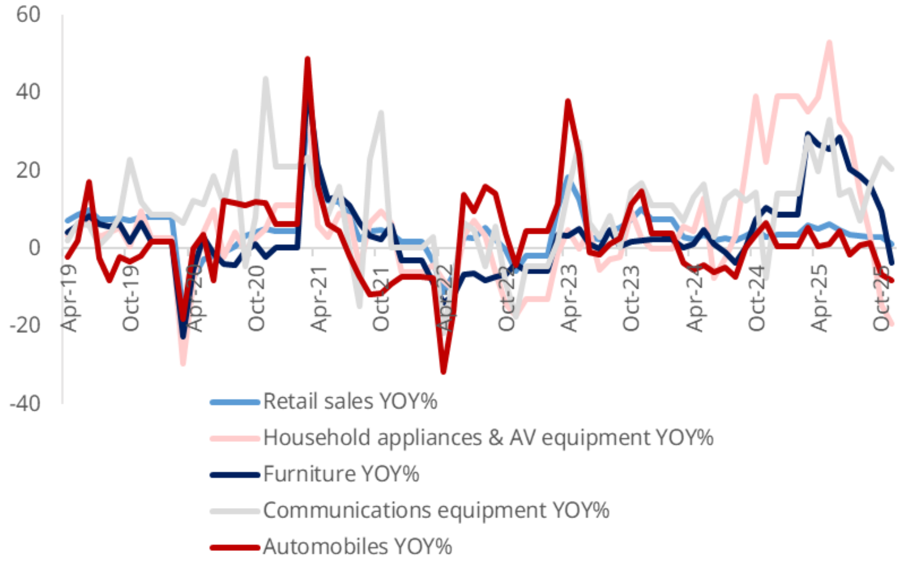


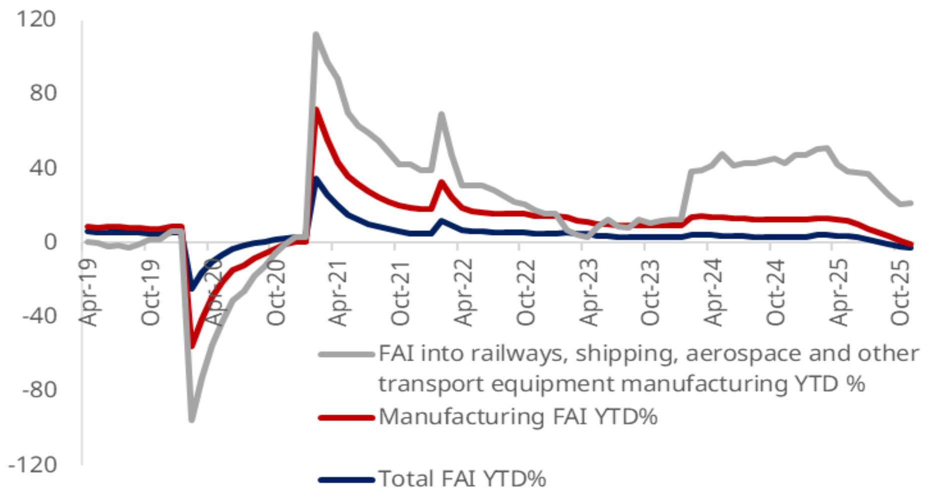
	2024	2025F	2026F
GDP (%)	1.1	1.8	1.9
Inflation (%)	3.2	3.3	3.2
Cash Rate (%)	4.35	3.60	3.60
AUD/USD	0.6188	0.6673	0.69

Source: RBA, Bloomberg, HLBB Global Markets Research

- **Domestic sector has been stronger than anticipated**, particularly for the private sector and will likely add to prevalent capacity pressure and inflation persistence. Labour market conditions remains a little tight but our expectations for a softer labour market justifies our status quo bet.
- Uncertainty in the global economy, especially China, remains a key influence to its outlook although there has been minimal impact on Australia's trade numbers for now.
- **All eyes on the February statement on potential policy pivot**. Three main considerations: 1) Extent to which aggregate demand exceeds potential supply and its implication on inflation persistence. 2) Whether financial conditions were still restrictive. 3) Mining boom and its repercussions on the growth outlook.

