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Gearing up for a stronger finish

The Star, Malaysia



EXPECT Malaysia's equity market to shine in the fourth quarter of 2025 (4Q25), riding on improving fundamentals, renewed foreign interest and dovish global monetary cues.

The benchmark index is projected to climb further through October to December, underpinned by structural tailwinds and selective strength across sectors.

Analysts from TA Research, RHB Research and Hong Leong Investment Bank (HLIB) Research all see compelling case for upside, albeit with caveats over global risks.

TA Research sees the FBM KLCI continuing an uptrend for 4Q25, citing "Malaysia's resilient fundamentals, improving corporate earnings, stable politics that ensure policy clarity and sustainability, and renewed foreign buying interest" as core pillars.

It notes that US President Donald Trump will conclude his tariff and trade restriction measures by year-end and shift focus towards reviving the economy ahead of the 2026 US Congress elections, which should help ease global trade tensions.

TA Research retains its end-2025 FBM KLCI target of 1,660, derived from 14.5 times calendar year 2026 earnings, and flags a bottom-up 12-month target of 1,790 for the 30 index constituents (versus *Bloomberg* con-

sensus of 1,770).

In its view, the current forward 2026 price-to-earnings (PE) multiple of 14 times is "well below its five-year historical average of 16.6 times, even as earnings growth is projected at 3.3% in 2025 and 6.2% in 2026 (versus consensus 1.5% and 6.1%, respectively).

The brokerage favours four thematic plays: undervalued blue chips (notably banks), domestic construction and property, defensive names and high-growth small caps.

It names **Hong Leong Bank Bhd, Public Bank Bhd, Tenaga Nasional Bhd, Gamuda Bhd, Sime Darby Property Bhd, SkyWorld Development Bhd, Fraser & Neave Holdings Bhd, KIP Real Estate Investment Trust, Exsiam Holdings Bhd and PGF Capital Bhd among its top picks.**

Cautious tone

RHB Research remains tactically cautious, despite agreeing that local equities are well positioned to benefit from structural drivers.

It points to improved clarity on trade tariffs, sanguine macroeconomic forecasts, commencement of the US rate cutting cycle, easing US dollar trend, Malaysia's commitment to reforms, record low foreign ownership levels, nascent

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domestic growth initiatives and Bursa Malaysia's laggard performance year-to-date as supportive forces.

RHB Research emphasises that 4Q25 is a period to "top slice some recent gains and look to position for 2026 with opportunities amongst the laggard names, small-to-mid caps and quality large caps on weakness".

With its economics team projecting US gross domestic product (GDP) growth of 1.5% in 2025 and 2% in 2026, it warns that a US slowdown or financial market dislocation could weigh on sentiment.

However, the research house sees potential for Asean markets like Malaysia to attract flows, especially if US equities cool.

The house sets an end-2025 target for FBM KLCI at 1,620 points, based on 15 times forward earnings, and suggests themes such as the stronger ringgit, rotation towards lower liners, dividend plays and quality names.

Inexpensive valuations

HLIB Research adds to the optimism, believing there are additional legs in the current rally.

It points to three triggers: "FBM KLCI's inexpensive valuations, laggard status within the region, and the likelihood of renewed foreign participation as a narrowing US Federal Funds Rate-Malaysia's overnight policy rate spread reignites flows."

It also reaffirms its 2025 GDP growth forecast for Malaysia at 4% year-on-year.

On valuation, HLIB raises its FBM KLCI target to 1,660 (from 1,640), using a 14.6 times PE multiple, though it retains a bottom-up ceiling of 1,835.

It sees earnings growth for 2025 and 2026 at 3.9% and 6.3%, respectively.

Its recommended playbook is to tactically add high-beta names on any dips underpinned by US Federal Reserve (Fed) put expectations from easing monetary cycle, while anchoring exposure in resilient large caps, stocks with positive catalysts and domestic-growth names.

Taken together, the three houses paint a broadly constructive picture for Malaysian equities heading into year-end and into 2026, though with different tactical postures.

TA Research is more bullish over multiple quarters and sectors; RHB Research is cautious in 4Q25 and favours selective entry; while HLIB Research is

somewhere in between, urging accumulation on weakness but vigilance over global factors.

Potential trigger

Notably, the spread between foreign shareholding and its historical trough is flagged as a potential re-rating trigger.

TA Research points out that foreign shareholding in Malaysian securities stood at 18.7% as of September 2025, near the 2003 trough of 18.1%, "suggesting significant re-rating potential if sentiment turns".

Domestic institutional funds are expected to absorb outflows, with TA Research adding that they have "absorbed RM16.4bil in year-to-date foreign outflows."

Meanwhile, RHB Research expects weak US dollar trends to lend support to precious metals such as gold and others.

As for HLIB Research, it expects the Fed to cut a further 25 basis points (bps) in 4Q25, implying a cumulative 50-bps cut in 2025, and forecasts US dollar-to-Malaysia exchange rate to end 2025 at 4.20 and average 4.29 for the full year.

In terms of risk, concerns around US growth, market dislocations and geopolitical flash-points are common among the houses.

RHB Research cautions that a US financial market correction could dampen emerging market investor sentiment.

HLIB Research also notes downside risks stemming from trade disruptions linked to Trump's tariff measures, even as it maintains optimism for the domestic backdrop, while, TA Research urges that "geopolitical risks warrant selectivity", even in its bullish outlook.

For context, Malaysia's stock market has lagged some of its regional peers in 2025.

Foreign investors have been net sellers, and valuation re-rating has lagged expectations – providing the "undemanding value proposition" that TA Research highlights.

Economic data through mid-2025 show resilient growth in domestic sectors, stable inflation and policy continuity, which underpin the optimistic base case.

On the global front, the Fed is widely anticipated to hold policy steady or signal further easing on Oct 29, depending on inflation prints, which could tip additional flows towards emerging markets – a development closely watched by local strategists and investors.

