



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia



# **CAPITAL MARKET STABILITY REVIEW 2025**

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STABILITY REVIEW  
2025**

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3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur  
Malaysia

Tel +603 6204 8000

Email [cau@seccom.com.my](mailto:cau@seccom.com.my)

Websites [www.sc.com.my](http://www.sc.com.my) | [www.investsmartsc.my](http://www.investsmartsc.my)

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# PREAMBLE

The Securities Commission Malaysia (SC) is mandated to take all reasonable measures to monitor, mitigate and manage systemic risks arising from the capital market.

This *Capital Market Stability Review (CMSR) 2025* outlines a comprehensive assessment of risk across various components of the Malaysian capital market from 1 January to 31 December 2025. It also discusses the relevant risk drivers that could impact or influence capital market stability and covers thematic reviews on prevailing risk areas.

## KEY HIGHLIGHTS

The Malaysian capital market charted a mixed course in 2025, influenced by shifts in global monetary policy and interest rate expectations, evolving trade policies and tariff developments that reshaped global economic and trade dynamics, as well as heightened geopolitical uncertainties, among other developments.

Although the equity market experienced unauthorised trades and the derivatives market faced a trading halt due to a Globex system outage, during the period under review, there were no systemic risk concerns in the domestic capital market, and it remained resilient and orderly. The SC continues to monitor capital market-related developments to mitigate any potential risk that may arise.

### Equity Market



**FTSE BURSA MALAYSIA KLCI (FBMKLCI)** concluded the year with an increase of +2.30% (2024: +12.90%), recovering from earlier losses amid improved clarity on trade and tariff policies, supported by a resilient domestic economy and accommodative policy measures.



**CREDIT AND MARKET RISK MANAGEMENT** mechanisms were in place and there was no circuit breaker triggered in 2025. Additionally, no utilisation of clearing guarantee fund in 2025.

### Derivatives Market



**EXCHANGE-TRADED DERIVATIVES (ETD) MARKET** recorded a +5.34% increase in open interest from 2024.



**CREDIT AND MARKET RISK MANAGEMENT** mechanisms were in place, and no utilisation of clearing fund in 2025.

### Bond Market



**MALAYSIAN GOVERNMENT SECURITIES (MGS) YIELDS** remained resilient in 2025, supported by stable sovereign credit rating, despite uncertainties surrounding the Federal Reserve's (Fed) monetary policy path and heightened geopolitical risks.



**NO DEFAULTS IN CORPORATE BONDS AND SUKUK** were observed in 2025 (2024: no defaults).

### PLCs



**MALAYSIAN PUBLIC-LISTED COMPANIES (PLCs)** recorded lower earnings in 2025. Nonetheless, certain sectors posted notable earnings improvement, indicating pockets of resilience within the broader market landscape, particularly the plantation (+28.75%) and the consumer products and services (+5.30%) sectors.

## Broking Intermediaries



### STOCKBROKING COMPANIES (SBCs) AND INVESTMENT BANKS (IBs)

remained resilient with SBCs' average capital adequacy ratio (CAR) at 10.25 times (2024: 8.80 times), while the IBs' average risk-weighted capital ratio (RWCR) was at 31.33% (2024: 33.59%), maintaining above the minimum requirements as at December 2025.



**DERIVATIVES BROKING COMPANIES (DBC)** remained resilient with average adjusted net capital (ANC) ratio at 358.36% (2024: 222.28%), maintaining above the minimum requirement as at December 2025.

## Investment Management



### ASSETS UNDER MANAGEMENT (AUM) OF FUND MANAGEMENT INDUSTRY AND NET ASSET VALUE (NAV) OF UNIT TRUST FUNDS (UTFs)

recorded increases of +6.92% (2024: +9.59%) and +6.24% (2024: +9.24%) respectively, driven by market valuation gains and injections.



**AUM ALLOCATION** in foreign assets was relatively stable, accounting for 34.50% of total AUM (2024: 32.23%).



**STRESS TEST RESULTS** affirmed the resilience of investment funds in withstanding potential redemption shocks amid deteriorating asset prices. Under the extreme scenario, total NAV liquidation amounted to 44.12% and none of the tested funds would need to draw on their liquidity buffer.

## Investment Flows<sup>1</sup>



**FOREIGN HOLDINGS** in equities decreased to 19.02% (2024: 19.69%), while foreign holdings in bonds increased to 13.37% (2024: 13.16%).



