

## Market Outlook

### GE16 Countdown Begins?

- The FBM KLCI fell 38.95 points, or 2.3% month-on-month, in May 2026 weighed by GE16 speculation, weaker regional sentiment and continued foreign fund outflows from ASEAN markets.
- June will be a crucial month for global markets, as key US economic data and Fed Chair Kevin Warsh's first FOMC meeting could reinforce the higher-for-longer rate outlook, supporting the US Dollar and weighing on risk assets.
- Domestically, the Johor State Election will be the key political event, with investors closely watching the outcome for clues on the likelihood of an earlier-than-expected GE16.
- Despite near-term volatility, we remain constructive on the Malaysian market, supported by resilient domestic demand, ongoing infrastructure and data centre investments, and continued strength in the technology and E&E sectors.
- Our top picks are ViTrox, Mi Technovation, MSC and MITRA.

### Key events in May 2026 affecting the market

#### Global

- **9 May:** A federal trade court in New York City ruled that **Trump's 10% global tariffs imposed under the Trade Act of 1974 were unlawful**, while the US Justice Department said it will appeal the decision.
- **13–15 May:** **Trump's Beijing visit ended with no big trade breakthrough.** The summit produced warm optics and talk of stability, but no major trade deal or clear Chinese help on the Iran war, so the market response was muted rather than euphoric.
- **14 May:** Chinese President Xi Jinping told US President Donald Trump that trade talks were making progress but warned that **disagreements over Taiwan could destabilise bilateral relations.**
- **22 May:** Trump swears in **Kevin Warsh as US Federal Reserve chair** following the latter's confirmation by the Senate.
- **Mid-to-late May:** **the Iran war became the dominant risk asset driver.** Global bond markets sold off hard, with the U.S. 30-year yield reaching around **5.2% on 20 May**, while oil moved sharply higher and investors kept repricing inflation and central-bank risk.
- **Brent oil prices declined nearly 20% in May 2026** as easing concerns over a prolonged Strait of Hormuz disruption, expectations of higher OPEC+ supply, and weaker-than-expected global oil demand—particularly from China—led investors to unwind part of the geopolitical risk premium embedded in crude prices.
- **Late-May:** Despite geopolitical risks, **the Dow, S&P 500 and Nasdaq reached new record highs** in late May, supported by gains in AI, semiconductor, and large-cap technology stocks.

#### Malaysia

- Bank Negara Malaysia kept the **overnight policy rate unchanged at 2.75%** while monitoring uncertainties arising from the ongoing Middle East conflict.
- **Mid-to-late May:** Prime Minister Anwar Ibrahim was considering a **snap election** prompted investors to closely monitor coalition stability, subsidy reforms, and the direction of fiscal policy, although the market reaction remained largely muted.
- Market sentiment during the last two weeks of May was also shaped by the peak of **the 1Q26 reporting season**, as investors evaluated earnings performance and management guidance alongside evolving geopolitical and domestic political developments.
- **Foreign investors were net sellers of Malaysian equities in late May**, with a RM1.6bn outflow on 29 May driven primarily by MSCI quarterly index rebalancing. The selling extended a 13-day foreign outflow streak, bringing cumulative outflows to RM3.4bn and reversing most of the year's earlier foreign inflows.

#### 2H2026 Top Picks Summary

Stock	Price (RM)	Target Price (RM)
ViTrox	6.77	7.04
Mi	4.82	6.23
MSC	2.17	3.06
MITRA	0.63	1.27
FRONTKEN	4.90	5.71
EG	1.71	2.69
TENAGA	14.28	16.77
SIC	0.55	0.67
SSB8	0.57	0.78
RAMSSOL	0.71	1.41

Source: Apex Securities Berhad

## Fundamental Outlook and Key events to watch in June 2026

### Global

The biggest market-moving dates are in the US: the **May unemployment rate on 5 June**, **May CPI inflation on 10 June**, **May PPI on 11 June**, and **New Fed Chair Kevin Warsh's first FOMC meeting on 16–17 June**. Together, these events will shape market expectations for the Fed's policy trajectory and the timing of potential rate adjustments.

