

FLASH

EXCLUSIVE E-MAGAZINE

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For distribution to Areca Capital's Valued Investors

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Meet the People Behind
Our Fund Management

EQUITY & FIXED INCOME

Global Economic Landscape &
Opportunities

BULLETIN BOARD

Areca Capital and KKCCCI
Forum 2026



www.arecacapital.com



[@ArecaCapital](https://www.facebook.com/ArecaCapital)



invest@arecacapital.com



+603-7956 3111

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CEO's NOTE

Dear Valued Investor

The first half of 2026 showed markets rarely move in a straight line. Geopolitical flare-ups and shifting US monetary policy kept sentiment uneasy, while Malaysia faced its own swings. Yet earnings, valuations, and domestic reform have held firm, and in some respects even improved.

We remain believers in Malaysia's story. The push to strengthen our capital markets isn't just policy for show, it's the kind of groundwork that tends to pay off over years, not months. On the fixed income side, we're staying patient and picky, favouring quality over stretching for yield while the rate picture sorts itself out.

Expect more of the same into the second half. External noise will likely keep testing us, but with strong fundamentals underpinning our portfolios, we can weather the storm. Read on for a deeper dive into the respective asset classes and insights from my colleagues.

Best Regards,



Danny Wong,
Chief Executive Officer
Areca Capital Sdn Bhd



INVESTMENT TEAM



Danny Wong Teck Meng
Chief Executive
Officer



Ch'ng Cheng Siew
Chief Investment
Officer



Tan Ming Han
Investment
Strategist



Peter Lim Tze Cheng
Associate Director Equity



**Nor Juleeana Binti
Badron**
Fund Manager
Fixed Income



Paul Ng Pang Hou
Fund Manager Equity



Sara Tey Suet Yin
Fund Manager
Fixed Income



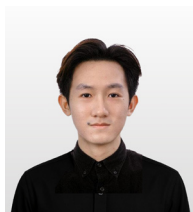
Yong Jun Ting
Fund Manager Equity



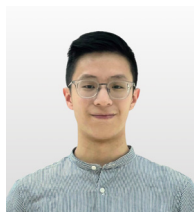