**FOREIGN SOURCE OF FUNDS** remained relatively small in the fund management segment at 2.66% (2024: 2.92%).



**FOREIGN INVESTORS' PARTICIPATION** in the domestic equity market increased to 41.08% (2024: 36.20%) of the total trading activity in Malaysian equities.

## Digital Assets



**TRADING ACTIVITY** in the local digital asset exchanges (DAXs) has increased with average daily trading value recorded at RM46.97 million in 2025 (2024: RM38.07 million).



**DIGITAL ASSETS VALUE TRADED** remained small at 1.70% compared to the domestic equity market trading value in 2025.

<sup>1</sup> Equity, bond, and fund management.





## **RISK OUTLOOK**

# RISK OUTLOOK

The year 2025 has been marked by policy uncertainty, with sweeping tariff measures reshaping global economic and trade dynamics. These tariffs, affecting a broad range of trading partners, have triggered widespread reactions, directly and indirectly, across global markets, including equity and bond markets. This policy shock has intensified concerns over global growth prospects, fuelled market volatility and contributed to divergence in monetary policy stances among major central banks.

Nonetheless, the temporary suspension of reciprocal tariff actions in the second quarter, along with a subsequent breakthrough in trade negotiations, has helped to stabilise global market sentiment. These developments have mitigated immediate downside risks and restored confidence among investors. Coupled with lower-than-expected effective tariff rates and improved financial conditions, the situation prompted the International Monetary Fund (IMF) to revise its global growth forecast for 2026 upward to 3.3%<sup>1</sup>. The adjustment reflected a balance of divergent forces, with headwinds from shifting trade policies offset by tailwinds from surging technology-related investment amid fiscal and monetary support. Nonetheless, policy-related uncertainties are expected to persist into 2026.

Against this volatile backdrop and lingering uncertainty, the Malaysian capital market is expected to face the following risk drivers in the year ahead:

## Uncertainty in Financial Conditions



- Capital markets are expected to remain susceptible amid ongoing uncertainties in global financial stability. The April 2025 'Liberation Day' episode illustrated the speed and magnitude with which policy shocks can reverberate through global equity and bond markets, resulting in pronounced spillover effects on emerging markets (EM), including Malaysia. While financial conditions may have stabilised intermittently, the broader environment is expected to remain characterised by elevated sensitivity to external developments.
- Economic fragmentation and disruptions in trade and capital flows are expected to be increasingly viewed as structural shifts rather than temporary disruptions. The global economy is entering a new phase marked by persistent disruption and ongoing adaptation to evolving trade and financial realities.
- Geopolitical tensions are expected to remain a critical source of uncertainty. Any intensification could trigger renewed supply disruptions, elevate commodity prices, and reintroduce inflationary pressures, ultimately weighing on global growth prospects.

<sup>1</sup> World Economic Outlook Update, IMF, (2026).

- In addition, concerns surrounding United States of America (US) fiscal sustainability are expected to intensify scrutiny of the long-term stability of a dollar-centred international monetary system. This may influence global capital allocation and, in turn, contribute to heightened exchange rate volatility. The US 2026 mid-term election result would also shape its future policy direction.
- Looking ahead, global monetary policy divergence is expected to persist amid uneven growth prospects resulting from the differential impact of tariffs. In response, central banks around the globe are likely to implement staggered adjustments in policy stances to balance the trade-offs between containing inflation and supporting growth.

## Cyber and Technology Risks



- Cyber and technology risks are becoming increasingly sophisticated and remain entrenched within the broader risk landscape, driven by the evolving nature of these threats. This growing complexity is largely shaped by the rapid convergence of emerging technologies, which amplifies the risk exposures faced by capital market entities (CMEs). In a borderless cyberspace, these threats have the potential to propagate across globally interconnected markets, creating systemic vulnerabilities that warrant heightened vigilance.
- The increasing adoption of artificial intelligence (AI), including generative and agentic AI, within financial services and products presents both opportunities and new sources of risk. While these technologies could enhance efficiency, they also expose CMEs to a range of risks including data privacy breaches, cybersecurity threats, and misuse of systems that could undermine market integrity and investor confidence if not properly governed.
- The risks could amplify further as firms outsource their functions to third- and Nth-party vendors and become dependent on vendor-managed systems. The interconnectedness and concentration of systems and platforms within and outside the capital market may also heighten vulnerabilities to potential cyber attacks and operational glitches. Moreover, similar to global phenomena, legacy systems and outdated security protocols further add to the fragility of critical infrastructures.
- Such vulnerabilities are revealed during the unauthorised trade incidents linked to brokerage accounts. These incidents show that malicious actors will not only capitalise on gaps in processes and systems but will also exploit less technologically adept CMEs and investors.