China – Expect moderately loose monetary policy and proactive fiscal stance



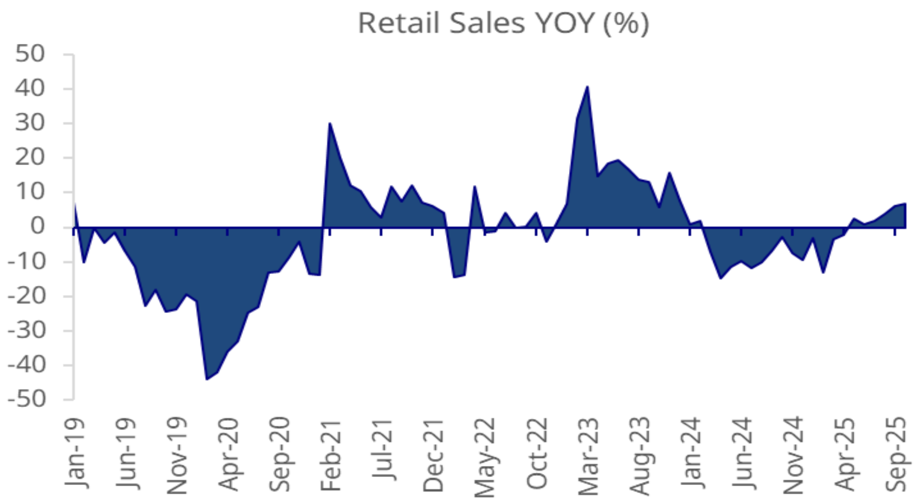


	2024	2025F	2026F
GDP (%)	5.0	5.0	4.5
Inflation (%)	0.2	0.0	0.7
1Y LPR (%)	3.10	3.00	2.80
USD/CNY	7.2993	6.9757	6.90

Source: National People's Congress, Bloomberg, HLBB Global Markets Research

- **Expect moderately loose monetary policy and proactive fiscal policies.** Structural reforms to address risks in government debt, financial and property sector to take a backseat for now to support the property and FAI downturn as well as soft consumer spending.
- **What may be different in the 15th Plan (2026-2030) to be officially launched in 1Q –** (1) Industrial modernization with focus on real-world value (breakthroughs); (2) interlinkages between economic security (like rare earths) and opening up; (3) domestic demand rises in priority (in line with "investing in people policy").
- Impact on the world will be seen from areas of capex, trade & supply chains and **industries like AI, green tech and space-related industries.** Persistent overcapacity will continue for traditional sectors.

