

FLASH

EXCLUSIVE E-MAGAZINE

ISSUE 31 | JAN 2026

For distribution to Areca Capital's Valued Investors

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ZOOMING IN ON RISING OPPORTUNITIES



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CEO's NOTE

Dear Valued Investor

We anticipate 2026 to be a year of opportunity for the Malaysian market. We are optimistic on the local equity and bond markets from a valuation and fiscal standpoint.

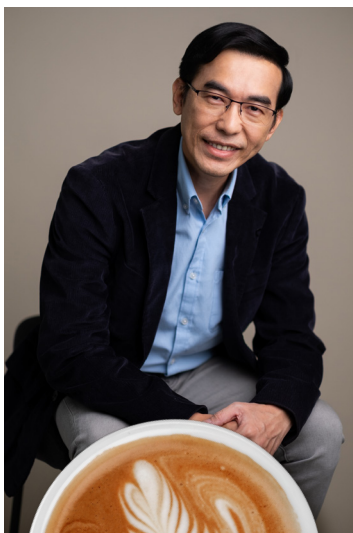
2025 and 2026 have seen Malaysia's renewed emphasis on key sectors like tourism and semiconductors. Ultimately, it will be how we position this value to investors on the global stage, that fuels foreign investments and market growth. We have seen the Malaysian Ringgit benefiting from this trend, and we hope this spills over to the financial markets as well.

Nevertheless, our 'crystal ball' hinges on developments from the external front as well. Expect more or less the same as previous years – geopolitics, tariff threats, posturing among the global superpowers, to still be prevalent for this year. Read on for a deeper dive into the respective asset classes and insights from my colleagues.

Best Regards,



Danny Wong,
Chief Executive Director
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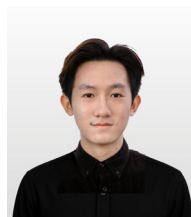
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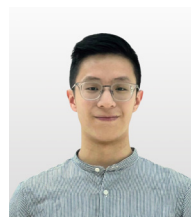
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EQUITY

MARKET OUTLOOK & REVIEW



EQUITY

Market Outlook & Review



by CIO
and Equity Team

Global Economic Landscape & Opportunities



What is Areca's global outlook for 2026?

Amid shifting political winds and escalating trade disputes, 2025 brought a new phase of tariff uncertainty that reshaped the global trading landscape.

The return of U.S. President Donald Trump to the White House in January kicked off a hectic year for global trade, with waves of tariffs on Washington's major trading partners. The tariff rates, some of which have been adjusted, targeted a broad range of allies and emerging markets. Despite the tariff impact, the U.S. economy suffered a modest contraction in the first quarter amid a scramble to import goods before tariffs took effect, but quickly rebounded and continues to grow at an above-trend pace thanks to a massive artificial intelligence investment boom and resilient consumer spending.

On the monetary policy front, the Federal Reserve had three consecutive rate cuts, each by 25 basis points in September, October and December respectively, bringing its policy range to 3.5%-3.75%. President Donald Trump's trade policies, and the global reaction to them, are expected to remain front-and-centre in 2026.

2026 is expected to be a year of transition as the global economy adjusts to a phase of managed volatility. AI-driven capital expenditure, industrial policy shifts, improved corporate resilience to tariffs, and likely monetary easing should help sustain activity and extend the cycle. Global growth is expected to moderate but remain resilient, supported by strong investment in technology, particularly AI and strategic government policies that keep markets active even in a complex geopolitical environment.

Interest rates and fiscal policy will be important drivers in 2026. High public debt and slower structural growth could keep yields rangebound. Emerging markets including Asia and Malaysia are poised to remain important growth engines, supported by a weaker dollar and potential rate cuts later in the cycle.



What are the Key Risks to Watch Out For in 2026?

Key risks to the outlook include renewed US-China trade tensions once the current truce expires, continued policy uncertainty from the US, and the possibility that interest rate cuts may be slower or smaller than expected if inflation remains sticky.

Market sentiment could also be affected if the global AI investment boom cools or valuations correct after strong gains.

Locally, delays in policy execution, infrastructure rollouts, or fiscal reforms could slow Malaysia's recovery, while foreign fund flows may remain volatile despite low current ownership levels. External shocks such as a stronger US dollar, higher energy prices, or a sharper global economic slowdown especially in major economies could pressure earnings and market confidence. In addition, any unexpected geopolitical events could trigger short-term market volatility.



What about the Malaysian equity market?

2025 has been a very challenging year for the Malaysian equity market. It has been one of the weakest performers in the region.