Derick Gan Yew Yi
Equity Analyst



Low Chin Hong
Fund Manager Equity



Kris Chong Choon Ket
Equity Analyst



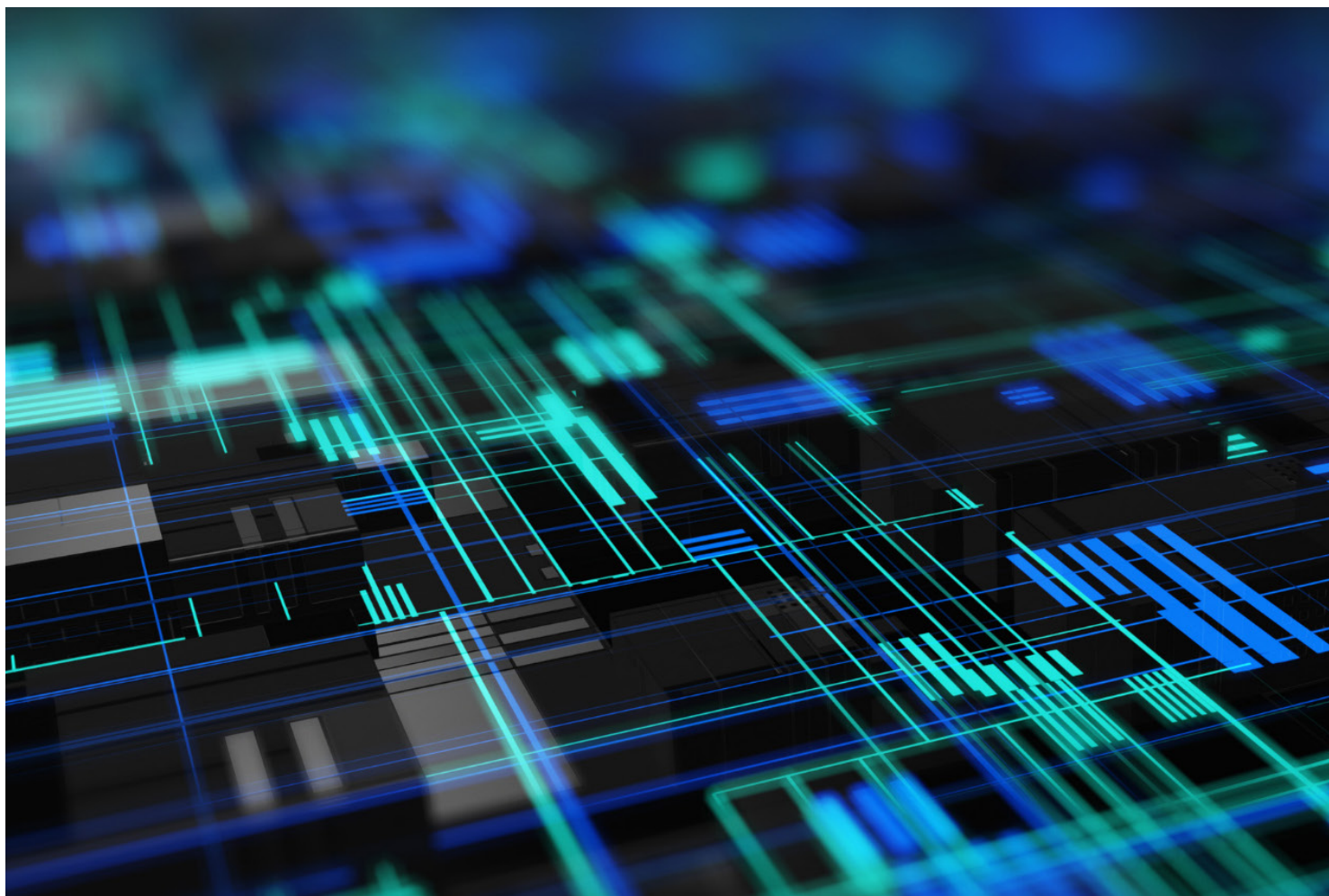
Sow Hann Shen
Equity Analyst



Doreen Ooi Yi Jie
Fund Manager
Fixed Income



Zhou Jia Yee
Fixed Income Analyst



EQUITY

MARKET OUTLOOK & REVIEW

Q What is Areca's outlook for Malaysian equities heading into the second half of 2026?

The first half of 2026 was resilient but volatile. The KLCI began the year on a constructive footing, touching a year-to-date high of around 1,771 points in late January, before the US-Israel/Iran conflict escalated in late February and brought geopolitics and energy-security risk back to the fore. Despite this, the index proved surprisingly resilient as commodity-linked sectors such as plantation and energy cushioned the impact of higher oil prices, and the market went on to touch a conflict-period peak of roughly 1,759 points in early May.

By June, however, investor attention rotated away from geopolitics and toward a more hawkish US Federal Reserve, as elevated oil, freight and input costs stoked fresh inflation concerns. This triggered profit-taking, ringgit weakness and renewed foreign outflows, and the KLCI eased back to close the month at approximately 1,664 points on 30 June, though still modestly positive on a year-to-date basis.

The picture is not one-dimensional, though. Consensus 2026 KLCI earnings growth has actually been revised up to around +8.8%, firmer than the roughly 6–7% pencilled in at the start of the year and at 14.7× forward P/E the market remains inexpensive versus its 10-year average of 16.0x. Sell-side year-end 2026 index targets

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by CIO and Equity Team

have generally been trimmed from the more unambiguously bullish calls seen in January, but still cluster in a 1,700–1,810 range, implying meaningful upside from current levels if external policy risk clears.