Hong Kong – Sanguine outlook

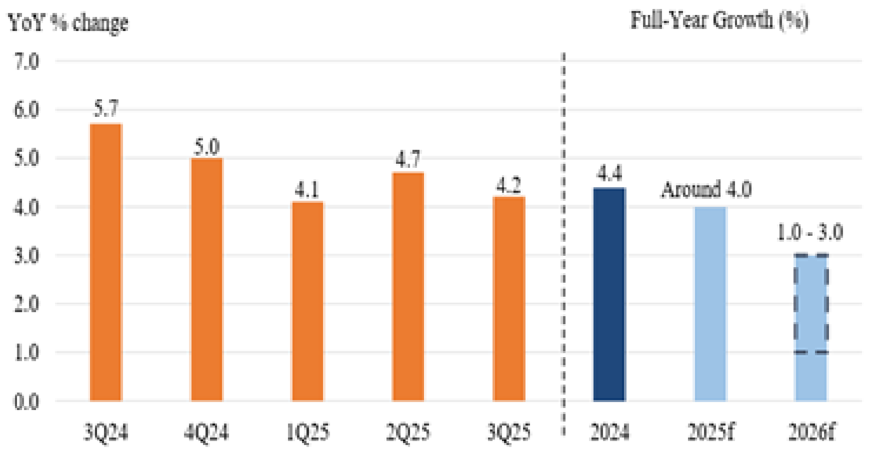


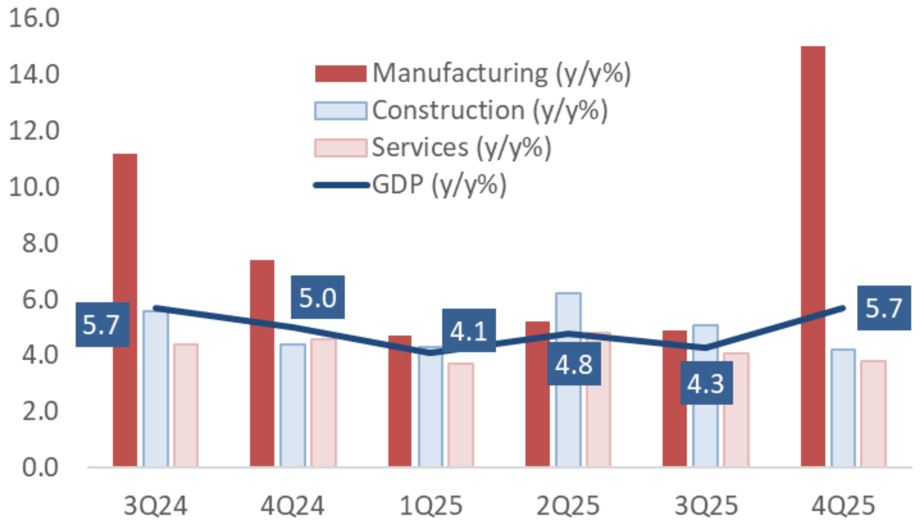
	2024	2025F	2026F
GDP (%)	2.5	3.2	2.5
Inflation (%)	1.8	1.5	1.8
3-month Hibor	4.37	2.93	2.54
USD/HKD	7.7686	7.78	7.78

Source: HK Economy, Bloomberg, HLBB Global Markets Research

- Current trade truce between China-US, still robust demand for electronic-related products, continued increases in inbound tourism should provide impetus to the services sector and retail spending.
- On the domestic front, easing US interest rate outlook are supportive of sentiments in asset markets. Coupled with the still healthy labour market, gradual recovery in consumption and business sentiment, these should help bolster consumption and investment; **Government to focus on three growth engines - finance, innovation and technology, and trade activities.**
- Foresee potential downside risks from fragile China growth outlook and possibly fading front-loading export effect.

Singapore – Growth to normalize as full tariff impact kicks in





	2024	2025F	2026F
GDP (%)	4.3	4.8	1.0-3.0
Inflation (%)	2.4	0.5-1.0	0.5-1.5
SORA (%)	2.11	1.19	0.81
USD/SGD	1.3657	1.2854	1.24

Source: MTI, Bloomberg, HLBB Global Markets Research

- **Normalised growth in the manufacturing/trade-related sectors with impact from the US tariffs expected to be more pronounced.** Downside risks from: 1) Elevated global economic uncertainty 2) Risk-off sentiment which could trigger sharp corrections in global financial markets.
- **Global investments in AI,** ongoing shift towards higher-value maintenance, repair & overhaul works in the aerospace segment. strong order books in marine & offshore engineering segment **to bolster growth, complemented by infrastructure investment and accommodative financial condition** on the domestic front.
- With MAS delivering a balanced outlook, **still robust growth and expectation for a pick-up in inflationary pressures in 2026, MAS will likely stay status quo in 2026.**

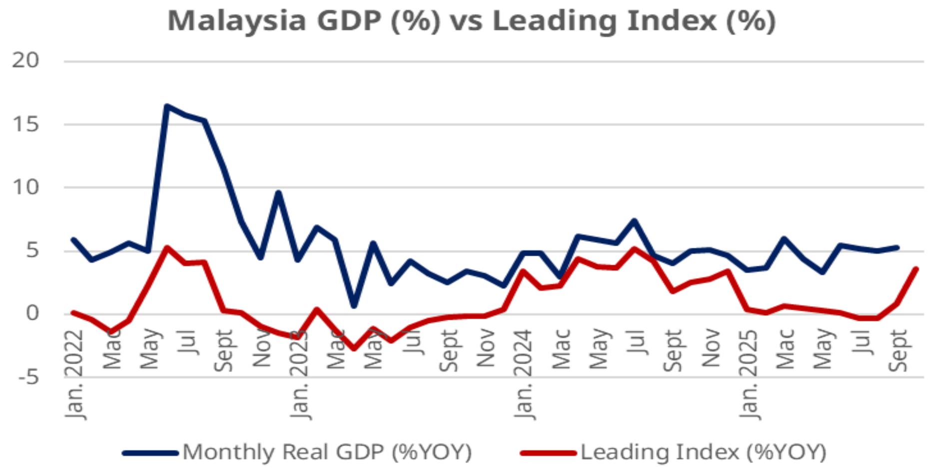
Vietnam – Softer growth for 2026 on account of base effect & slower trade growth

