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BULLISH OUTLOOK ON FBM KLCI

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2026 PROJECTIONS

# BULLISH OUTLOOK ON FBM KLCI

**Analysts widely expect the key index to exceed 1,700 points by year end, with the narrative shifting from defensive positioning to aggressive recovery**

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AS the FTSE Bursa Malaysia KLCI (FBM KLCI) moves past global macro-driven volatility, it is entering a period defined by resilient domestic expansion and fortified fundamentals.

Despite a challenging 2025, the equity market ended the year firmer at 1,680.11 points yesterday, a 2.9 per cent gain from its opening of 1,632.87 on Jan 2.

In April, the key index slid to a two-year low of 1,400 before staging a gradual rebound.

Foreign investors remained net sellers for the year. Bursa Malaysia recorded a cumulative net foreign outflow of about US$5 billion as of Dec 26. However, foreign ownership showed signs of stabilisation towards the end of 2025, edging up to 19 per cent in November from a low of 18.7 per cent in September.

Analysts widely expect the benchmark index to breach 1,700 points by the end of 2026, fuelled by a convergence of narrowing interest rate differentials, a strengthened ringgit and the rollout of national master plans.

Leading the bullish outlook is CGS International Securities Malaysia Sdn Bhd, which projects the FBM KLCI to climb to 1,810 points by year end.

The key index had only exceeded 1,800 points twice in the past decade: 1,892.65 on July 8, 2014 and 1,895.18 on April 19, 2018.

While global headwinds remain, the narrative for 2026 is shifting from one of defensive positioning to aggressive recovery.

With foreign shareholding at historical lows and earnings visibility improving across key sectors, analysts believe the market will see sustained upward trajectory.

## STRUCTURAL SHIFTS

CGS International analysts Jeremy Goh and Prem Jearajasingam said with tariff tensions easing, they expect 2026 to be a calmer year for the market.

They said Malaysia is well-positioned to navigate the United States tariff environment, thanks to its relatively higher share of duty-exempted exports.

The analysts said the cumulative exemptions from the US tariff are one of the highest in Asean, making Malaysia less exposed to tariff risks.

They added that the narrowing difference between the US federal funds rate and Malaysia's Overnight Policy Rate should be a tailwind for the ringgit and the stock market.

"Against the backdrop of stable domestic politics, we opine that the government's economic reforms are bearing fruit as the fiscal deficit is trending lower, gross fixed capital formation is robust on the back of record-approved investments, while private consumption growth remains resilient with potential upside from Visit Malaysia 2026."

Phillip Research Sdn Bhd analyst Tan Jian Yuan said domestic demand remains resilient amid external headwinds where private consumption is expected to remain the main growth driver, supported by a strong labour market.

"Given the potential of a lower unemployment rate, private consumption is expected to remain a key driver of economic growth in 2026. We expect the unemployment rate to improve slightly to 2.9 per cent in 2026."

While Phillip Research expects the FBM KLCI to hit 1,710 by year end, Tan said from a bottom-up perspective, the index could even climb to 1,810.

"For 2026, we advocate a more risk-on stance, focusing on themes with clearer earnings visibility and execution momentum, including investment-led growth, data centre expansion, energy transition, tourism recovery and resilient domestic demand."

After a difficult 2025, Tan said 2026 could be more favourable for Malaysian equities as easing trade tensions and looser global monetary policy bolster market sentiment.

He said a firm ringgit, coupled with valuation de-rating seen over the past year, has improved risk-reward dynamics.

"In addition, continued support from government-linked companies, particularly large-caps, is expected to underpin liquidity."

RHB Investment Bank Bhd (RHB Research) analyst Lee Meng Horng said key domestic policy pillars, such as the National Energy Transition Roadmap, New Industrial Master Plan 2030 and Visit Malaysia 2026, will underpin multiple investment themes in 2026.

This is reinforced by expectations of a low-base earnings recovery from 2025, following the drag from tariff uncertainties, Sales and Service Tax and e-invoicing adjustments.

"A weakening US dollar, together with rising corporate activities such as restructuring and value-unlocking initiatives, should further lift sentiment in this space. We expect bottoming-out laggard plays to re-emerge as a key theme amid potential cyclical recovery and sector rotation. Sectors likely to be in favour include consumer, construction, industrial products, logistics, oil and gas, technology and green energy."

## BETTER CORPORATE EARNINGS

CIMB Securities Sdn Bhd analyst Ivy Ng Lee Fang expects corporate earnings to grow 6.4 per cent this year, following an estimated 1.4 per cent increase in 2025 and 10 per cent growth in 2024.

She said in a note the potential growth will be driven by stronger earnings from banks and utilities, including Tenaga Nasional Bhd (TNB), CIMB Group Holdings Bhd, Gamuda Bhd and Public Bank Bhd.

Collectively, these companies are expected to make up about 3.2 percentage points, or 50 per cent of the projected 6.4 per cent of the FBM KLCI's earnings growth. Such an achievement would mark the fifth consecutive year of corporate earnings growth for the FBM KLCI.

"Bank earnings are projected to grow on the back of higher loan growth, a rise in non-interest income, an improvement in net interest margin and benign credit costs of 25 basis points. Overall, we expect banks under our coverage to achieve 4.2 per cent net profit growth in 2026.