However, looking ahead to 2026, we are more optimistic. We believe that value in small- and mid-cap stocks is beginning to emerge. Our portfolios remain anchored in domestic recovery sectors such as consumer, construction, and utilities, alongside growth sectors in future-ready themes including AI, semiconductors, and data centres.

Valuations remain compelling: the FBMKLCI's price-to-earnings ratio (PER) is currently around 15.5 times, roughly one standard deviation below its 10-year historical average, reinforcing its appeal as a value opportunity within the region.

Our optimism for 2026 is based on five main factors:

1. Prudent and disciplined fiscal policy direction by the Malaysian government. The MADANI Budget under the RMK-13 framework balances fiscal consolidation, strategic investment, and subsidy reform. Priority sectors include semiconductors, renewable energy, and manufacturing supporting sustainable growth without excessive leverage.
2. Malaysia benefits from the global supply chain restructuring and AI investment acceleration. Opportunities are evident in semiconductors, data infrastructure, energy, and construction. Amid US-China tensions, Malaysia's strategic neutrality positions it as a bridge, attracting investment and supply-chain relocation.
3. Global liquidity conditions remain accommodative. Inflation expected to moderate later in 2026, the Federal Reserve may cut rates, but only gradually with possibly two cuts in 2026. The US Federal Reserve has already cut rates three times in 2025 and is expected to continue easing, improving risk appetite for emerging markets, including Malaysia.
4. Foreign equity ownership is at historical lows and this creates significant room for foreign inflows to return and a re-rating of our stock and bond market.
5. Valuations are more attractive with the FBMKLCI trading at about 15.5x PE, one standard deviation below its 10-year average, making Malaysia one of the more attractive markets in Southeast Asia for patient investors. That said, risks remain especially with the current US-China trade truce only guaranteed for one year until November 2026 being a key geopolitical milestone.



What are key sectors and themes in Malaysia to look out for?

In Malaysia, there are four key themes that stand out:

1. Semiconductors. Malaysia aims to grow electronics exports to RM1 trillion by 2030, up from RM683 billion in 2025.
2. Tourism – “Visit Malaysia 2026” targets 35 million visitors, exceeding pre-pandemic levels.
3. Construction & Infrastructure – Over RM120 billion allocated to development expenditure, including MRT3, ECRL, Pan-Borneo Highway, with record funding for Sabah and Sarawak.
4. Renewable Energy – Tenaga Nasional’s six-year capex is set to double to RM90 billion, driven by data centres and solar expansion.



What should an investor do?

Markets are evolving rapidly amid a once-in-a-century structural shift, driven by protectionism, geopolitical tensions, and global supply-chain realignment. While uncertainty has increased, opportunities and risks continue to coexist.

History reminds us that market leadership is never permanent—today’s winners may not be tomorrow’s. Investors must stay adaptive and position ahead of long-term trends. In volatile markets, we advocate a 3S strategy: Shield to protect the portfolio, Strike to seize opportunities when quality assets are mispriced, and Squat to stay patient through short-term noise.

Ultimately, successful investing returns to fundamentals—buying high-quality companies at reasonable valuations, not chasing momentum. Investors may consider a measured and selective re-engagement with Malaysian equities, particularly in segments where valuations appear more compelling, including parts of the small- and mid-cap space.

From an asset-allocation perspective, global liquidity remains broadly supportive, with interest rates expected to ease and the US dollar likely to soften over time. While this backdrop may be constructive for emerging markets, including Malaysia, investors should remain disciplined, diversified, and prudent in position sizing, avoiding excessive concentration in any single theme or market.

This article was written in Jan 2026.

FIXED INCOME

MARKET OUTLOOK & REVIEW





by CIO
and Fixed Income Team

FIXED INCOME

Market Outlook & Review

Global Economic Landscape & Opportunities



A Summary of 2025

2025 has been a year of differentiation in bond markets with very large divergences in yield moves, both between geographies and at different maturities of the curve. Global growth remained resilient in 2025 with major economies having avoided recession, supported by services activity and accommodative interest rates. In the US, the labour market softening and slower job creation have shifted the Federal Reserve's ("the Fed") focus toward employment even as core inflation remains elevated. The Fed is likely to prioritize growth stability through measured rate cuts, provided inflation expectations remain anchored.

In the final quarter of 2025, Malaysia's bond market continued to experience foreign inflows, signalling strong foreign interest and improving liquidity. The Malaysian ringgit bond and sukuk market continued its upward trajectory, with total outstanding reaching RM2.25 trillion in December 2025, a 7.20% increase year-to-date from December 2024.

Meanwhile, Bank Negara Malaysia ("BNM") maintained the Overnight Policy Rate at 2.75% in its final meeting as the Malaysian economy demonstrated resilient domestic growth, and stable moderate inflation. Both headline and core inflation remained moderate and within the government's forecast range, supported by easing global cost conditions and stable commodity prices.