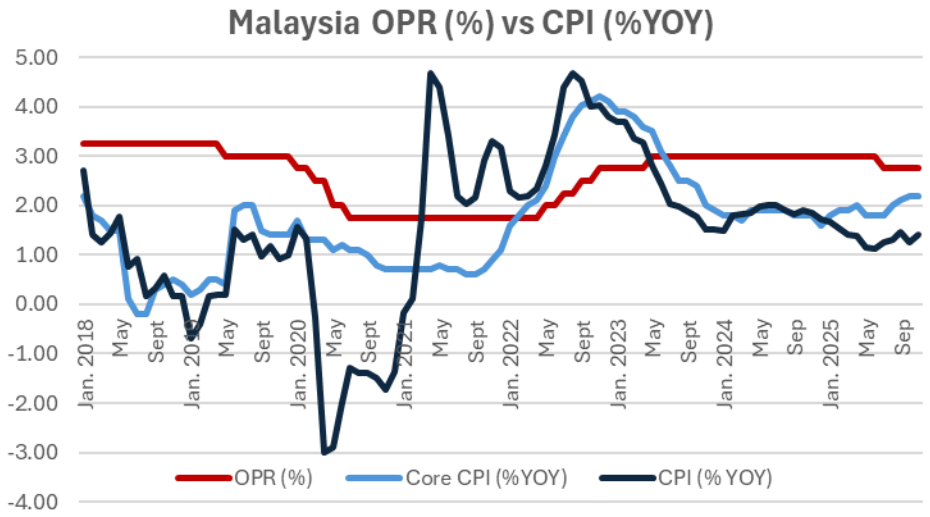
	2024	2025	2026F
GDP (%)	7.1	8.0	6.9
Inflation (%)	3.6	3.3	3.5
SBV Refinancing Rate (%)	4.50	4.50	4.50
USD/VND	25,485	26,298	26,450

Source: Bloomberg, HLBB Global Markets Research

- **Economic data has remained robust –** resilient IPI growth and rapid increase in imports driven by production needs, particularly those of export-oriented manufacturing supports expectations that **exports will continue its solid momentum in 1Q.**
- On the domestic front, **consumer spending to stay sturdy** supported by positive wage growth and the extension of the 2% reduction on VAT to December 31, 2026; **Total investment to stay elevated** on high implementation rate of FDI and public investment that focuses on infrastructure investment, developing the science and technology sectors.
- Threats of sectoral tariffs (semiconductor and selected agriculture products like coffee) which are duty exempted for now and shocks from climate change and escalating natural disasters like storms will disrupt output, growth, commodity prices and inflationary pressures.

Malaysia – Continued moderate growth outlook and manageable inflation





	2024	2025F	2026F
GDP (%)	5.1	4.0-4.5	4.0-4.5
Inflation (%)	1.8	1.4	2.0
OPR (%)	3.00	2.75	2.75
USD/MYR	4.4722	4.0603	4.00

Source: Bloomberg, BNM, DOS, HLBB Global Markets Research

- Household spending to anchor growth, with added impetus from investment activities and moderate export performance.
- Balanced risks on trade outlook - upside from pro-growth policies in major economies and robust demand for E&E; downside from weak sentiment due to uncertainty as well as lower commodity output and prices.
- Inflation to remain mild amid upside risks from imported costs and broad spillovers; downside risks from stronger MYR and softer than expected domestic demand.

Markets Outlook - FX

FX – USD likely to continue depreciating in 1H before stabilizing in 2H; JPY and AUD poised to outperform this year

