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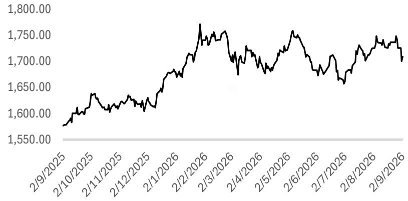
FBM KLCI Index



4Q2026 Top Picks Summary

Stock	Price (RM)*	Target Price (RM)
Tenaga	13.64	16.70
ViTrox	9.02	11.12
EG	1.77	2.80
Mitra	0.54	1.27
ISF	0.74	0.92
SSB8	0.61	0.78
MSC	1.67	3.06
Kinergy	0.41	0.67
OHM	0.41	0.61
HSPLANT	2.52	3.31

Source: Apex Securities Berhad

*As of 2 Sept 2026

Market Outlook

DON'T FEAR THE BOND SELL-OFF

- **US Treasury yields near multi-year highs as fiscal concerns, persistent inflation, geopolitical risks, AI-related corporate borrowing and a more hawkish Fed outlook drive the bond sell-off.**
- **Equity valuations remain under pressure, particularly Technology, growth, REITs and high-dividend stocks, but we view the weakness as a correction rather than the start of a structural bear market.**
- **Malaysia's fundamentals remain resilient, supported by 6.0% 2Q26 GDP growth and 38.0% July export growth. We expect domestic earnings to remain relatively intact despite global volatility.**
- **Watch key technical supports for stabilisation and buy the dip selectively. We maintain our Barbell Strategy, favouring Technology, Construction, Utilities and selected small caps with strong earnings visibility and structural growth.**
- **Maintain our year-end KLCI target of 1,770.**

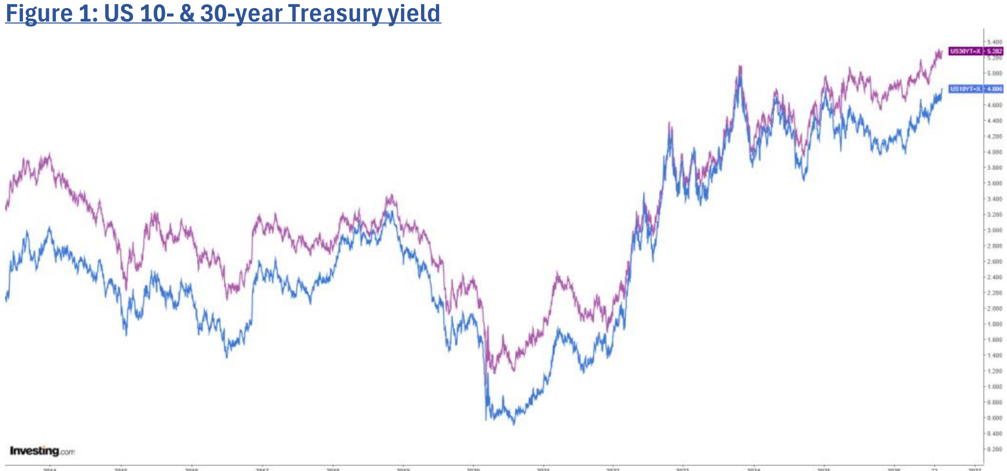
Quick Take

US Treasury yields have risen sharply, with the 10-year yield climbing to around 4.8% and the 30-year yield approaching its highest level in nearly two decades. The sell-off has been driven by persistent inflation concerns, elevated US fiscal deficits and Treasury issuance, renewed geopolitical tensions and higher oil prices, as well as growing corporate borrowing to fund AI and data-centre investments.

Market expectations for US monetary policy have also shifted following Fed Chairman Kevin Warsh's Jackson Hole speech, which was viewed as more hawkish and resulted in higher expectations for a September rate hike. Meanwhile, stronger-than-expected economic activity and still-elevated inflation have added to upward pressure on Treasury yields.

The rise in Treasury yields has weighed on global equities, particularly technology and growth stocks, while higher oil prices have added to inflation concerns. In Malaysia, the FBM KLCI fell 25.34 points, or 1.47%, to 1,700.54 on 1 September amid broad-based selling. As highlighted on Page 4 of our previous Market Outlook, we had anticipated a potential near-term weakness in the local market, with the subsequent pullback broadly unfolding as expected.

Figure 1: US 10- & 30-year Treasury yield



Source: Investing.com, Apex Securities

Our View

The recent rise in Treasury yields is a genuine concern, but **we believe the market is becoming overly focused on the possibility of a US bond crisis**.