Market attention will be firmly focused on **Chair Kevin Warsh's first rate projection**, which will provide investors with the most detailed insight yet into his policy stance. The market's view of Kevin Warsh has evolved from "Trump's rate-cutter" to "an inflation-focused pragmatist", with investors now largely pricing out 2026 rate cuts and increasingly viewing a prolonged higher-for-longer policy stance as the most likely outcome. Our economist expects no rate cuts in 2026.

While US-Iran ceasefire negotiations remain ongoing, recent military incidents and Iran's suspension of talks underscore the fragility of the truce. **The Strait of Hormuz remains the key market focus**, as any renewed disruption could reignite energy price volatility and materially impact global risk sentiment.

**Russell Rebalancing and Quarter-End Flows** are likely to be key technical drivers of US equity markets in the final week of June 2026. With over US\$12 trillion benchmarked to Russell indices and simultaneous quarter-end/half-year-end portfolio rebalancing, investors should expect elevated trading volumes, increased volatility in small- and mid-cap stocks, and short-term price distortions driven by passive and asset-allocation flows rather than fundamentals.

### Malaysia

#### Johor State Election – Assessing the Political Implications for GE16

Following the recent political developments in Negeri Sembilan in May, Johor Menteri Besar Onn Hafiz Ghazi announced on 1 June that the assembly had been dissolved with the consent of the Johor Regent, paving the way for the 16<sup>th</sup> Johor state election. Under Malaysian election law, once a State Legislative Assembly (DUN) is dissolved, the Election Commission (EC) must conduct the election within **60 days** of the dissolution date. Since Johor was dissolved on **1 June 2026**, polling must be held no later than **31 July 2026**.

Prior to the dissolution of the Johor State Assembly, BN held a commanding 40 of the 56 seats, followed by PH (12 seats), PN (3 seats) and MUDA (1 seat), giving BN a two-thirds supermajority in the state legislature. Following the dissolution, the Menteri Besar and state executive council (EXCO) will remain in office as a **caretaker government** until a new government is formed after the election.

UMNO's decision to unexpectedly dissolve the Johor State Assembly has raised questions regarding the broader political strategy of the Unity Government and the likelihood of an earlier-than-expected General Election 16 (GE16). The move is particularly noteworthy given that Barisan Nasional (BN) currently enjoys a comfortable two-thirds majority in Johor and faces no immediate threat to its administration. As such, the decision appears less about Johor itself and more about testing voter sentiment ahead of GE16.

In our institutional presentation in April and May, we highlighted a relatively high probability of an early GE16, based on our view that the current Unity Government remains a transitional political arrangement rather than a permanent coalition structure. While the federal government has remained more stable than many had anticipated, the sudden Johor election potentially provides a new catalyst that could reshape political calculations at the national level.

More importantly, investors should view the Johor election not as a contest over who governs Johor, but as a referendum on the relative strength of BN, Pakatan Harapan (PH) and Perikatan Nasional (PN) heading into the next federal election.

We outline **five key scenarios** and their potential implications for markets and federal politics.

**Scenario 1: BN Retains a Comfortable Supermajority (Probability: 40%)**

Under our base case, BN secures approximately 38-42 seats and maintains a comfortable supermajority in Johor. This outcome would largely preserve the political status quo. From a market perspective, this scenario would be broadly neutral as it reinforces policy continuity and political stability. However, even under this scenario, we do not believe discussions surrounding an earlier GE16 would disappear entirely. A comfortable BN victory would still reinforce UMNO's confidence that its traditional support base remains intact. **We estimate the probability of an early GE16 under this scenario at approximately 40%.**