We remain constructive but selective heading into 2H26, supported by resilient domestic earnings and attractive valuations, while remaining mindful of potential US rate hikes and their implications for the ringgit and foreign fund flows. We continue to view semiconductors as being in a structural AI-driven supercycle, although near-term sentiment may pause amid noises over AI capex. Accordingly, we favour quality growth at a reasonable price (GARP), focusing on companies with sustainable earnings and strong balance sheets, while avoiding names with higher sensitivity to interest rate movements.

2026 EPS GROWTH



+8.8 %

Up from 6-7% at the start of the year

VALUATION



14.7x

Below 10-year average of 16.0x

OUR OUTLOOK



**CONSTRUCTIVE
SELECTIVE**

Expect Higher Volatility

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🔍 What are the key headwinds to watch for in the second half of 2026?

The single biggest swing factor is US Federal Reserve policy. Markets are now pricing a real probability of a further +25bp rate move in September 2026 which is considered a sharp reversal from the rate-cut expectations that prevailed at the start of the year. Under the new Fed Chair, Kevin Warsh used his first press conference to stress the committee was "unanimous and unambiguous" on fighting inflation, mentioning price stability 12 times, which markets read as openness to hikes if inflation persists. That plus the June dot plot median moving the year-end funds rate to 3.8% above the current 3.5%–3.75% range, is what repriced the curve. We read this as most likely an "adjustment hike" to anchor inflation expectations against a supply-side (energy and freight) shock, rather than the opening move of a fresh, demand-driven tightening cycle. But it is the uncertainty itself that markets are trading in the interim, and a confirmed hike could still pressure valuations, strengthen the US dollar and dampen emerging-market risk appetite in the near term.

Linked to this, the ringgit gave back much of its earlier 2026 strength in June, weakening to a seven-month low near 4.15 against the US dollar before recovering to around 4.08 by June, a depreciation of roughly 2.9%

from end-May. A softer ringgit complicates the imported-inflation outlook and has historically been a key swing factor for foreign portfolio flows into Malaysian equities.

Foreign selling has also re-accelerated after a brief lull, marking a seventh consecutive weekly net outflow into late June, with the heaviest selling clustered around the days that coincided with a broader global sell-off in AI and semiconductor shares. This is a reminder that even a market with foreign ownership already near historic lows can see further incremental outflows on external, rather than domestic, triggers. Domestic political risk also warrants monitoring, with a state election on the near-term calendar adding a layer of uncertainty on top of these external drivers.

On the more reassuring side of the ledger: Bank Negara Malaysia left the Overnight Policy Rate unchanged at 2.75% (no Monetary Policy Committee meeting was scheduled in June; the next decision falls in July), May headline inflation came in at a contained 2.0% year-on-year, and first-quarter 2026 GDP growth of 5.4% confirms the domestic economy remains on solid footing even as external headlines dominate sentiment.

Q How does Areca view Malaysia's market reform agenda?

Malaysia's reform agenda is arguably the most substantive in a decade, combining regulatory ambition, market-structural intervention and GLC activation into a single reinforcing package: the SC Capital Market Masterplan 2026–2030 (targeting RM5.8–6.3 trillion in market size by 2030), the MY Value-Up Programme launched by Bursa Malaysia in April 2026, and GEAR-uP, under which six GLICs are mandated to deploy RM120 billion of domestic investments by 2028.

A meaningful execution milestone landed in June: at the Invest Malaysia 2026 conference, the Securities Commission and Bursa Malaysia formally launched the MY Value-Up Programme Guidebook on 9 June 2026. The guidebook gives listed companies a practical, principles-based framework for articulating long-term growth strategy, optimising capital allocation and improving investor engagement.



The MY Value-Up Programme remains, in our view, the most structurally significant of the three initiatives. Drawing on regional precedent where Japan's Nikkei surged 112% post-reform as its P/E expanded from 16.4× to 22.9×, while Korea's Kospi gained 140% as ROE rose from 8.4% to 20.8% — the case for a genuine re-rating is not merely aspirational. Malaysia's starting point of around 14–15× forward P/E, alongside high-single-digit to low-double-digit EPS growth. This leaves meaningful scope for upside should the programme succeed in improving corporate governance, capital allocation discipline, shareholder returns, and investor confidence. The opportunity is therefore not merely cyclical, but potentially a durable structural re-rating of the Malaysian equity market.