12-month Outlook	
+	**EUR:** Expect steady moderate growth for the coming year, with the ECB likely to be on hold, with the lagged effects of past rate cuts likely to continue to provide support **JPY:** Economy to benefit from expansionary fiscal measures. Bank of Japan to continue to normalize monetary policy in a gradual manner. **CNY**: Moderate slowdown in growth expected, as shift to domestic sectors from export reliance continues to play out. Property sector likely to continue to weigh on growth. **MYR**: Growth likely to moderate slightly from 2025 levels, with a full-year of tariffs beginning to weigh more heavily on the export sector. Inflation to remain under control, with BNM likely to be on hold for an extended period. **SGD:** Moderation in growth expected amidst a high base effect and an expected drag from trade related sectors; with MAS expected to hold policy steady. **AUD:** Modest but improving growth picture. Inflation continues to remain stubbornly high resulting in the RBA's easing cycle looking to have ended, with the markets pricing in hikes for the year ahead.
=	**GBP:** Tighter fiscal policy likely to weigh on growth, with the Bank of England poised to reduce rates further as they approach the end of their cutting cycle.
-	**USD:** Likely to continue to depreciate in 1H as the labour market weakens further and markets continue to price in more Fed cuts with the change of guard at the Fed, before some stabilization in 2H.

FX Forecasts

	31-Dec	Q1-26F	Q2-26F	Q3-26F	Q4-26F
DXY	98.32	96.71	95.13	94.70	95.49
USD/CAD	1.37	1.36	1.35	1.35	1.35
EUR/USD	1.17	1.20	1.22	1.22	1.21
GBP/USD	1.35	1.36	1.37	1.37	1.35
USD/CHF	0.79	0.78	0.78	0.78	0.78
AUD/USD	0.67	0.68	0.69	0.70	0.69
NZD/USD	0.58	0.58	0.59	0.59	0.58
USD/JPY	157	153	149	147	147
USD/MYR	4.06	4.00	3.97	3.97	4.00
USD/SGD	1.29	1.26	1.23	1.23	1.24
USD/CNY	6.99	6.90	6.83	6.85	6.90

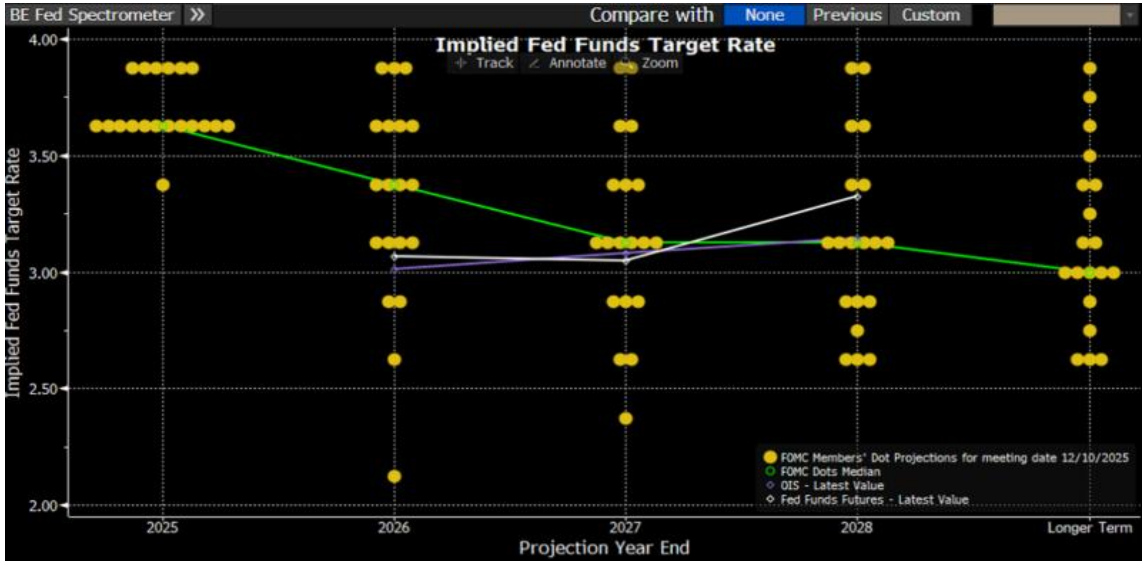
Markets Outlook – Fixed Income

	CURRENT	1Q2026	2Q2026	3Q2026	4Q2026
UST 10Y	4.17%	4.00%	3.85%	3.75%	3.70%
MGS 10Y	3.49%	3.40%	3.35%	3.30%	3.30%
SGS 10Y	2.11%	2.00%	1.90%	1.85%	1.85%

Sovereigns – Constructive outlook for bonds for the 1Q2026 and the year ahead with government yield curves likely to continue steepening