**Scenario 2: BN Outperforms Expectations (Probability: 25%)**

Should BN increase its representation beyond 40 seats while PH loses additional seats, the election would become a significant national political story. Such a result would strengthen UMNO's bargaining power within the Unity Government and reinforce the argument that BN remains electorally dominant in key Malay-majority constituencies. A stronger mandate may encourage UMNO to reassess the benefits of maintaining the current political arrangement versus seeking a fresh federal mandate while momentum remains favourable. This scenario would likely intensify speculation surrounding GE16 and increase political uncertainty within the coalition. **We estimate the probability of GE16 being called before 2028 rises to approximately 70% under this scenario.**

**Scenario 3: PH Performs Better Than Expected (Probability: 15%)**

If PH successfully defends most of its seats or even records gains in selected mixed and urban constituencies, it would strengthen Prime Minister Anwar Ibrahim's political standing and challenge the narrative that PH's support base is eroding. A stronger-than-expected PH performance would also suggest that voter support for the Unity Government remains relatively resilient despite ongoing cost-of-living concerns and reform-related challenges.

Unlike a neutral PH performance, a meaningful outperformance could increase speculation of an earlier GE16, as political leaders typically seek elections when electoral conditions are perceived to be favourable. Nevertheless, any decision to call an early election would ultimately depend on broader coalition dynamics, particularly whether BN believes it can also benefit from an earlier poll. Markets would likely view this outcome positively, as it reinforces political stability, policy continuity and confidence in ongoing economic initiatives. **We estimate the probability of GE16 being called before the full term expires at approximately 40-50% under this scenario.**

**Scenario 4: Significant PAS/PN Breakthrough (Probability: 15%)**

Under this scenario, BN retains control of Johor but PAS/PN significantly expands its representation, potentially gaining 5-15 additional seats and emerging as the dominant opposition force in the state. Such a result would indicate that the Green Wave has successfully expanded into southern Malaysia and that Malay voter sentiment may be shifting further towards PN. Although immediate policy implications would remain limited given BN's continued control of Johor, investors would likely begin reassessing the competitiveness of GE16. Historically, incumbents rarely call elections when opposition momentum is rising. **We estimate the probability of GE16 before 2028 at approximately 15-20% under this scenario.**

**Scenario 5: PN/PAS Forms the Johor State Government (Probability: 5%)**

While highly unlikely, this remains the most significant tail-risk scenario. A PN victory in Johor would represent a major political shock, given Johor's status as UMNO's traditional stronghold and birthplace. Such an outcome would raise questions over UMNO's electoral strength and intensify debate over Malaysia's future political landscape.

Markets would likely react negatively in the short term, with investors demanding a higher political risk premium. Potential implications include weaker investor sentiment, increased foreign fund caution and pressure on the Ringgit.

Importantly, a PN victory may not necessarily increase the likelihood of an early GE16. Instead, both BN and PH may prefer to strengthen cooperation and delay a federal election while rebuilding support in the face of rising PN momentum. As such, **the probability of an early GE16 would likely remain relatively low at around 5-10%.**

**Figure 1: Johor State Election: Scenario Analysis and Implications for GE16**

Scenario	Probability	Probability of early GE16	Market Impact
<b>Scenario 1: BN retains 38-42 seats</b>	40%	40%	Neutral
<b>Scenario 2: BN improves further (&gt;40 seats, PH loses)</b>	25%	70%	Negative
<b>Scenario 3: PH performs better than expected</b>	15%	40-50%	Positive
<b>Scenario 4: Significant PAS breakthrough</b>	15%	15-20%	Negative
<b>Scenario 5: PAS/PN governs Johor</b>	5%	5-10%	Highly Negative

Source: Apex Securities

### **FBM KLCI Semi-Annual Review Preview: IOI Properties Likely to Replace SIME**

FTSE Russell is scheduled to announce the results of its semi-annual review of the FTSE Bursa Malaysia Index Series on 4 June 2026 (Thursday). The review is expected to be based on market capitalisation data as at the close of trading on 25 May 2026, which represents the data cut-off date four weeks prior to the effective date. Any constituent changes arising from the review will take effect on 22 June 2026 (Monday). **The review is closely monitored by investors as index inclusions and exclusions may trigger passive and benchmark-related fund rebalancing, creating short-term trading opportunities.** Current FBM KLCI constituents account for approximately 56% of Bursa Malaysia's total market capitalisation as at 29 May 2026.