- As threats continue to evolve, ranging from ransomware and cybercrime-as-a-service to advanced persistent threats (APT), robust cyber resilience, coupled with coordinated regulatory oversight, remains essential to safeguard market stability against the rising tide of cyber and technology risks.

## Equity Market Depth and Liquidity



- While heightened uncertainties created volatility in the Malaysian equity market during 2025, the market has continued to demonstrate resilience amid the challenging backdrop.
- Trading activity remains concentrated among local institutional investors. While this provides stability to the market, it may also limit free float availability for broader public trading. A reduced and less diverse investor base could, over time, affect market vibrancy and hamper efficient price discovery, as different investor types contribute heterogeneously to price formation in equity markets.
- Structural concentration risks also persist, with limited large-cap PLCs and more than half of market capitalisation concentrated in FBMKLCI constituents. This concentration may constrain the depth of the equity market, particularly as smaller PLCs tend to attract limited analyst coverage and investor attention.
- In general, the lack of catalyst for certain Malaysian PLC sectors, leads to undervalued market performance. This requires tailored interventions to uplift valuations and attractiveness of these PLCs.
- As Malaysia continues to compete for capital in a global marketplace, ensuring a vibrant and dynamic equity market will require sustained catalysts. These include enhancing market depth, diversifying the investor base, and broadening the pool of high-quality PLCs to strengthen long-term resilience and attractiveness.

## Shifting Investor and Workforce Demographics



- Malaysia, in line with global trends, is transitioning towards an ageing society as birth rates decline and the population ages. This demographic shift carries potential implications for both the workforce and investor profile in the capital market, with a larger share of older investors shaping risk appetite and portfolio preferences.
- The rising old-age dependency ratio<sup>2</sup> may increasingly strain public finances, given higher healthcare- and pension-related expenditures. At the same time, a shrinking tax base and declining income-generating population could intensify fiscal pressures, potentially leading to higher sovereign borrowing costs.

<sup>2</sup> Organisation for Economic Co-operation and Development (OECD) defines this as the number of individuals aged 65 or older per 100 people of working age (aged between 20 to 64 years old).

- Additionally, pension and retirement funds may face challenges, as a shrinking pool of active contributors is supporting an expanding pool of retirees drawing down benefits. This imbalance could expose funds to underfunding risks, requiring governments and policymakers to consider intervention measures.
- Investment allocations may shift towards lower-risk assets, reflecting preferences of an ageing population. The industry would also likely face a shrinking workforce, as retirements outpace the entry of new talents. The shifting demographics also lead to changing investment preferences as younger generations are likely to resort to social media and networks for investment decisions.
- These dynamics underscore the importance of monitoring long-term demographic trends and their implications to the sustainable growth of Malaysian capital market.

## Malaysia's Strategic Positioning and Competitiveness



- Malaysia risks being increasingly overlooked by passive investors due to its diminishing representation in major global indices. Its weightage in the MSCI EM Index has steadily declined since 1988, falling to 1.21% as at 31 December 2025. This decline occurred alongside the growing dominance of listed companies in other EMs, such as China, Taiwan, India, and South Korea, which resulted in a marked concentration of the index within these economies. This reinforces the imperative for Malaysia to proactively strengthen country- and market-level fundamentals to support its attainment of developed-market status in order to elevate its international market standing and broaden access to a deeper and more diversified global capital base.
- On the initial public offering (IPO) front, new entrants to the domestic equity market were mainly from the industrial products and services sector, as well as the consumer products and services sector. The Malaysian equity market remains tilted towards 'traditional' sectors, hence limiting investment options and sectoral diversification which are likely to reduce its attractiveness to international investors, which may keep capital inflows and market liquidity subdued.
- The domestic derivatives market ecosystem reliance on a single product may limit the development of long-term market depth and diversification. Broadening the breadth and depth of product offerings could further improve liquidity, encourage greater investor participation, and subsequently position the local derivatives exchange as a regional hub for international risk management and hedging activities.
- Expansion of product offerings, particularly through leveraging Malaysia's global leadership in Islamic finance, remains key to sustaining long-term capital market growth.

