



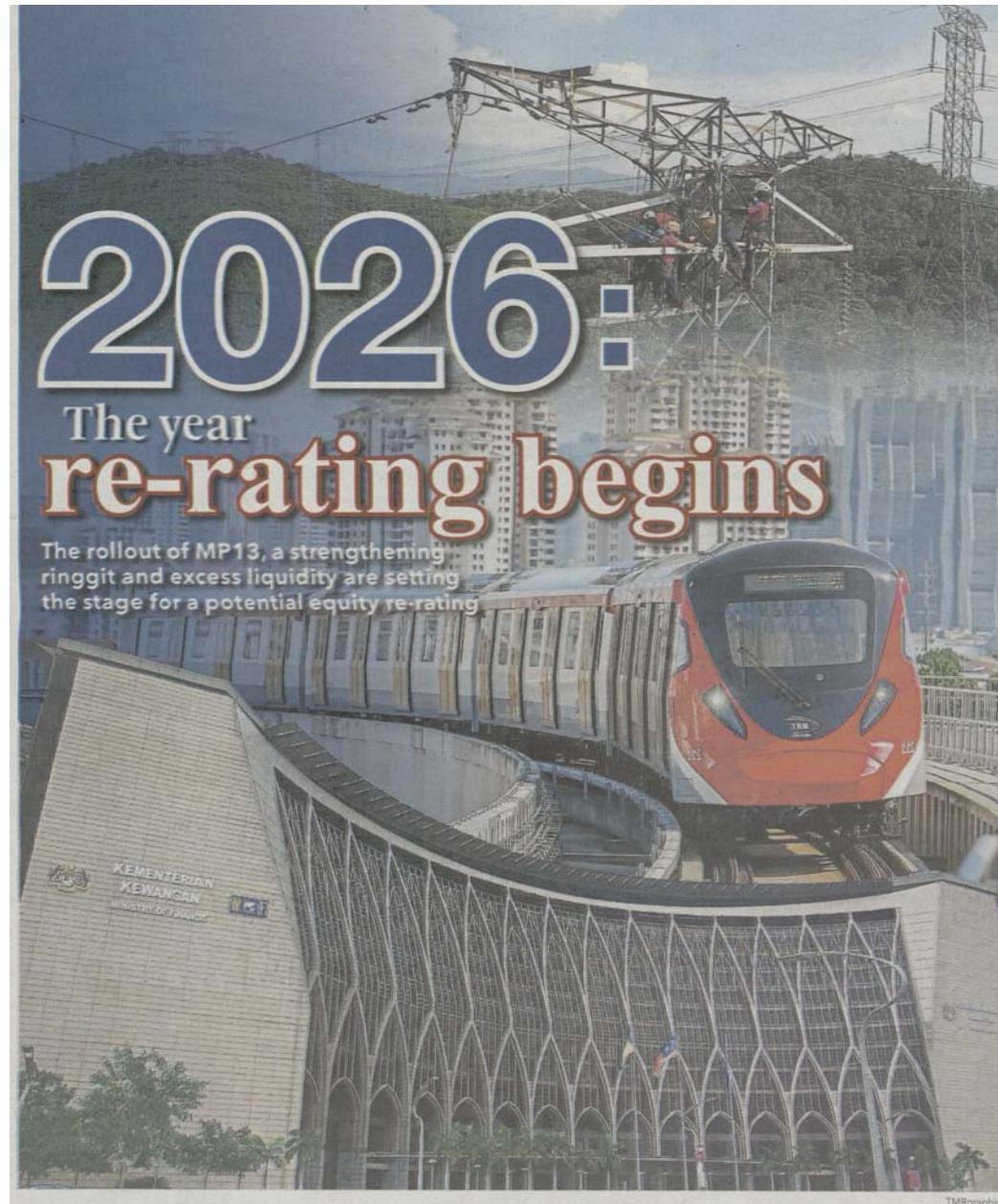
05 JAN, 2026

2026 The year re-rating begins



The Malaysian Reserve, Malaysia

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The rollout of MP13, a strengthening ringgit and excess liquidity are setting the stage for a potential equity re-rating

by AUFA MARDHIAH & NURNABIHAH DINI

THE Malaysian equity market enters 2026 having shed much of the bruising volatility that defined the previous year.

As the dust settles on the global trade ructions of 2025, the narrative surrounding the local bourse has shifted from defensive positioning to the prospect of a structural breakout.

Anchored by the official commencement of the 13th Malaysia Plan (MP13) and a markedly firmer ringgit, the FTSE Bursa Malaysia (FBM KLCI) is broadly expected to test new post-pandemic highs.

The consensus among research houses is clear: While the global backdrop remains unsettled, Malaysia's domestic fundamentals are aligning to create a "sweet spot" for an equity valuation re-rating.

Targeting the 1,770 Threshold
The optimism defining the 2026 outlook is best reflected in the ambitious year-end targets set for the FBM KLCI, which many strategists believe is on the cusp of a meaningful re-rating.

CIMB Securities Sdn Bhd leads the bullish consensus with a target of 1,772 points, implying a projected return of about 10% from late-2025 levels.