Several forces are driving the sell-off. **The first is a shift in expectations for Fed policy**. Chairman Kevin Warsh has adopted a less predictable communication style and recently delivered a more hawkish message on inflation, prompting markets to reassess the path of US interest rates. **The second is growing concern over US fiscal sustainability** as persistent deficits require substantial Treasury issuance. **The third is the AI investment boom**, which is driving substantial corporate debt issuance to finance data centres and related infrastructure, creating additional competition for investor capital. **Finally, geopolitical tensions and higher oil prices are increasing concerns over inflation**. Together, these factors are pushing up the term premium and long-term Treasury yields.

However, we believe investors should distinguish between **higher yields and a breakdown in the Treasury market**. The US authorities still have significant room to respond. The Treasury can adjust the maturity and composition of its debt issuance and conduct buybacks to manage the longer-end yields. The US Treasury has already announced that the maximum size of selected long-end liquidity-support buybacks will increase from US$2bn to at least US$4bn per operation effective 9 September. Meanwhile, the Federal Reserve can adjust interest rates and, in an extreme scenario, resume Treasury purchases through QE.

We therefore believe the probability of a **temporary bond-driven correction is materially higher than that of a systemic Treasury crisis**.

Market Implications

Higher Treasury yields raise the risk-free rate used to value equities, resulting in downward pressure on valuation multiples. The impact is greatest on companies whose valuations depend heavily on earnings further into the future.

This makes **Technology and growth stocks** particularly vulnerable. **REITs and high-dividend stocks also face pressure** as higher Treasury yields reduce the relative attractiveness of equity income.

However, valuation is only one transmission mechanism. **Higher Treasury yields also raise corporate borrowing costs**, particularly for highly leveraged companies and businesses undertaking large capital expenditure programmes. At the same time, stronger US yields can support the US dollar, tighten global liquidity and weigh on emerging-market fund flows.

We therefore expect the market to increasingly differentiate between companies with **strong earnings & balance sheets** and those whose valuations depend primarily on multiple expansion.

Malaysia – Fundamentals Remain Intact

We believe Malaysia is relatively well positioned to absorb the current global bond-market volatility. The domestic economy expanded by +6.0% YoY in 2Q26, while July exports surged +38.0%, highlighting continued strength in domestic activity, particularly the E&E sector and AI-related investment. Furthermore, benign inflation at a projected +2.0% in 2026 and a broadly stable OPR outlook should provide an important cushion against global volatility.

Resilient economic fundamentals should continue to provide support for company earnings. If Malaysian equities weaken because of higher US yields, the initial impact should primarily be through valuation and foreign flows rather than a deterioration in domestic earnings.

This creates an opportunity. **We would use broad-based market weakness to accumulate fundamentally sound companies where the earnings outlook remains intact**.

Technical Analysis - Watch for Stabilisation, Then Buy the Dip

For the **FBM KLCI**, the recent sell-off has brought the index back towards the 1,700 psychological level after breaking below the previous 1,720 support. We view **1,700 as the**

Economic at a glance

2025 GDP Growth	**+5.2%**
2026 GDP Growth Forecast:	**+5.0%**
2025 Export Growth:	**+6.6%**
2026 Export Growth Forecast:	**+26.2%**
2025 Unemployment Rate	**3.0%**
2026 Unemployment Rate Forecast:	**3.0%**
2025 Headline Inflation:	**+1.4%**
2026 Headline Inflation Forecast:	**+2.0%**
End-2025 OPR	**2.75%**
End-2026 OPR Forecast:	**2.75%**

immediate key support, with a sustained break below this level likely to open the way towards the next support zone (1,685). On the upside, **the 1,720–1,730 zone has now become the first resistance**, followed by **the 1,750–1,760 resistance zone**. Given the sharp decline in recent sessions, we would watch price action closely for signs of stabilisation before increasing exposure.

Figure 2: FBM KLCI Index: Watch closely for signs of stabilisation

Source: Bloomberg, Apex Securities

Strategy

The recent decline in Malaysian equities demonstrates how quickly global bond-market weakness can spill over into domestic markets. The FBM KLCI fell **1.47% to 1,700.54 on 1 September**, bringing the index back towards the key support level.

We believe investors should resist the temptation to reduce equity exposure indiscriminately. **We maintain our Barbell Strategy, combining defensive, cash-generative companies with selected structural-growth and alpha opportunities, and advocate using market weakness to accumulate fundamentally strong names at more attractive valuations**.

The key is to distinguish between **valuation risk and fundamental risk**. A company whose share price falls because its valuation multiple contracts can become more attractive if earnings remain intact. Conversely, companies with weak cash flow, high leverage or limited earnings visibility may remain unattractive despite a correction.