## Transitioning to ESG



- Environmental, social and governance (ESG) reporting has emerged as a key pillar of corporate disclosure and transparency, enabling companies to demonstrate their commitment to environmental sustainability, social responsibility and sound governance practices. Increasing investor focus on ESG factors in investment decisions underscores the critical importance of a robust ESG transition within the domestic capital market.
- The three pillars in ESG reporting are progressing at a different pace, possibly resulting in a fragmented view of companies' broader ESG commitments for stakeholders.
- Varying levels of awareness and readiness for ESG transition remains a key challenge. Firms reluctant to fully adopt ESG practices often cite uncertain long-term benefits and the associated compliance costs as major barriers.
- In addition, insufficient human capital continues to constrain ESG adoption, particularly among smaller firms where resources and expertise for compliance are often limited. This human capital constraint has led to notable operational challenges, hampering the implementation of comprehensive ESG practices.
- While the National Sustainability Reporting Framework (NSRF) was introduced to advance Malaysia's corporate sustainability agenda, supported by engagements and capacity building efforts to promote readiness and awareness, firms' preparedness to comply with the defined deadlines remains a concern. The SC is committed to a phased and practical approach in reviewing disclosures, with emphasis on capacity building and skills enhancement, where firms are expected to make their best efforts in the preparation of sustainability reports.
- With respect to ESG ratings, scores are typically determined by third-party agencies and are heavily influenced by the extent of corporate information disclosure. Methodological differences across rating agencies could result in divergent ratings, creating additional complexity for investors when evaluating and interpreting corporate ESG performance.



**RISK ASSESSMENTS ON  
COMPONENTS OF THE  
CAPITAL MARKET**

# EQUITY MARKET

## Domestic equity market remained resilient amid uncertain environment

Equity market continued to play a critical role in financing corporate growth and investment, while navigating an uncertain environment and evolving investors' risk appetite. In 1H 2025, the risks to both developed and emerging equity markets have intensified following material shifts and uncertainties in global trade policies. Nevertheless, both the MSCI World and MSCI EM indices proved resilient, recovering from earlier weaknesses and ultimately delivered positive year-to-date (YTD) gains (Chart 1).

*Volatility spiked following tariff announcement but subsequently eased and remained low throughout the year*

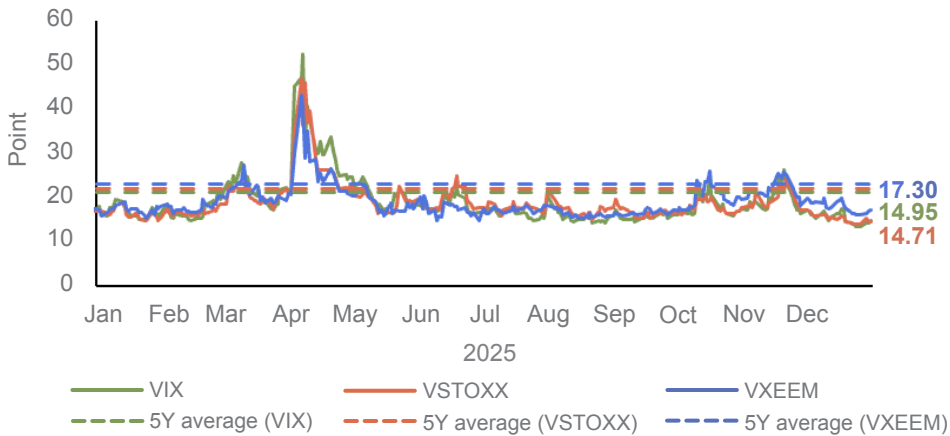
The heightened risk environment particularly in early 2025, was also reflected in global equity market volatility, which spiked following the tariff announcement on 2 April 2025 (Chart 2). However, volatility remained largely subdued throughout the rest of the year, defying mounting global uncertainties and tensions that failed to translate into sustained market turbulence.

**CHART 1**  
Global and EM equity indices



Source: Bloomberg.

**CHART 2**  
Global equity market volatility indicators<sup>1,2</sup>



Source: Bloomberg.

This bout of global volatility in early 2025 also had a ripple effect on the domestic equity market leading to repricing of equity indices (Chart 3). The FBMKLCI fell to a YTD low of 1,400.59 points on 9 April 2025 after mostly trading above 1,500 points since February 2024. However, the stress was short-lived and subsided quickly after the April shocks, as the FBMKLCI and other domestic equity indices rebounded with no major correction, with the FBMKLCI ending at 1,680.11 points as at end-December 2025. Improved clarity on tariff and trade policies contributed to the recovery in domestic equity valuations, reaffirmed by the strength of the domestic economy and supportive policies.

*Domestic equity market managed to recover earlier losses experienced in April*

**CHART 3**  
Domestic equity market performance



Source: Bloomberg.