Q What are the key opportunities and challenges in Malaysian stocks?

The Malaysian opportunity set remains bifurcated: structurally strong themes in AI infrastructure, banking, renewables and tourism sit alongside legacy challenges in oil & gas, REITs and governance-impaired names. Stock selection is therefore paramount as this is not a market to buy broadly through the index, and June's repricing in global AI and rate-sensitive sectors only reinforces that.

On the opportunity side, Malaysia is among the region's beneficiaries of surging demand for AI-related technology exports, feeding a domestic semiconductor OSAT and advanced-packaging ecosystem tied to global chip demand. The weaker ringgit adds a cyclical tailwind for technology and E&E exporters. Meanwhile, domestic banks offer NIM stabilisation, resilient loan growth and direct GEAR-uP exposure; and Visit Malaysia 2026, and an execution-year construction pipeline under 13MP round out the case.

The challenges are largely external and near-term. The dominant swing factor is a possible US Fed rate hike in September, even a one-off "adjustment hike" is already pressuring valuations and risk appetite into 3Q26 and feeding into ringgit's volatility. June's regional AI/semiconductor market repricing shows how sharply thematic exposure can correct, and the KLCI's lack of a large-cap AI name still limits eligibility for global AI-thematic mandates. Domestically, the oil & gas recovery stays fragmented and contingent on the Middle East de-escalation. Foreign investors have recorded a year-to-date net outflow from the Malaysian market, despite foreign ownership already sitting near historically low levels. This creates a difficult near-term technical backdrop: low foreign ownership may ultimately limit the extent of further selling, but continued outflows can still weigh on liquidity, market sentiment, and the valuation multiple applied to Malaysian equities.

PREFERRED INVESTMENT THEMES

OPPORTUNITIES

-  AI Infrastructure & Semiconductor Ecosystem
-  Banking
-  Renewable Energy
-  Tourism & Construction
-  Export-Oriented Technology Companies

BE SELECTIVE

-  Interest Rate Sensitive Sectors
-  Selected Oil & Gas
-  REITs
-  Companies with Weak Governance or Highly Leveraged Balance Sheets

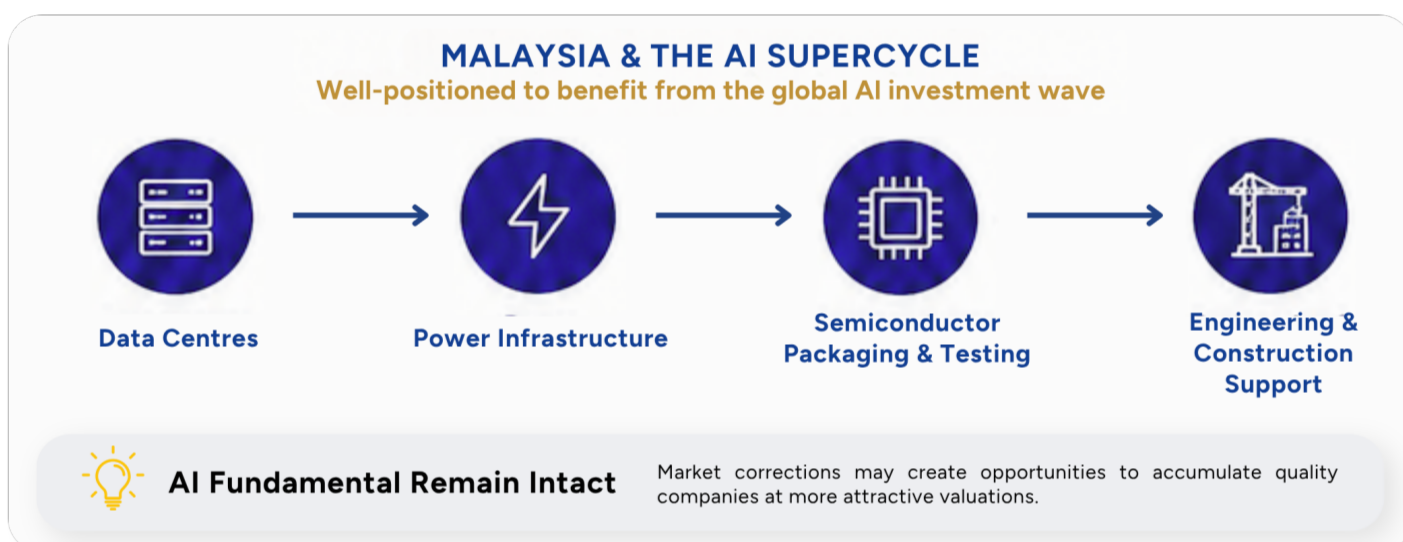
Q How is Malaysia riding the AI Investment Supercycle?

