

## Research Team

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2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+4.8%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+1.8%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

## Economics &amp; Market Outlook

## Buy the Dip on Geopolitical Noise

- We expect Brent price to normalise after the recent spike, keeping inflation modest at 1.6–1.9% (2026F: 1.8%).
- While geopolitical tensions remain, sustained E&E demand should support external growth, while stronger tourist arrivals, continued policy support and robust investment underpin domestic demand. We maintain our 2026 GDP forecast at +4.7% (2025: +5.2%).
- Market weakness should be viewed as an opportunity for gradual accumulation of fundamentally sound names. Our preferred picks are MSC (BUY, TP: RM2.14), ISF (BUY, TP: RM0.55), AGX (BUY, TP: RM0.62), & ATECH (BUY, TP: RM1.00).

## Quick Take

**US and Israel launched coordinated airstrikes on Iran on 28 February 2026**, targeting key military and nuclear-related facilities and marking a sharp escalation in regional tensions. Iran retaliated with missile and drone attacks on Israel and US bases across the Middle East, raising concerns over potential disruptions to global oil supply, particularly through the Strait of Hormuz. The conflict has since heightened geopolitical uncertainty and triggered a spike in oil prices, weighing on market sentiment in the near term.

## Our View

**Maintaining Constructive Outlook; Accumulate on Weakness.**

We encourage long-term investors to position for gradual accumulation of fundamentally sound names, as the recent market correction appears overdone. Further downside, if any, should be viewed as an opportunity to build positions. While geopolitical tensions remain, sustained electronics and electrical (E&E) demand amid the AI-led technology upcycle should continue to underpin external growth. On the domestic front, stronger tourist arrivals under Visit Malaysia 2026, continued policy support for lower-income households, and robust investment led by ongoing data centre expansion is expected to underpin a steady domestic demand. **We maintain our 2026 GDP forecast at +4.7% (2025: +5.2%) for now.**

**Oil Price Volatility: Limited Impact on Inflation and Fiscal Position**

Despite recent volatility in energy markets, Brent crude prices are expected to normalise after the initial geopolitical-driven spike, as such surges are typically short-lived. As a result, the inflationary impact should remain contained, with every USD10/bbl increase in Brent estimated to raise headline inflation by only about 0.1 percentage points, keeping inflation within 1.6%–1.9% (2026F: 1.8%). The RON95 fuel price cap of RM1.99 per litre for eligible Malaysians should further limit the pass-through to domestic prices.

From a fiscal perspective, higher oil prices provide additional petroleum-related revenue but also raise subsidy costs. Our estimates suggest that every USD10/bbl increase in Brent lifts government revenue by around RM3bn while increasing fuel subsidy spending by about RM3.5bn, resulting in only a modest net fiscal impact. Overall, we expect the government to remain on track to achieve its 2026 fiscal deficit target of 3.5% of GDP.

## Scenario Analysis

**Base Case (70% probability): Brent USD55–75/bbl.**

**Conflict contained, oil price spike proves temporary.** Under our base case scenario, the geopolitical conflict remains contained and de-escalates within weeks, allowing supply concerns to ease and Brent crude prices to normalise within a range of USD55–75/bbl, broadly in line with the government's official forecast of USD65/bbl. With domestic fuel prices shielded by the RON95 price cap, the pass-through to inflation is expected to remain limited, keeping inflation within 1.6%–1.9% (2026F: 1.8%). Meanwhile, the fiscal deficit is projected to remain manageable at around 3.5% of GDP, while GDP growth is expected to come in at 4.7%. In this

environment, markets may gradually recover as geopolitical risk premiums fade and underlying economic fundamentals reassert themselves.

**Bullish Case (25% probability): Brent USD76–99/bbl.**

**Prolonged conflict leads to sustained high oil prices.** Under our bullish case scenario (25% probability), where geopolitical tensions persist and oil supply risks remain elevated, Brent crude prices could stay in a higher range of USD76–99/bbl as the conflict prolongs and sustains upward pressure on energy markets. Even in this environment, the government is likely to maintain the RON95 price cap at RM1.99/litre to shield households from fuel price volatility, although higher RON97 and diesel prices could still exert some cost-push inflationary pressures. As a result, inflation may trend slightly higher within the range of 1.9%–2.2%, while the fiscal deficit is expected to remain manageable at around 3.6% of GDP. At the same time, higher oil prices would provide an uplift to petroleum-related government revenues, which could partially offset subsidy costs, while spending may be reallocated from non-priority areas if additional support measures are required.

**Bearish Case (5% probability): Brent USD45–54/bbl.**

**Global demand softens amid geopolitical uncertainty.** Under our bearish case scenario (5% probability), prolonged geopolitical tensions dampen global growth expectations, leading to weaker oil demand and pushing Brent crude prices lower to a range of USD45–54/bbl. In this environment, inflationary pressures would likely ease further, with inflation projected to come in at around 1.5%–1.6%, while the fiscal deficit is expected to remain broadly stable at approximately 3.5% of GDP. Although softer global demand could weigh on Malaysia's external trade performance, the resulting subdued inflation environment would help reduce pressure on both domestic monetary and fiscal policy.

**Short-Term Volatility, Medium-Term Recovery**

In our view, the recent US/Israel–Iran conflict may lead to near-term market weakness. However, historical experience suggests that markets typically recover once uncertainty begins to ease. In past geopolitical conflicts, initial sell-offs were often followed by rebounds as the situation became clearer. Markets tend to react more to uncertainty than to the conflict itself, and such pullbacks could present selective entry opportunities for longer-term investors.

While President Trump has indicated the military campaign could last four to five weeks, his negotiation approach—described in *Trump: The Art of the Deal*—often involves applying pressure before a tactical pullback to secure concessions. We may currently be in the pressure phase; any de-escalation could ease uncertainty and support a market recovery.

**Oil Price Spike Unlikely to Sustain; Accumulate on Weakness**

As Brent crude prices are unlikely to remain elevated and are expected to normalise following the recent spike, upstream O&G players may see limited earnings upside from the temporary increase in oil prices. Instead, we encourage long-term investors to gradually accumulate fundamentally sound names, particularly those whose share prices have corrected significantly. **Our preferred picks are MSC (BUY, TP: RM2.14), ISF (BUY, TP: RM0.55), AGX (BUY, TP: RM0.62), & ATECH (BUY, TP: RM1.00).**

**Figure 1: Scenario Analysis**

Scenario (Probability)	Brent Price (USD/bbl)	Inflation	Fiscal Deficit
Bullish (25%)	76-99	1.9-2.2%	3.6%
Base (70%)	55-75	1.6-1.9%	3.5%
Bearish (5%)	45-54	1.5-1.6%	3.5%

Source: Department of Statistics, Bloomberg, Apex Securities

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#### Recommendation Framework:

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.

**HOLD:** Total returns\* are expected to be within +10% to -10% within the next 12 months.

**SELL:** Total returns\* are expected to be below -10% within the next 12 months.

**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.

**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.

\*Capital gain + dividend yield

#### Sector Recommendations:

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.

**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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#### ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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As of Thursday, 05 Mar, 2026, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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