<sup>1</sup> VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which measures the expected volatility of the S&P 500 Index (SPX) over the next 30 days that is implied in the bid/ask quotations of SPX options. VSTOXX is based on EURO STOXX 50 real-time options prices and are designed to reflect the market expectations of near-term up to long-term volatility. VXEEM is the CBOE EM Volatility Index, which estimates the expected 30-day volatility of returns on the MSCI EM Index.

<sup>2</sup> A five-year average between 2020 and 2024.

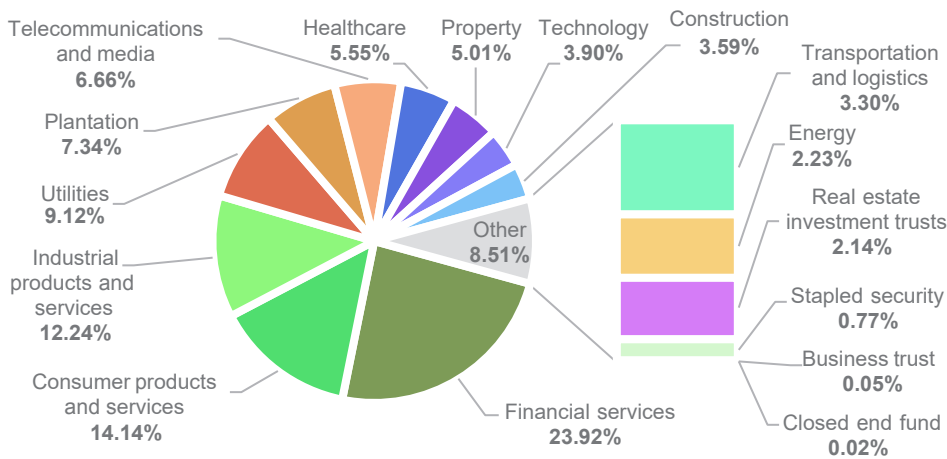
## Fundraising activities remained strong, while corporate earnings underperformed amid external headwinds

The Malaysian equity market recorded strong fundraising activity despite the challenging market environment. The number of IPOs grew as at end-December 2025 (60) compared to the same period in 2024 (55), indicating that companies continued to tap into Malaysian equity market for fundraising and advancing strategic long-term goals, even amid a more challenging backdrop. The larger pool of PLCs also sustained the overall market capitalisation above the RM2 trillion mark as at end-December 2025.

*Malaysian equity market remained an attractive destination to raise funds*

The current distribution of market capitalisation highlights a concentration within specific sectors, with the financial services sector as the largest contributor at nearly 24%, followed by the consumer products and services sector, and the industrial products and services sector (Chart 4). Collectively, these three sectors held approximately 50% share of total market capitalisation, exposing the market to idiosyncratic risks.

**CHART 4**  
Sector breakdown in Bursa Malaysia Securities by market capitalisation



Note:  
Values may not add up due to rounding.

Source: SC.

This sectoral composition is also mirrored in PLCs' earnings and corporate bond and sukuk issuances, where the financial services<sup>3</sup> sector accounted for the largest share of earnings and bond and sukuk issuances (refer to pages 30-31 of CMSR 2025). Earnings performance varied across sectors, reflecting differing underlying business drivers and sensitivity to both global and domestic developments. Overall, the reported earnings of Malaysian PLCs<sup>4</sup> up to Q3 2025 declined to RM88.40 billion, compared to RM89.76 billion in the same period in 2024 (Table 1). Despite the headwinds, certain sectors posted notable earnings improvement, indicating pockets of resilience within the broader market landscape.

*Plantation, and consumer products and services sectors became performance-leaders in earnings*

<sup>3</sup> Bond Pricing Agency Malaysia (BPAM) uses financial for its classification.

<sup>4</sup> The write-up on the assessment of PLCs' earnings was based on the latest available financials up to Q3 2025.

In particular, the sectors demonstrating the most pronounced earnings improvement were plantation, and consumer products and services sectors. Earnings in the plantation sector (+RM1.61 billion) grew by +28.75% on the back of higher realised crude palm oil (CPO) prices.

Meanwhile, the consumer products and services sector recorded an increase of +RM0.67 billion (+5.30%), supported by resilient household retail spending in light of the rollout of the various cash assistance programmes, alongside a firm labour market conditions and steady inflation level. The appreciation of the ringgit also eased imported cost pressures, and helped protect profit margins. Nonetheless, the sector's valuation remained sensitive to shifts in domestic consumption patterns and household leverage amid cautious market sentiment.