Therefore, we advocate **buying the right dip, rather than simply buying every dip**.

Sector Strategy

We remain constructive on **Technology**, despite its sensitivity to higher bond yields. The structural AI and semiconductor investment cycle remains intact, and we view valuation-driven weakness as an opportunity to accumulate companies with strong earnings growth and structural exposure. Our Tech Top Picks are **VITROX (BUY, TP: RM11.12), QES (BUY, TP: RM0.75), EG (BUY, TP: RM2.93) and FRONTKN (BUY, TP: RM5.86).**

We remain positive on **Construction**, underpinned by Malaysia's ongoing infrastructure, data-centre and power investment cycle. We favour companies with strong order books and good earnings visibility. Our Construction Top Picks are **ISF (BUY, TP: RM0.92) and HSS (BUY, TP: RM0.70).**

Utilities offer a combination of defensive characteristics and structural growth, particularly from rising electricity demand driven by data centres. However, we remain selective given the sector's sensitivity to higher bond yields. **Our preferred pick is TENAGA (BUY, TP: RM16.37).**

We view **Banks** as a core portfolio exposure, supported by resilient domestic growth and stable credit conditions. However, we expect some downside risk in local banks as fund managers begin to reposition ahead of the **FBM KLCI 50** transition, which will structurally dilute the weighting of financial stocks. Against this backdrop, we see greater alpha potential in selected **Technology, Construction and small-cap names**, where earnings growth and structural themes remain more compelling.

Conclusion

We expect US Treasury yields to remain elevated in the near term as markets digest fiscal concerns, inflation risks, geopolitical developments, AI-related borrowing and the Fed's policy direction. **This will keep global equity markets volatile, particularly in September** as investors await the Fed's policy decision.

However, we do not believe the current environment represents the beginning of a structural equity bear market. Malaysia's strong domestic fundamentals provide a cushion, while the US authorities retain significant tools to prevent Treasury-market stress from becoming systemic. Our year-end **FBM KLCI target remains at 1,770**.

We therefore **maintain our Barbell strategy and advocate buying the dip strategy**, with preference for technology, construction, utilities and selected small caps where structural growth and earnings visibility can offset higher discount rates.

4Q2026 Top Picks

Company	FYE	Market Cap (RM m)	Rec.	Price (RM) as at 2 Sept 2026	TP (RM)	Potental Upside	P/E (x)		P/B (x)		ROE (%)		Div Yield (%)		ESG Rating
							FY27F	FY28F	FY27F	FY28F	FY27F	FY28F	FY27F	FY28F	
Tenaga Nasional Berhad	Dec	79,509.5	BUY	13.64	16.70	22.4%	17.0	13.9	1.5	1.5	8.6%	10.2%	3.8%	4.0%	★★★
ViTrox Corporation	Dec	17,091.3	BUY	9.02	11.12	23.3%	47.2	42.0	6.2	5.1	22.2%	20.9%	0.4%	0.5%	★★★
EG Industries	Jun	1,681.1	BUY	1.77	2.80	58.2%	10.2	8.8	2.1	1.8	19.0%	18.2%	N/A	N/A	★★★
Mitrajaya Holdings Berhad	Dec	393.4	BUY	0.54	1.27	135.2%	2.2	2.1	0.4	0.4	16.4%	15.1%	6.0%	7.0%	★★★
ISF Group Berhad	Dec	735.0	BUY	0.74	0.92	25.2%	17.1	15.0	3.9	3.0	22.7%	20.3%	2.3%	2.7%	★★★
Southern Score Builders	Jun	1,374.9	BUY	0.61	0.78	28.9%	13.8	12.6	3.7	2.7	27.0%	21.6%	1.7%	1.7%	★★★
Malaysia Smelting Corporation Berhad	Dec	1,402.8	BUY	1.67	3.06	83.2%	7.1	5.2	3.3	3.2	23.6%	31.7%	6.3%	6.8%	★★★
Kinergy Advancement Berhad	Dec	885.0	BUY	0.41	0.67	65.4%	18.4	14.0	2.5	2.2	13.2%	15.1%	N/A	N/A	★★★
Oasis Home Holding Berhad	Jun	205.0	BUY	0.41	0.61	48.8%	12.1	9.1	1.0	0.8	20.2%	22.7%	2.4%	3.4%	★★★
Hap Seng Plantations	Dec	2,015.2	BUY	2.52	3.31	31.3%	9.5	8.4	0.9	0.9	9.3%	10.1%	6.3%	7.1%	★★★

Source: Apex Securities Berhad

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.

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

As of **Thursday, 03 Sep, 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.