As a quick recap, the FTSE Bursa Malaysia Index ground rules stipulate that a stock will be added to the FBM KLCI during a periodic review if its market capitalisation ranks 24<sup>th</sup> or higher among eligible constituents. Conversely, a stock will be removed if its ranking falls to 36<sup>th</sup> or lower. In addition to market capitalisation, companies must also satisfy two other eligibility requirements for KLCI inclusion: (i) a minimum free float of 15%, and (ii) sufficient liquidity.

Based on market capitalisation rankings as at 25 May 2026, IOI Properties appears to qualify for inclusion into the FBM KLCI, having risen to 22<sup>nd</sup> position among eligible constituents. We therefore **expect IOI Properties to replace SIME**, which ranked as the smallest constituent within the current 30-stock KLCI universe as at the review cut-off date.

### **Our View**

**We anticipate heightened market volatility in June** as investors navigate a critical month for US monetary policy, with key inflation and labour market data culminating in Fed Chair Kevin Warsh's first FOMC meeting. Given that markets have largely priced out US rate cuts in 2026, any reaffirmation of a higher-for-longer policy stance could reinforce US Dollar strength and weigh on global risk appetite. At the same time, developments surrounding the US-Iran ceasefire and the Strait of Hormuz remain key swing factors for oil prices and broader market sentiment.

Domestically, market attention is likely to shift towards the Johor State Election following the dissolution of the state assembly. The Election Commission (EC) is expected to announce the nomination and polling dates in June, with voting likely to take place in the coming weeks. While we expect BN to retain control of the state under our base case, the election's broader significance lies in its implications for GE16. A stronger-than-expected performance by either BN or PH could revive discussions of an earlier general election, while a meaningful PN breakthrough would likely encourage the Unity Government to maintain the current

parliamentary term. Nevertheless, we believe political risks remain manageable and are unlikely to materially alter the government's policy direction in the near term.

That said, we expect market downside to be supported by resilient domestic consumption, continued execution of data centre and infrastructure projects, sustained investment activity, and ongoing strength in selected export-oriented sectors, particularly within the technology and E&E supply chains. These structural growth drivers should continue to provide support against external and internal uncertainties. **Our top picks are ViTrox, Mi Technovation, MSC and MITRA.**

### Technical outlook for June 2026F

The benchmark KLCI index ended May at 1683.07, down 38.95 points, or 2.3% for the month. The pullback resulted in the formation of a bearish Double Top pattern (See Figure 2), a technical reversal signal that suggests the index may have peaked in the near term. The breakdown below the neckline indicates weakening upward momentum and raises the risk of further consolidation or downside pressure in the coming months, particularly if market sentiment remains weighed down by external uncertainties and persistent foreign fund outflows.

Should the KLCI decisively breach the 1,680 neckline support, the index may extend its decline towards 1,640. On the upside, resistance is expected around the 1,700 mark.

Despite the near-term consolidation, our longer-term outlook remains constructive. We maintain our **FBM KLCI year-end target of 1,787**, based on our Elliott Wave framework (Figure 3). With the complex WXY correction likely complete, we expect the index to transition into a new five-wave impulsive uptrend.

Figure 2: Pending Double Top breakdown



Source: Bloomberg, Apex Securities

Figure 3: KLCI Long-Term Elliott Wave Count Signals Start of New Upcycle



Source: 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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(a) nil.

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