UST	Bond yields to head lower in 1Q26 and beyond, as the economy moderates with the labour market continuing to soften. The FOMC is likely to continue to cut rates in 2026 with inflation remaining under control, more so with the 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 1Q26 and for the rest of 2026 BNM continued to espouse a neutral tone during the most recent MPC on Nov 06. 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 Inflation likely to have bottomed and expected to inch higher

US Fixed Income – Constructive on USTs in 1Q26 with the curve likely to steepen further

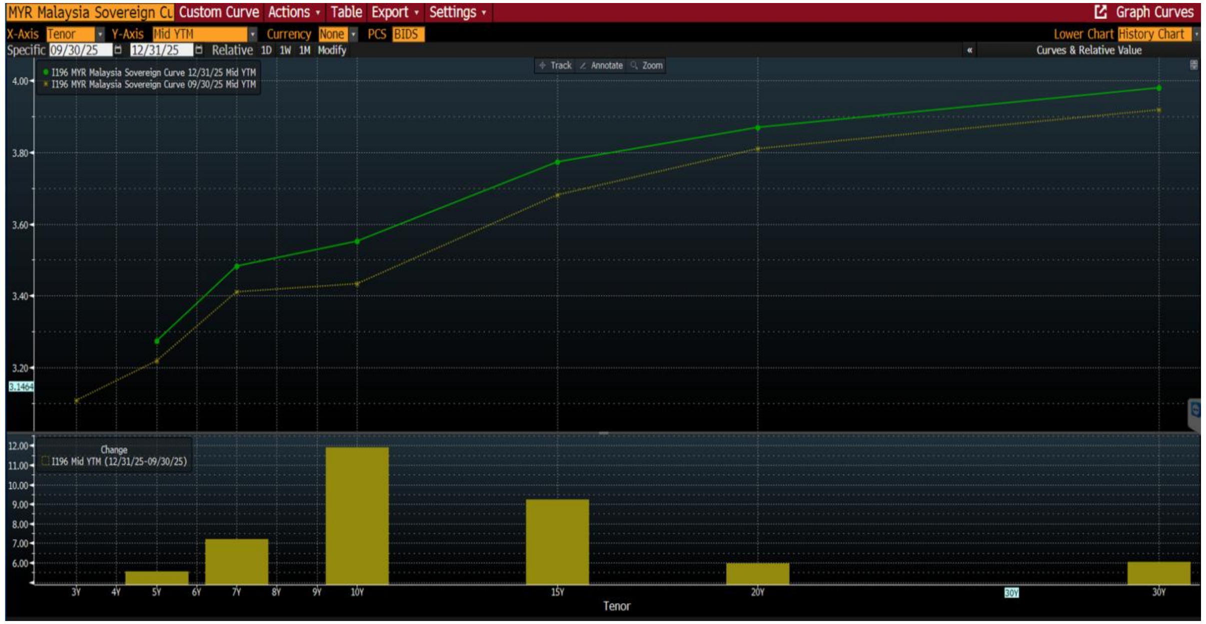


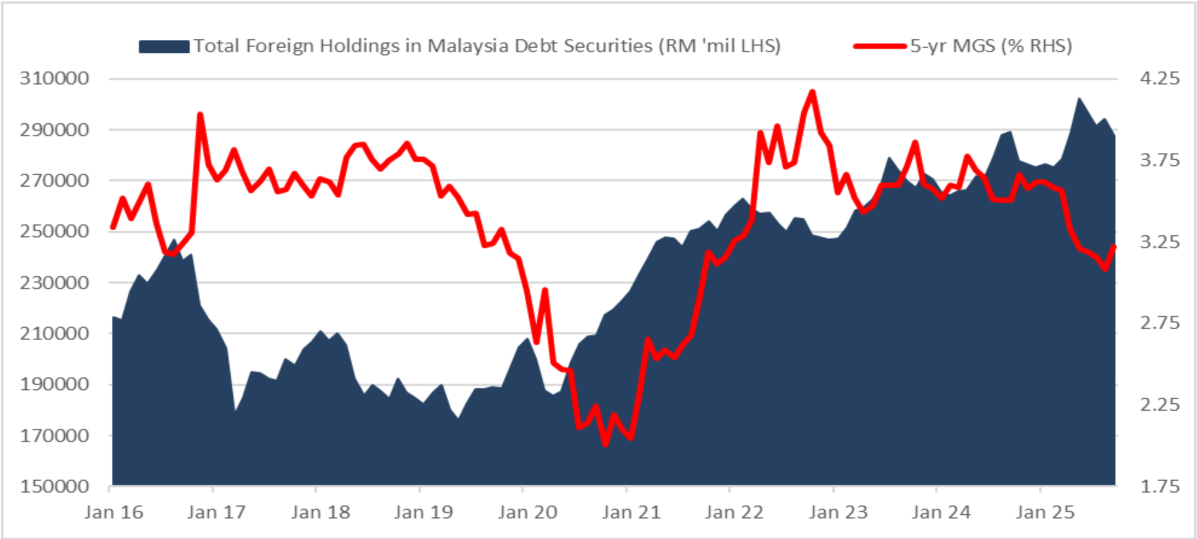
Source: Bloomberg, HLBB Global Markets Research