Malaysia's AI equity story remains one of infrastructure monetisation rather than direct AI pure-plays as the KLCI does not contain a listed hyperscaler or AI software company. Instead, the investment thesis flows through power, construction, semiconductor services and data-centre support infrastructure, making Malaysia a derivative AI play with defensive characteristics rather than a high-beta one.

That said, late June brought a sharp reminder that the AI trade is not a one-way bet. A repricing in AI and semiconductor shares triggered a broader global technology sell-off with regional tech-heavy indices falling sharply in a single session, tripping circuit breakers, while the US Nasdaq corrected by roughly 5% from its early-June record. Malaysia's comparatively low-tech-weighted, more defensive index composition cushioned the blow relative to North Asian peers, though local semiconductor and E&E-linked names were not entirely immune to the spillover.

The divergence between price action and underlying fundamentals presents selective opportunities. The recent global AI-related sell-off has been concentrated largely in semiconductor names that had experienced significant re-rating following stronger-than-expected AI capex expectations, supply constraints in memory, and the strategic shift by leading memory players towards high-bandwidth memory (HBM), which has driven a sharp recovery in memory pricing. These developments have also raised broader market concerns around cost inflation, end-user pricing pressure and the sustainability of the current AI investment cycle.

However, we believe the underlying AI infrastructure build-out remains intact. Malaysia is strategically positioned within this ecosystem, with capabilities extending beyond traditional semiconductor assembly into higher-value areas including chip design, advanced packaging, testing, as well as power and data centre infrastructure. While near-term sentiment may remain volatile as markets digest the pace and returns of AI investment, we view such periods of weakness as opportunities to selectively accumulate quality companies positioned to benefit from the long-term AI transformation.



Q What should investors do heading into the second half of 2026?

Our overall stance for 2H26 is best described as optimistic, albeit cautious while constructive on the domestic earnings, valuation and reform backdrop, but mindful that the near-term path is likely to be choppy than the more unambiguously bullish narrative that prevailed at the start of the year. Valuations at 14.7× forward P/E remain compelling relative to history and most ASEAN peers, and 2026 consensus earnings growth has actually been revised higher to around +8.8%. Reform catalysts such as MY Value-Up (now backed by a formal guidebook), the RM120 billion GEAR-uP deployment, and the Capital Market Masterplan 2026–2030 will continue to offer credible re-rating potential over the medium term.

Our base case is a cautious start to 2H26 as markets price in the possibility of a US rate hike, with a likely pickup in volatility through the third quarter. If that hike is delivered as a one-off “adjustment hike” and the Fed signals it is not embarking on a sustained tightening cycle, we would expect sentiment and Malaysian equities to recover into year-end, supported by healthy domestic growth, resilient earnings and a renewed focus on domestic catalysts once external policy uncertainty clears.