This target is anchored on a forward price-to-earnings (P/E) multiple of 15.8 times — about 1.5 standard deviations (SDs) above the five-year historical average — a premium justified by expectations of continued political stability and clearer policy direction.

A bottom-up analysis suggests this is not merely a top-down macro call.

CIMB Securities' calculations point to an even higher potential target of 1,842 points, with roughly 49% of the projected upside concentrated in just five heavyweights: Tenaga Nasional Bhd (TNB), Public Bank Bhd, Gamuda Bhd, CIMB Group Holdings Bhd and YTL Corp Bhd.

TNB alone is expected to contribute 37 points to the index, driven by its central role in the expansion of the utilities sector.

MBSB Investment Bank Bhd (MBSB Research) broadly shares this constructive view, setting a baseline target of 1,750 points.

Its valuation is based on a forward PER of 15.2 times, underpinned by expectations that the positive momentum seen in late 2025 will be sustained by a "sanguine economic outlook and positive earnings performance".

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Within its coverage universe, financial services are expected to deliver the largest earnings contribution, while the industrial products and services sector is forecast to record the strongest percentage earnings growth.

Public Investment Bank Bhd (PIVB), while more measured, still projects a year-end target of 1,730 points, based on a 15-times forward PER and estimated earnings growth of 6.8%.

Although conservative relative to peers, this target remains slightly above one standard deviation of its 10-year historical average, signalling that even cautious strategists see room for valuation expansion.

PIVB notes that "market valuations may have room to rise further due to excess liquidity", though it maintains a "trading-oriented investment strategy" amid volatility driven by global news flows.

Supporting these targets is the historically low level of foreign shareholding, which fell to a record low of 18.7% in September 2025.

Analysts argue that this positioning effectively puts a floor under the market, as "the absence of foreign participation kept valuations suppressed" through much of the previous year.

As global central banks, including the US Federal Reserve (Fed), continue to cut rates, the narrowing of yield differentials is expected to "engender a firmer ringgit and attract return inflow of foreign funds", providing the liquidity needed to unlock 1,770-plus index levels.

The Policy Engine

The structural shift underpinning Malaysia's 2026 outlook is anchored by the formal rollout of MP13, which spans 2026 to 2030.

Analysts see the plan not merely as a fiscal blueprint, but as the primary engine of a multi-year infrastructure upcycle.

Under MP13, the government is expected to maintain a high development expenditure ceiling, with an estimated RM430 billion allocated over five years — averaging RM86 billion annually.

This sustained fiscal push is intended to close the "execution gap" between investment commitments and economic delivery, as Malaysia transitions toward a higher-value economy under the Ekonomi Madani framework.

A key sub-theme is the National Energy Transition Roadmap (NETR), which is set to enter its most intensive implementation phase in 2026.

As the government targets 70% renewable energy (RE) capacity by 2050, the coming year is expected to see the rollout of major new RE projects alongside progress on third-party access (TPA) to the national grid.

TNB remains a consensus beneficiary, with expectations that it will ramp up regulated capital expenditure during Regulatory Period 4 (RP4) beginning in 2026.

This is seen as critical to supporting Malaysia's growing data-centre ecosystem and modernising transmission and distribution networks to accommodate higher RE penetration.

Policy momentum is further reinforced by the anticipated rollout of several mega-infrastructure projects flagged in previous budgets.

These include the Mass Rapid Transit 3 (MRT3), Penang Mutiara Line LRT and expansions at major airports — all expected to drive orderbook replenishment for the construction sector from 2026 onwards.

In the south, the Johor-Singapore Special Economic Zone (JSSZ) is expected to gain traction with the formalisation of its blue-print and tax incentives, including



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a proposed 5% corporate tax rate, spurring industrial land banking and infrastructure development along the Southern Corridor.

Complementing physical infrastructure is the GEAR-uP programme, led by the Ministry of Finance (MOF) to align the mandates of six major government-linked investment companies (GLICs), including Khazanah Nasional Bhd, Employee Provident Fund and Permodalan Nasional Bhd (PNB).

By 2026, the programme's next phase will involve more than 30 GLCs, with a collective target to lift market capitalisation by RM100 billion.

This "value-up" reform aims not only to deliver a minimum 7.5% annual return, but also to channel national capital into high-growth sectors such as semiconductors and advanced manufacturing.

As Principal Malaysia observes, the key question for 2026 is "whether these flows will translate into tangible economic benefits" — including job creation and skills upgrading — which will ultimately determine the durability of the market's re-rating.

Currency Catalyst

A pivotal theme for 2026 is the anticipated structural recovery of the ringgit, which is increasingly viewed as a key catalyst for equity re-rating.

Following a period of sustained pressure, research houses are converging on a more constructive currency outlook.

PIVB forecasts the ringgit to trade within a firmer RM4.40-4.05 range against the US dollar, while CIMB Securities sees potential for a retest of RM4.05-RM4.10 as early as the first quarter of 2026 (1Q26), before normalising around RM4.10-RM4.20 for the rest of the year.