"Utilities sector earnings are projected to grow 6.4 per cent in 2026, supported by higher contribution from TNB. Excluding banks, FBM KLCI earnings are forecast to grow at a higher rate of 9.4 per cent in 2026, reflecting stronger growth across non-banking sectors such as petrochemical and construction," Ng said.

On mid- and small-cap companies, RHB Research said the FTSE Bursa Malaysia Mid 70 (FBM Mid 70) and FTSE Bursa Malaysia Small Cap Index (FBM Small Cap) are poised for a rebound in 2026, reflecting a historical pattern of alternating years of outperformance over the past decade.

As of Dec 5, the FBM 70 and FBM Small Cap declined 9.9 per cent and 11.3 per cent, respectively, underperforming the FBM KLCI which fell 0.1 per cent.

Lee said although mid-caps saw a brief resurgence of interest between September and November, the rally was short-lived as investors quickly rotated back into defensive stocks.

"As one of the weakest-performing markets in the region in 2025, we believe attractively valued small- and mid-cap stocks are likely to regain investor interest in 2026, particularly in an environment where catalysts for large-cap names remain relatively scarce.

"Trading below long-term valuation means and offering a more balanced risk-reward profile, small- and mid-cap counters should be prime beneficiaries of rotational flows as investors seek incremental alpha. Importantly, ample domestic liquidity should continue to serve as a key pillar of support and market stability."

## YEAR-END PROJECTIONS FOR FBM KLCI

| Research firms | 2025 | 2026 |
|---|---|---|
| CGS International Securities Malaysia Sdn Bhd | 1,690 | 1,810 |
| CIMB Securities Sdn Bhd | 1,665 | 1,772 |
| TA Securities Holdings Bhd | 1,660 | 1,760 |
| Kenanga Investment Bank Bhd | 1,640 | 1,750 |
| MBSB Investment Bank Bhd | 1,650 | 1,750 |
| Maybank Investment Bank Bhd | 1,660 | 1,730 |
| BIMB Securities Sdn Bhd | 1,614 | 1,722 |
| RHB Investment Bank Bhd | 1,620 | 1,720 |
| Phillip Research Sdn Bhd | 1,610 | 1,710 |

Data as at Dec 31, 2025
Source: Research reports

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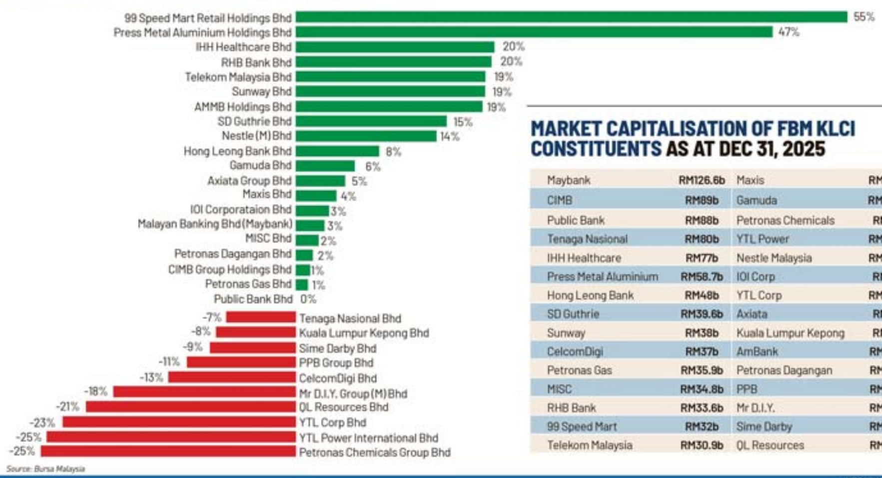
## FBM KLCI'S 2021-2025 PERFORMANCE

| Year | Performance |
|---|---|
| 2025 | 2.9% |
| 2024 | 12.90% |
| 2023 | -2.73% |
| 2022 | -4.60% |
| 2021 | -3.70% |

Sources: Bursa Malaysia & Securities Commission

INFOGRAPHIC NST

## PERFORMANCE OF FBM KLCI CONSTITUENTS IN 2025




Source: Bursa Malaysia

## MARKET CAPITALISATION OF FBM KLCI CONSTITUENTS AS AT DEC 31, 2025

| | | | |
|---|---|---|---|
| Maybank | RM126.6b | Maxis | RM29.7b |
| CIMB | RM89b | Gamuda | RM29.4b |
| Public Bank | RM88b | Petronas Chemicals | RM29b |
| Tenaga Nasional | RM80b | YTL Power | RM28.7b |
| IHH Healthcare | RM77b | Nestle Malaysia | RM26.7b |
| Press Metal Aluminium | RM58.7b | IOI Corp | RM25b |
| Hong Leong Bank | RM48b | YTL Corp | RM23.8b |
| SD Guthrie | RM39.6b | Axiata | RM23b |
| Sunway | RM38b | Kuala Lumpur Kepong | RM22b |
| CelcomDigi | RM37b | AmBank | RM21.5b |
| Petronas Gas | RM35.9b | Petronas Dagangan | RM19.8b |
| MISC | RM34.8b | PPB | RM15.7b |
| RHB Bank | RM33.6b | Mr D.I.Y. | RM14.5b |
| 99 Speed Mart | RM32b | Sime Darby | RM14.7b |
| Telekom Malaysia | RM30.9b | QL Resources | RM13.8b |

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