- **UST** -- USTs were mixed in 4Q25 amidst a deteriorating labour market and the Fed delivering two further cuts in the quarter, with the longest running federal government shutdown lasting nearly half the quarter.
- Benchmark yields were mixed by between -13 to +11bps for the quarter (3Q25: 4 to 11bps lower) as the market expectation of future cuts for the year ahead remained little changed, with Fed Fund Futures pointing to 59bps of cuts for 2026 at the end of 2025, versus the 58bps priced as at end of 3Q25.
- The yield curve steepened during the quarter, with the UST 2s10s curve ending 2025 at +69bps (3Q25: +54bps).
- The Fed cut the Funds Rate by 25bps in an 9-3 majority vote at the FOMC meeting on Dec 10 (with two voting for an unchanged rate and one voting for a 50bps move) in a third consecutive easing, with the updated dot plot pointing to further 25bps reduction in the Fed Funds Rate for 2026, but with a varied dispersion of views amongst Fed members.
- **We expect the FOMC to hold the Fed Funds Rate steady in 1Q26, and to resume gradual cuts the following quarter and to cut rates by a total of 75bps for the year.**
- With the government shutdown, many of the releases from October and November were delayed, with some October numbers like CPI cancelled outright. The delayed releases that have been published continue to indicate an economy that is holding up better than expected, outside of the labour markets, where the unemployment rate continued to rise to 4.6% in November (September: 4.4%).
- Inflation unexpectedly eased during the quarter, with core CPI for November coming in at 2.6% (Sep: 3.0%), while the delayed core CPE figures for October and November are yet to be released.
- **Going forward, we are slightly bullish USTs in 1Q, and expect the 10Y UST yield to decline to around 4.00% by the end of the quarter** from the current level of 4.17%, with the short end expected to outperform , resulting in the curve steepening further.

- **Corporates** –Corporate bonds were also firmer for the quarter with the Bloomberg US Corporate Bond Index registering a rise of 0.8% in 4Q25 (3Q25: +2.6%)

Malaysia Fixed Income – Government bond yields to drift lower in 1Q26; BNM to remain on hold