Opposingly, earnings in the industrial products and services sector declined by -34.85% (-RM1.95 billion), partly driven by global trade shifts that led to softer sales demand amid a prevailing wait-and-see purchasing approach and tighter profit margins. Earnings were further weighed down by currency dynamics, as the strengthening of the domestic currency resulted in foreign exchange losses, alongside lower contributions from certain business divisions.

**TABLE 1**  
Earnings by sector

Sector	Up to Q3 2025 (RM billion)	Up to Q3 2024 (RM billion)
Financial services	32.74	32.27
Consumer products and services	13.32	12.65
Utilities	8.36	9.92
Plantation	7.23	5.61
Property	5.88	6.02
Telecommunications and media	4.61	5.12
Industrial products and services	3.64	5.59
Transportation and logistics	2.82	2.80
Real estate investment trusts	2.38	2.10
Healthcare	2.07	2.47
Construction	2.03	1.77
Energy	1.92	2.27
Technology	1.36	1.14
Business trust	0.02	0.02
Closed end fund	0.00	0.00
<b>TOTAL</b>	<b>88.40</b>	<b>89.76</b>

Note:

PLCs are classified according to Bursa Malaysia Securities' (BMS) sector classification. Values may not add up due to rounding.

Source: Standard & Poor's.

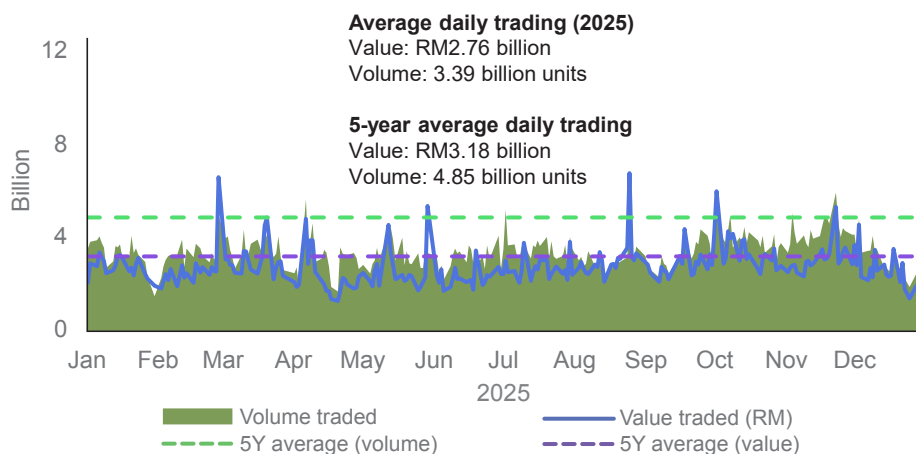
Against a backdrop of trade and policy developments, the shifting market dynamics are expected to influence the earnings outlook going forward. Beyond the direct impact of rising cost structures, protectionist measures tend to engender broader and more persistent consequences, including spillovers across interconnected supply chains and production networks. Prolonged market uncertainty may dampen customer demand while encouraging corporates to adopt a more cautious approach to investment and capacity expansion, potentially weighing on innovation and productivity growth over the longer term.

### Lower trading activities weighed on brokerage income

Subdued market sentiment reverberated across the domestic equity market, affecting both corporate earnings and trading activity. The local bourse recorded lower average daily trading value (RM2.76 billion) and volume (3.39 billion units) in 2025, compared to last year (Chart 5). This led to a decrease in overall trading value and volume to RM672.81 billion and 827.98 billion units compared to the upward trajectory recorded in 2024. The moderation in overall trading activity also weighed on equity brokerage revenues<sup>5</sup> for stockbroking intermediaries<sup>6</sup>, which contracted by over -35%.

*Liquidity affected, resulting in lower total trading volume and value recorded*

**CHART 5**  
Average daily trading<sup>7</sup>



Source: SC.

Despite the slowdown in trading-related income, stockbroking intermediaries remained well-capitalised and maintained sufficient liquidity buffers, with average SBCs’ CAR standing at 10.25 times (Chart 6) while average IBs’ RWCR stood at 31.33% (Chart 7). These intermediaries demonstrated resilience amid a challenging backdrop, with capital adequacy positions remaining well above the minimum regulatory requirements.

