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Improved foreign investor sentiment may spur recovery

STOCK MARKET

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PETALING JAYA: Despite the long-term, growth-supportive measures tabled in Budget 2027 – including fiscal deficit consolidation targets (3.3% of gross domestic product), a minimum wage hike to RM2,000, and elevated broad-based cash aid – near-term investor sentiment on Bursa Malaysia will likely remain cautious and constrained by global macroeconomic dynamics.

The benchmark FBM KLCI has already eased some 150 points since early last month due to election speculation and global macro uncertainties.

It gained 9.58 points or 0.59% to 1,618 at close yesterday, but a primary driver for immediate market direction is the upcoming US Consumer Price Index (CPI) print this week.

The CPI figure acts as a major catalyst influencing US Federal Reserve (Fed) interest rate expectations and global market liquidity.

“A softer inflation reading could improve global risk appetite and provide some relief to emerging markets, including Bursa Malaysia.

“We believe the direction of markets towards year-end will ultimately depend on the broader outlook for interest rates, global liquidity and corporate earnings,” said Nixon Wong, chief investment officer at Tradeview Capital.

Recent Fed rate decisions have widened the yield gap between US and Malaysian assets, triggering foreign capital outflows, a weaker ringgit and keeping the FBM KLCI under pressure.

A hotter-than-expected US CPI reading risks pushing US bond yields higher, prolonging the yield spread disadvantage and dampening international risk appetite for emerging markets like Malaysia.

Conversely, a softer CPI print could provide some relief by reviving foreign fund inflows.

Moreover, Wong expects positioning to remain selective, favouring companies with resilient earnings and attractive valuations.

A sustained recovery in the equity market will likely require an improvement in

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JPMorgan



foreign investor sentiment.

With Budget 2027 structured to reinforce domestic themes and strengthen household disposable income, JPMorgan, in the near term (three to six months), favours exposure to technology – where earnings upgrades support valuations – complemented by healthcare as defensive anchors.

“While increasingly crowded positioning could amplify volatility, we see little reason to exit companies with visible earnings growth, preferring to direct incremental capital towards less crowded opportunities.

“We remain selective on consumer as the wage hike impact has been priced in, leaving upside from consumption broadening and increasing operating leverage,” JPMorgan stated in a report.

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“In short, manage valuation risk in the near term, while owning earnings growth in the medium term,” JPMorgan further noted.

Meanwhile, Hong Leong Investment Bank (HLIB) Research maintained a year-end FBM KLCI target of 1,720 points at 15.3 times 2026 price-to-earnings.

The research house has adopted an “overweight” stance on key domestic-oriented sectors positively impacted by

Budget 2027 initiatives.

The research house stated that the income measures announced in the budget were positive for the consumer and retail sector, which it has an “overweight” call on.

HLIB Research favoured mass market retailers and beneficiaries of higher Sumbangan Asas Rahmah allocations and a Visit Malaysia campaign extension, such as Focus Point Holdings Bhd and 99 Speed Mart Retail Holdings Bhd.

The utilities, power and renewable energy plays can also capitalise on grid reinforcement spending (Tenaga Nasional Bhd or TNB's RM15bil capital expenditure) and extended Green Investment Tax Allowance incentives supporting data centre (DC) energy demand.

Its top picks include TNB, YTL Power International Bhd and Solarvest Holdings Bhd.

Like many other research houses, HLIB Research is “overweight” on construction and property.

The research firm advises focus on large-cap contractors linked to DCs and key infrastructure as well as property developers positioned for first-time homebuyer stamp duty relief and Johor-Singapore Special Economic Zone developments.

HLIB Research believes the higher minimum wage proposed under the new budget could negatively impact labour-intensive sectors such as glovemakers and electronics manufacturing services companies due to cost pressures.

In addition, upstream oil and gas service providers could suffer due to reduced capital expenditure capacity at Petroleum Nasional Bhd from elevated dividend payouts.