Key risks to monitor into 2H26: the US Fed’s actual policy decision and forward guidance in September, the trajectory of the ringgit, the sustainability of the AI and semiconductor trade following June’s sharp repricing, and the pace of foreign fund flows. As with our January outlook, we continue to advocate a 3S approach in navigating this cycle: Shield to protect the portfolio from headline volatility, Strike to seize opportunities where quality names are mispriced amid a still-cautious market, and Squat to stay patient through the noise of a still-unfolding rate, reform and election cycle.

ARECA'S 2H26 STRATEGY: THE 3S FRAMEWORK



OUR OUTLOOK

Optimistic over the medium term, supported by **resilient earnings**, **attractive valuations** and ongoing **structural reforms**.

WHILE REMAINING MINDFUL OF:



US rate decisions



Ringgit movements



Foreign fund flows

This article was written in July 2026.



FIXED INCOME

MARKET OUTLOOK & REVIEW

Q *What does the current US economic landscape look like?*

1H of 2026 was positive for global bond markets although volatility remained elevated as market volatility was driven more by interest rates and macro uncertainties rather than by deterioration in corporate fundamentals. The Middle East conflict remained in full focus with the direction of bond yields tracking energy markets extremely closely. As escalation fears intensified, government bond yields rose to multi-year highs before reversing on encouraging signs of a potential US-Iran agreement. In the United States ("US") the Federal Reserve ("Fed") left its target rate

range unchanged at 3.50%–3.75% at its recent meeting maintaining that policy was sufficiently restrictive. Kevin Warsh was approved as Powell's successor, chaired his first meeting in June.

US Treasury ("UST") curve flattened, as yields rose in shorter maturities but fell slightly at the longer-dated end of the curve. Stronger-than-expected data reinforced expectations that monetary policy would need to remain restrictive. The rise in non-farm payrolls exceeded expectations and the overall resilience of the labour market supported the view that the US economy could absorb higher energy prices better than feared. In June, the European Central Bank ("ECB") raised rates by 25 basis points, taking its policy rate to 2.25%. Revised

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by CIO and Fixed Income Team

projections showed higher inflation assumptions and weaker growth, while President Lagarde stressed that policy remained data-dependent and not on a pre-determined path.

Q How should investors navigate a resilient economy, sticky inflation, and tighter monetary policy?

The US economy began on a positive note – nominal GDP growth remained strong underpinned by AI-related business investments, resilient consumer spending and a labour market that continues to hold up



Global bond markets delivered positive returns despite elevated volatility



Volatility was driven by interest rates, inflation and macro uncertainties, not by deteriorating corporate fundamentals.



Middle East tensions drove oil prices and government bond yields to multi-year highs before reversing on de-escalation hopes.



US Fed kept the target rate unchanged at 3.50% - 3.75% maintaining that policy remains sufficiently restrictive.



Kevin Warsh was approved as Powell's successor and chaired his first meeting in June

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despite pockets of softness. Fiscal policy remains a wildcard: continued government spending and tax measures are providing an offset to energy-driven cost pressures, but they have contributed to elevated Treasury issuance and term premiums, which in turn have kept longer-dated yields elevated. The risk has flipped from "yields fall as Fed cuts" to "yields could grind higher or stay elevated" if the Fed ends up hiking rather than cutting, or if oil/geopolitics reignite. Signs of progress in indirect US-Iran talks and oil prices retreating are the encouraging counter-signal right now — if the energy shock keeps fading and the labor market keeps softening (June jobs data is the immediate catalyst), that argues against a hike and could cap yields near current levels rather than push them higher.

Back home, Malaysia's bond market enters the second half of 2026 on solid footing. The bond market remained well supported thanks to narrower fiscal deficit and a lighter bond supply outlook. Despite the ongoing geopolitical tension in the Middle East and supply chain disruptions, Malaysia's GDP is expected to chalk up decent growth in 2026. The latest Bloomberg consensus data compiled across major banks points to a full-year 2026 growth of around 4.5%, which is within the government's official forecast range of 4.0% to 5.0%.

