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US Economic Summary

% YoY	2023	2024	2025	4Q26F*
Real GDP	2.9	2.8	2.1	2.3
Core PCE	4.2	2.9	2.8	3.4
Unemployment (%)	3.6	4.0	4.3	4.1

*Fed projection

Malaysia Economic Summary

2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+5.0%
2027 GDP Growth Forecast:	+4.5%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2027 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+1.8%
2027 Headline Inflation Forecast:	+2.0%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%
End-2027 OPR Forecast:	3.00%

US FOMC Meeting

Fed in wait-and-see mode

- The Fed held the policy rate at 3.75-4.00%, with two dissenters favouring a 25-bp hike.
- We view this as a hawkish pause as the Fed awaits more data before its next move.
- We maintain our projection for two additional 25-bp hikes by end-2027.
- Domestic markets could face greater foreign flow volatility amid Fed tightening, putting pressure on the ringgit. We expect USDMYR to moderate to 4.15 in 2027.
- Fed tightening and a resilient domestic outlook reinforce our expectation for BNM to raise the OPR by 25 bps in 2027 to 3.00%.

A hawkish pause

The Federal Reserve (Fed) voted 10-2 to maintain the federal funds target range at 3.75-4.00%. Notably, Lisa Cook and Beth Hammack dissented in favour of a 25-bp hike. The two dissents highlight lingering inflation concerns amid prolonged geopolitical tensions even as the Fed holds rates steady.

Fed to “interrogate the reality”

The press conference centred on the rationale for holding rates despite elevated inflation. Chair Warsh pointed to some tightening in financial conditions and suggested that the inflation outlook was moving in the right direction following September’s rate hike. On the prospect of another hike in December, he stressed that the ‘accumulation of more information’ would help the Committee determine the appropriate policy stance.

Notably, Warsh also reiterated the Fed’s commitment to price stability. Taken together, we view this as a hawkish pause rather than a shift away from tightening. The Fed is adopting a wait-and-see approach to assess incoming data before deciding on its next move. As Warsh put it, this is a window to “interrogate the reality”, with “no foregone conclusion” on the policy path.

Another notable announcement was the introduction of strategy meetings. From 2027, one FOMC meeting will focus exclusively on monetary policy strategy without a vote on the policy rate or a policy statement. This will increase to two meetings in 2028, with the remaining meetings reserved for regular rate-setting. Warsh said the change would allow space for strategic deliberation and broader policy questions over a longer horizon. His reference to the “left side of the decimal point” underscores the importance of considering the bigger picture.

Inflation will take precedence over growth

We expected a hike in the October meeting and we were wrong. However, this does not sway our view that another 25-bp Fed hike remains likely before year-end. Headline CPI stayed stubbornly high at +3.7% YoY in September (Aug: +3.4%). Notably, core PCE inflation (the Fed’s preferred inflation gauge) stood at +3.0% in August and has remained above the Fed’s +2.0% target since March 2021, strengthening the case for further tightening.

Some argue that elevated inflation is largely supply-driven, in which monetary tightening cannot address. We do not ascribe to this view. At the heart of the Fed’s commitment to price stability is the need to anchor inflation expectations. Household inflation expectations have risen amid cost-of-living pressures, with the University of Michigan’s one-year inflation expectations edging up to +4.7% in October (Sep: +4.6%). The bigger concern is that inflation expectations become entrenched, triggering secondary effects and broadening price pressures, in our view.

On the labour market, nonfarm payrolls increased by just +29k in September (consensus: +84k). Looking beyond a single month, payroll growth averaged 66k over the past six months, a pace that remains manageable in our assessment. The unemployment rate edged up to 4.2% in September (Aug: 4.1%), partly reflecting a higher labour force participation rate of 61.8%. Taken together, we maintain our view that the labour market remains broadly solid.

Two more rate hikes by end-2027

The inflation and labour market dynamics reinforce our conviction that the Fed will remain hawkish. Recall Chair Warsh's remarks that fighting inflation does not require inflicting harm on the labour market. The risk of renewed US-Israeli strikes on Iran after the US midterm elections adds to the upside risks to inflation. Barring an unexpected sharp deterioration in the labour market, we believe taming inflation will remain the Fed's near-term priority.

We maintain our projection for two additional 25-bp hikes by end-2027. We do not view the September rate hike as a "one-and-done" move, as historical tightening cycles have typically involved multiple rate increases. We expect the Fed to resume tightening in December, followed by another 25-bp hike in 2027 to 4.25-4.50%. Fed funds futures are pricing in three further hikes by end-2027, one more than our projection.

Domestic market volatility expected

A paring back of October rate hike expectations and flight-to-safety demand amid the AI-related equity sell-off have pushed UST yields lower in recent weeks. The 10-year UST yield eased to 5.02% versus its multi-year high of 5.24% on 12 October. Nonetheless, a resumption of Fed tightening should push UST yields higher and keep the USD supported. The DXY movement has panned out as we anticipated, having risen +2.1% to 102.4 since the September FOMC meeting.

Closer to home, domestic financial markets could face volatility in foreign flows amid Fed tightening and safe-haven demand, particularly if geopolitical tensions persist into next year. While this could keep MGS yields on a mild upward bias, the larger increase in the UST yields would widen US-Malaysia interest rate differentials and put pressure on the ringgit. We expect USDMYR to trade within a 4.05-4.10 range in the near term before moderating to 4.15 in 2027.

On the monetary front, Fed tightening and a resilient domestic outlook reinforce our expectation for BNM to raise the OPR by 25 bps in 2027 to 3.00%.

Figure 1: FOMC Meeting Schedule & Outlook for 2026

No. of Meetings	Date	In-house Projection	Fed Funds Future	Fed Decision
1st	27-28 Jan	Unchanged	Unchanged	Unchanged
2nd	17-18 Mar*	Unchanged	Unchanged	Unchanged
3rd	28-29 Apr	Unchanged	Unchanged	Unchanged
4th	16-17 Jun*	Unchanged	Unchanged	Unchanged
5th	28-29 Jul	Unchanged	Unchanged	Unchanged
6th	15-16 Sep*	25-bp hike	25-bp hike	25-bp hike
7th	27-28 Oct	25-bp hike	Unchanged	Unchanged
8th	8-9 Dec*	25-bp hike	25-bp hike	

Source: Federal Reserve, CME Group, Bloomberg, Apex Securities

*Meeting associated with a Summary of Economic Projections

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

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(a) nil.