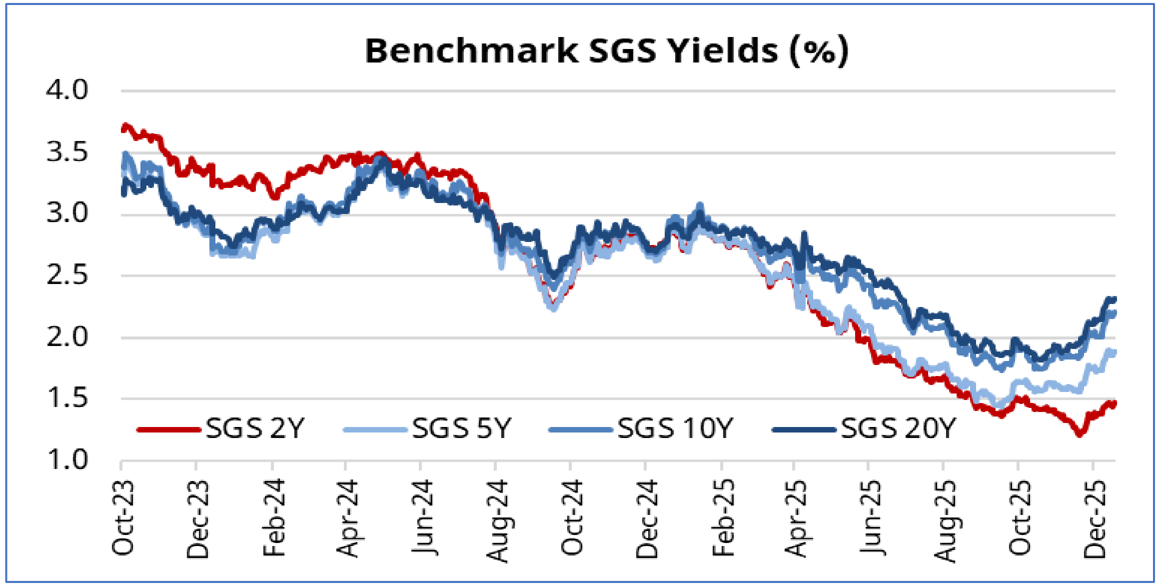


Source: Bloomberg, BNM, HLBB Global Markets Research

- **Government Bonds** – MGS and GII were mixed in 4Q25 as overall benchmark yields closed between -10 and +4bps q/q (3Q25: -8 to +7bps) amidst BNM continuing to hold rates steady in November and maintain a neutral tone in the accompanying monetary policy statement.
- Foreign holdings of MYR bonds advanced by RM13.5bn during the quarter to RM300.8bn as at end 4Q25, from the RM287.3bn seen at the end of 3Q25.
- Government bond auctions in 4Q25 witnessed poorer bidding metrics despite lower gross issuance of RM29.5bn during the quarter, with the average BTC declining to 2.18x across 7 auctions (3Q25: 11 auctions; average BTC 2.32x; gross issuance of RM53.0bn), with competition from corporate/sukuk issuance which remained rather elevated for the quarter.
- **We expect BNM to continue to hold rates steady during the two MPC meetings for the quarter on Jan 22 and Mar 05.**
- Economic growth in 3Q25 unexpectedly accelerated to 5.2% y/y (2Q25: 4.4%) with the external sector holding up surprisingly well. Inflation remained well-contained and inched lower during the quarter, with the latest CPI at 1.4% y/y in November from the 1.5% y/y seen in September.
- Bonds are expected to trade with a slightly bullish tone in 1Q26 as growth moderates, with the 5-7yr sector likely to see some outperformance. **We expect the 10Y MGS yield to head slightly lower in 1Q26 to 3.40%.**

- **Corporate Bonds/Sukuk** – Corporate spreads remained rather steady in 4Q25, with AAA and AA2 spreads in the 10Y space closing at 28 and 44bps respectively (3Q25: 28 and 45bps), amidst a continued elevated level of corporate/sukuk issuance of RM53.3bn in 4Q25 (3Q25: RM60.0bn). **We expect issuance to ease further in 1Q26, and for corporate spreads to widen slightly as the market continues to digest the large amount of supply seen in 2H25.**

Singapore Fixed Income – SGS yields expected to head lower in 1Q26



Source: Bloomberg, HLBB Global Markets Research

- **SGS** – Singapore Government Securities were mostly softer for the quarter with the exception of the front end of the maturity spectrum, as overall benchmark yields closed mixed by between -3 to +22bps (3Q25: 15 to 33bps lower), driven by a marked rise in MAS core inflation to 1.2% y/y in November from 0.4% y/y in September.

- The SGS yield curve steepened during the quarter, with SGS 2s10s slope ending the quarter at +64bps (3Q25: +41bps)

- Reflecting the move lower in bonds for the quarter, the Bloomberg Global Singapore Bond Total Return Index recorded a return of -1.4% for 4Q25 (3Q25: +3.1%)

- SGS issuances in 4Q25 stood at SGD3.9bn, a reduction from what was seen the previous quarter (3Q25: SGD6.4bn)

- After holding policy steady in October, the Monetary Authority of Singapore (MAS) is expected to hold policy steady again at its upcoming quarterly decision towards the end of January. While external sector has held up much better than expected, with 2025 annual GDP coming out at a strong 4.8% in the advanced estimate and inflation recently surprising on the upside, the central bank is likely to maintain a cautious tone with 2026 growth projected lower at between 1-3%.

- **We expect SGS yields to edge lower in 1Q26, with the SGS 10Y expected to end 1Q26 around the 2.00% level**.

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