

KAF Investment Funds Berhad

Market Insights & Perspectives – July 2026

Fixed Income & Currency Outlook

June was a month of two halves for global markets. A war-driven inflation scare gave way to a sharp reversal, leaving bond investors and currency traders to navigate one of the most volatile stretches in recent memory.

Early June brought a familiar one-two punch: robust U.S. jobs data and the outbreak of hostilities between the U.S. and Iran stoked fears of resurgent inflation, sending bond yields sharply higher. Investors braced for a prolonged period of elevated rates.

The mood changed decisively in the second half of the month. Oil prices collapsed as ceasefire reports emerged and the prospect of a reopened Strait of Hormuz eased supply concerns. Inflation fears receded almost as quickly as they had appeared, fueling a broad bond-market rally.

U.S. Treasuries bore the brunt of the swings. The 30-year yield fell notably as long-dated debt benefited from the retreat in inflation expectations, while the Federal Reserve's preferred inflation gauge came in below forecasts late in the month, further easing rate-hike anxiety. Shorter-term yields, however, stayed elevated, anchored by new Fed Chairman Kevin Warsh's hawkish rhetoric and his stress on staying the course against inflation.

Malaysian government bonds proved remarkably steady by comparison. The 10-year MGS yield held near 3.61% for much of June. A mid-month scare — when Malaysia's Second Finance Minister warned that higher fuel-subsidy costs stemming from the Iran war could push the government off its 2026 fiscal deficit target — barely dented sentiment. Bank Negara Malaysia's (BNM) pledge of stronger measures to attract foreign capital helped steady the market into month-end.

U.S. Treasury yields will likely track the Fed's next move and incoming inflation data. For Malaysian bonds, solid auction demand and the return of foreign inflows are encouraging signs, though fiscal risks and ringgit volatility warrant close monitoring.

The dollar posted its strongest month since the Iran war began, with the Bloomberg Dollar Spot Index climbing roughly 2.0% in June. The rally was driven by growing expectations that the Fed would raise rates, with Chairman Warsh's tough talk on inflation serving as the key catalyst.

That momentum faded in the final days of June and early July, as a softer-than-expected U.S. jobs report dulled pressure for further rate increases. Elsewhere, the Japanese yen remained under sustained pressure, with the dollar trading near multiyear highs against it — prompting Japanese authorities to signal they were prepared to intervene.

The ringgit had a rough month, sliding from roughly 3.97 against the dollar at the start of June to a seven-month low near 4.15 by month's end. The decline reflected a confluence of pressures: capital drawn toward the U.S. by higher-rate expectations, concerns over Malaysia's fiscal outlook, and uncertainty ahead of upcoming state elections.

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A late-month recovery offered some relief. The ringgit strengthened for six consecutive days, closing near 4.06 against the dollar as oil prices fell and BNM reinforced its determination to attract foreign-exchange inflows. Notably, foreign investors returned to Malaysian bonds in force, adding to combined inflows into Asian emerging-market bonds that reached a two-year high of \$8.2 billion.

The dollar's near-term trajectory continues to be data-dependent, and several major banks now question whether June's rally has run its course. For the ringgit, a stabilizing oil market and BNM's proactive stance offer support, though the currency remains exposed to any shift in Fed expectations. If peak Fed hawkishness has indeed passed, a quieter summer for currency markets may be in store.