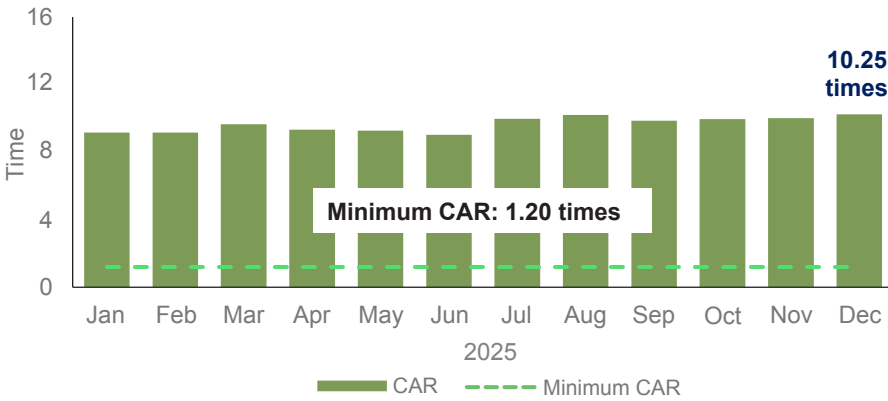
*All stockbroking intermediaries continued to record healthy capital positions*

<sup>5</sup> The write-up on the assessment of stockbroking intermediaries’ revenue was based on the latest available financials up to Q3 2025.

<sup>6</sup> SBCs and IBs.

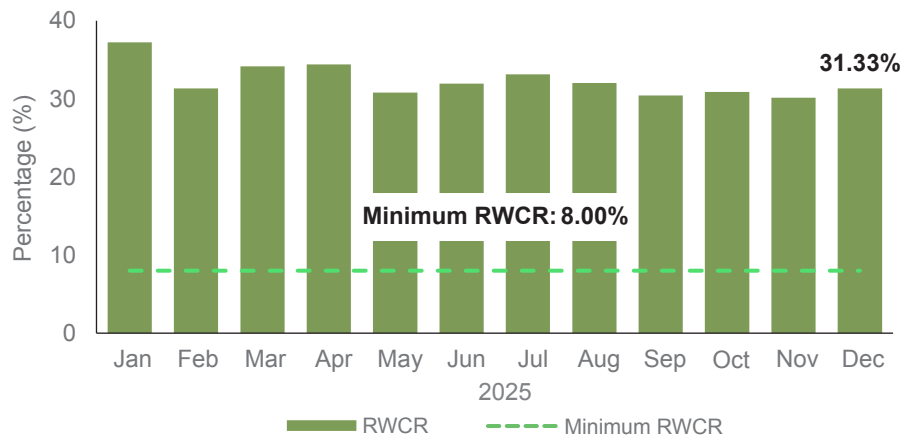
<sup>7</sup> A five-year average covering average daily trading between 2020 and 2024.

**CHART 6**  
Average SBCs' CAR



Source: SC.

**CHART 7**  
Average IBs' RWCR



Source: SC.

In addition, margin financing exposures continued to be prudently managed, with collateral coverage ratios staying at healthy levels at 3.02 times as at December 2025, providing an additional buffer against potential losses. Together, these indicators demonstrated that while revenues were pressured by weaker market activity, the overall financial strength of intermediaries remained intact, safeguarding market stability.

The overall resilience of stockbroking intermediaries was mirrored in the orderly functioning of the broader market. Although the current environment was punctuated by heightened geopolitical and trade policy uncertainties, the functioning of the Malaysian equity market remained in order, with no circuit breaker triggered and no clearing guarantee fund was utilised during the period, underscoring the resilience of the Malaysian equity market.

*Malaysian equity market remained in order*

Despite an incident of unauthorised trading in April 2025, Bursa’s trading systems remained unaffected and there was no material disruption to overall trading activities.

# DERIVATIVES MARKET

## Exchange-traded derivatives market activity sustained its upward momentum

Derivatives are key instruments for hedging, price discovery and risk management, particularly amid rising global trade tensions, geopolitical risks and broader economic uncertainty. In 2025, financial markets experienced heightened volatility, while commodity markets were weighed down by softer global demand, compounded by evolving trade and energy policies.

Global oil prices edged lower, with Brent crude dipping below US\$60 per barrel in December 2025, as rising production from the Organization of the Petroleum Exporting Countries Plus (OPEC+) and weaker demand growth fuelled oversupply concerns. Palm oil markets were marked by shifting dynamics, driven by heightened geopolitical tensions, shifting biofuel policies and their correlation to energy price movements.