What is Areca's global outlook for 2026?

The next Fed Chair slated to be appointed in May is likely to adopt a dovish policy stance, reinforcing a continuation of accommodative monetary conditions. The Fed is still expected to deliver 1-2 rate cuts this year, with risks tilted towards more rate cuts into a weaker labour market. The key risk remains a re-acceleration in inflation though inflation is likely to be more balanced heading into the year.

In November, the US will face its midterm elections with political incentives aligned towards containing inflation and avoiding policies that could undermine growth or raise consumer prices. We do not expect policy surprises from the Fed however, it wouldn't be surprising to see more of these temporary dislocations in the markets due to shifting policies. Over the long run, we believe US Treasuries will continue to be considered a safe haven during times of turmoil.

The Malaysian fixed income market should remain stable though inflation remains a key focus for BNM. Policy remains expansionary but carefully calibrated to sustain growth while reinforcing fiscal credibility.

The full year GDP growth in 2026 is projected to be 4-5% and unemployment rate is expected to remain low at 3%. Targeted measures such as the Budi95 programme and the continued rationalisation of subsidies should ease fiscal pressures. A firmer ringgit would improve Malaysia's relative attractiveness and help encourage foreign investors participation. Malaysia's real yield differential vs US Treasuries remains attractive compared to peers.

Looking ahead, the outlook is not defined by a single theme, but by various challenges and structural changes including rate cuts, inflation, labour market and de-globalization.



How should investors strategize their investment?

Credits are still our main preference as credit spreads are expected to remain compressed going into 2026. We continue to prefer the belly of the yield curve, i.e. 3-to-7-year maturities, as longer duration positions are more sensitive to market technicals. Bonds will continue to remain an essential asset class for investors seeking to reduce portfolio risk.

Combination of easing global yields and resilient domestic fundamentals may set a constructive tone for Malaysian bonds heading into 2026. However, potential delay in the Fed rate cuts could keep Treasuries yields high, putting pressure on Malaysian government bonds and narrowing the yield spread, which may cause temporary outflows.

Malaysia stands out as one of the beneficiaries of the art of international diplomacy. With red carpet treatment for the two largest superpowers and other ASEAN dignitaries and a jig or two with the US President, we now enjoy a reduced tariff rate and a currency that outperformed all in Asia with 9.1% appreciation. 2026 appears promising for Malaysia as this trend will likely continue as we are now viewed more favourably by the international investing community. While Singapore cements itself as the preferred financial centre, it is not too far-fetched for Malaysia to enjoy spillover effects by offering complementary and supplementary services. This is provided we position ourselves correctly and not trip over with any bungles or damaging scandals. Rising tourist arrivals further enhances our reputation. Could we en route back to the hey days of the 90's where Malaysia and Singapore stood tall as the roaring tiger economies of the region?

We look forward to a "galloping" wealth year.

This article was written in Jan 2026.



BULLETIN BOARD



Areca Investment and Wealth Forum 2025 (Sarawak)

On August 11 2025, Areca Capital hosted its inaugural Areca Investment and Wealth Forum 2025 (Sarawak) at the Sheraton Hotel Sarawak, bringing together thought leaders, investors and business professionals.

This full-day forum explored key market trends, global economic shifts and actionable investment strategies across asset classes and sectors, whilst also providing a platform for strategic dialogue, from global power realignments to business growth, investment outlooks and wealth and legacy planning.

Watch the event highlights of Areca Investment and Wealth Forum 2025 (Sarawak) by clicking on the play button.



Event Highlights



Areca Capital Roadshows 2025

We have successfully toured multiple states in Malaysia for our annual roadshows last November. These roadshows proved to be delightful and allowed Areca Capital to engage directly with many of our clients across Kuala Lumpur, Ipoh, Penang, Melaka, Johor, Kuching, and Kota Kinabalu, offering an environment for sharing new insights, market outlooks, and discussions.

Ultimately these engagements strengthened our relationships with the clients and provided them updates on key market strategies and developments.



Roadshow at M Resort & Hotel, Kuala Lumpur, 12-13 November 2025

The Roadshows were titled 'Beyond the Old Playbook: Wealth for a New Cycle' and it focused on navigating the evolving market landscape by promoting a culture of preserving wealth and legacy. Discussions also emphasized the generational investment behaviours of different demography of investors and highlighted key strategies for wealth creation in the upcoming Malaysian equity and bond markets.

A central theme of these roadshows was bringing everyone onto the same page as we navigate a new era of investments, ensuring clients are well informed and prepared for market changes in the year ahead.

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