This appreciation narrative is anchored in a narrowing interest-rate differential as global monetary policy pivots.

With Fed expected to deliver a further 50 basis points (bps) of easing by 2Q26, bringing the Fed Funds Rate to 3%-3.25%, the dollar's yield advantage is likely to erode.

Combined with signs of a softening US labour market and mounting fiscal pressures, this is expected to lead to a gradual "debasement of the US dollar" and a rotation of capital toward higher-yielding emerging markets such as Malaysia.

MBSB Research notes that this environment will "engender a

firmer ringgit and attract return inflow of foreign funds", providing additional liquidity support for FBM KLCI.

At the corporate level, a stronger ringgit acts as a multi-layered earnings catalyst.

It lowers input costs for import-dependent sectors, providing margin relief for companies reliant on imported raw materials and components.

PIVB notes it "continues to like importers that would benefit from this", particularly within the consumer staples and automotive segments.

Currency stability also provides a psychological anchor for foreign investors, who have historically seen ringgit-denominated gains eroded by exchange-rate volatility.

That said, the firmer currency is not without trade-offs.

Principal Malaysia cautions that a stronger ringgit "poses potential challenges for export-oriented sectors such as electric and electronic (E&E) and manufacturing."

CIMB Securities echoes this, maintaining a "Neutral" stance on the technology sector, noting that currency appreciation may "cap sentiment" and margins for outsourced semiconductor assembly and test (OSAT) players.

As such, the currency catalyst in 2026 calls for selectivity — favouring domestic-centric heavyweights and import-sensitive players, while warranting a more cautious valuation approach for export-led sectors.

Chaotic Factor

Despite Malaysia's improving domestic narrative, the 2026 outlook is set against what PIVB describes as a "chaotic global backdrop".

Strategists point to "disordered US policy" as the main source of volatility, reshaping global economic dynamics and complicating planning for multinational businesses.

Markets remain vulnerable to external shocks, including trade volatility, geopolitical tensions and the risk of asset bubbles.

Central to this instability is the US' aggressive use of trade tariffs to address imbalances and national security concerns.

While high-level engagements in late 2025 helped ease near-term tensions, PIVB cautions that US-China trade tensions persist, with settlements viewed as temporary and politically driven ahead of US mid-term elections.

This "ever-shifting" trade policy has also fuelled expectations of

around 1.9%-2%, providing Bank Negara Malaysia (BNM) with policy flexibility.

While the base case sees the Overnight Policy Rate (OPR) to remain at 3%, some research houses, including CIMB Securities, anticipate a possible 25bps "insurance cut" by 3Q26 if external headwinds intensify.

Fiscal consolidation continues, with the government targeting a narrower fiscal deficit of 3.5% of GDP (around RM74.6 billion), down from 3.8% in 2025.

Improved revenue collection following the Coretax rollout, along with higher Malaysian Government Securities (MGS) and Government Investment Issues (GII) maturities of RM108.7 billion in 2026, further strengthens the appeal of MGS.

As MBSB Research notes, market momentum relies on a "sanguine economic outlook and positive earnings performance".

While export-oriented sectors face currency-related headwinds, Malaysia's domestic framework bolsters investor confidence as the country advances towards the high-income goals outlined in MP13.

GE16 Speculation

Beyond macro and policy drivers, the political calendar adds tactical intrigue to the 2026 outlook.

Although the 16th General Election (GE16) is officially due by February 2028, strategists are already considering a possible pre-election sentiment boost as the government enters its fourth year in office.

Focus is on the upcoming state election cycle: Melaka by December 2026, Sarawak (February 2027) and Johor (April 2027).

These contests are seen as bellwethers for national political sentiment.

PIVB notes that while speculation exists around 2026 as an election year, "this may well be a year-end or early-2027 event".

CIMB Securities concurs, pointing out that the 2026 state polls and festive calendar "point to 2027 as the more likely timing".

Historically, FBM KLCI has shown a pre-election rally pattern, delivering positive 12-month returns ahead of three of the last four GE's, provided growth and inflation remain stable — conditions expected to persist through 2026.

During such periods, financials, consumer stocks and industrials tend to outperform, while the technology sector typically lags.

Political dynamics in East Malaysia are also gaining prominence.

The outcome of the 17th Sabah election in late 2025, which strengthened local parties, signals a rebalancing of political influence, with Sabah and Sarawak becoming increasingly pivotal to future federal coalitions.

This shift is expected to boost infrastructure spending and development allocations for East Malaysia and other key electoral regions ahead of GE16.

As a result, Budget 2027, due in October 2026, is likely to be "friendly to the rakyat", with enhanced household support and targeted spending aimed at reinforcing political stability.

A Market in Transition

In summary, Malaysia enters 2026 as a market in transition.

Historically low foreign ownership, a strengthening currency and the multi-year policy momentum of MP13 together create a compelling investment narrative story.

MBSB Research puts it: "brighter skies are emerging."

For investors, 2026 may be the year when tangible execution, rather than policy promises, drives the next phase of the market's re-rating.