Bank Negara Malaysia has held the policy rate steady through 1H26. We expect consumer inflation to remain broadly contained in the near-term. Historical trends suggest changes in producer prices typically take time to be transmitted through supply chains and reflected in retail prices, with the lag estimated at around three months. As such, any upward pressure on consumer prices is likely to be gradual rather than immediate

What is Areca Capital's outlook and strategy for 2H2026?

Looking into the next 2H2026, inflation expectations have increased and markets are now pricing in the possibility of rate hikes before the end of the year. We maintain a neutral duration stance given the prevailing macro backdrop, where the absence of a concrete resolution to the conflict will continue to weigh on rates. Global long-end yields have found some degree of stability following the sharp selloff, though we believe catalysts for a meaningful reversal remain lacking. For rates to perform in the near term, the outcome hinges on three conditions: (i) continued de-escalation of the conflict alongside a resumption of energy flows; (ii) evidence that the underlying trajectory of US inflation and the labour market is more dovish than markets currently anticipate; and (iii) a market perception that the Fed is not falling behind the curve.

In terms of strategies, while yields are reasonably attractive, credit spreads are tight limiting upside potential. Importantly, any election-related volatility is seen as a buying opportunity rather than something that derails the broader market. For our fixed income portfolios, we suggest keeping duration moderate at around 3-5 years to

manage interest rate risk and to add duration only when there is greater clarity on the resolution of the US-Iran conflict. We remain focused on quality and disciplined credit selection and look to add exposure selectively during periods of market weakness.



This article was written in July 2026.

by Areca Capital



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Areca Capital Partners with KKCCCI for 2026 Forum

On July 11, 2026, Areca Capital co-hosted Navigating 2026: Positioning Assets with Foresight, Planning Legacy with Wisdom together with the Kota Kinabalu Chinese Chamber of Commerce & Industry (KKCCCI) at Wisma KKCCCI, Kota Kinabalu.

The session brought together local business owners and members of the community for an engaging discussion on navigating the evolving investment landscape, alongside the importance of thoughtful legacy planning in building lasting wealth.

Areca Capital extends its sincere appreciation to KKCCCI for their partnership and support in making the event a success, and to all participants for their presence, engagement and insightful discussions. We look forward to future collaborations and to continuing these meaningful conversations.



Event Highlights

FIND US HERE

Areca Capital Sdn Bhd

200601021087 (740840-D)



www.arecacapital.com



invest@arecacapital.com

Head Office

107, Blok B, Pusat Dagangan Phileo Damansara 1,
No. 9, Jalan 16/11, Off Jalan Damansara,
46350 Petaling Jaya, Selangor



+603-7956 3111

Private Wealth Centre

Unit No. 3A-09-01, Level 9, Corporate Tower 3A,
Pavilion Damansara Heights, No. 3, Jalan Damanlela,
50490 Kuala Lumpur

Penang Branch

368-2-02 Belisa Row,
Jalan Burma, Georgetown,
10350 Pulau Pinang



+604-210 2011

Johor Bahru Branch

No. 105, Jalan Meranti Merah,
Taman Melodies,
80250 Johor Bahru



+607-336 3689

Ipoh Branch

No. 11, Persiaran Greentown 5,
Greentown Business Centre,
30450 Ipoh, Perak



+605-249 6697

Kuching Branch

1st Floor, Sublot 3, Lot 7998, Block 16,
KCLD, Cha Yi Goldland, Jalan Tun Jugah/Stutong,
93350 Kuching, Sarawak



+6082-572 472

Malacca Branch

95A, Jalan Melaka Raya 24,
Taman Melaka Raya,
75000 Melaka



+606-282 9111

Kota Kinabalu Branch

Unit 5-1-8, 1st Floor,
Lorong Api-Api 1, Api-Api Centre,
88000 Kota Kinabalu, Sabah



+6088-276 757