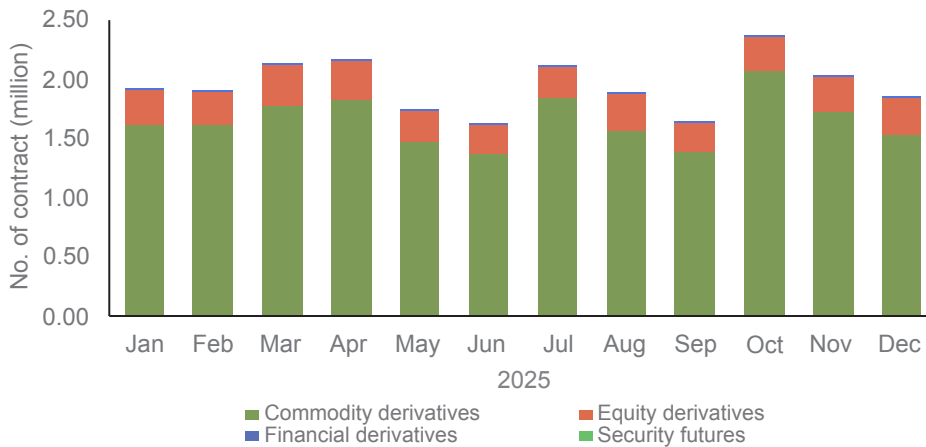
Within the edible oil ecosystem, Indonesia's planned adoption of a 50% palm oil blend influenced market sentiment by raising expectations of stronger domestic demand, which may, in turn, constrain exportable volumes, despite this policy being cancelled in January 2026. In addition, US biofuel policy adjustments have tilted the playing field in favour of domestic feedstocks over imports, which has underpinned soybean oil demand and price levels. These developments have collectively rippled through the edible oil complex, influencing the palm oil market and contributing to price volatility, alongside fundamental supply-demand factors.

Amid the evolving global landscape, open interest in the Malaysian ETD rose by +5.34% to 0.31 million contracts as at end December 2025, indicating sustained investor interest and confidence. Echoing this upward trend, trading volumes reached 23.30 million contracts over the same period, marking a +2.39% year-on-year increase and demonstrating increased market participation in this segment. Nonetheless, market activity remains largely concentrated in the two flagship contracts, the Crude Palm Oil Futures (FCPO) and the FTSE Bursa Malaysia KLCI Futures (FKLI), which collectively accounted for nearly 99% of total market activity (Chart 1). This concentration highlights structural vulnerabilities, with potential implications for market stability should significant shifts occur in the key contracts.

*Derivatives continued to serve as an essential risk management tool*

*Contract volumes registered further growth amid a volatile market environment*

**CHART 1**  
ETD trading volume



Source: Bursa Malaysia.

## Market activity remained structurally tilted towards the key flagship products

Palm oil, the most widely produced and traded vegetable oil globally, is used across a broad range of applications, from serving as a key ingredient in the food industry and personal care products to industrial purposes. It remains one of Malaysia's significant agricultural commodities. However, weaker demand from key export destinations, stiff competition from Indonesia, and narrow price differentials between CPO and other vegetable oils weighed on national export performance. These were further constrained by structural challenges, including ageing plantations, delayed replanting and persistent labour constraints across the industry. As a result, exports volume published by the Malaysian Palm Oil Board (MPOB) declined to 15.27 million tonnes, marking a -9.64% decrease from 2024.

Compounding the risk landscape, the European Union Deforestation Regulation (EUDR), a non-tariff barrier initially delayed to 30 December 2025, has been further postponed with later compliance deadlines depending on company size and imposes stringent requirements on sustainable sourcing amid growing deforestation concerns. The regulation poses risks of supply chain disruption within the bloc, with potential spillover effects on Malaysian market access. Nonetheless, the European Union's (EU) recognition of the Malaysian Sustainable Palm Oil (MSPO) certification as a credible compliance standard serves as a positive catalyst, supporting Malaysia's ongoing progress towards being reclassified from a standard-risk to a low-risk country in palm oil production.

Navigating the evolving market conditions, FCPO continues to provide risk management solutions, with foreign institutions accounting for more than half of trading activity. FCPO has been the internationally recognised palm oil price benchmark since 1980. Regionally, both Indonesia and Singapore have launched futures products for this commodity. However, liquidity for these instruments has remained limited compared to FCPO. While trading activity in Singapore has contracted to minimal levels, Indonesia's futures market for CPO experienced an uptick in 2025 with increased

*FCPO may face gradual risk to its leading global position*

trading contracts. Nonetheless, trading volumes in these regional markets remained small relative to FCPO traded on Bursa Malaysia Derivatives (BMD), which saw 19.62 million contracts traded, equivalent to 490.43 million metric tonnes of CPO – underscoring its dominance in global palm oil futures. In 2025, FCPO continues to lead the market, yet concerns remain on increase in competition from regional exchanges which might eventually challenge FCPO’s dominance as well as the Malaysian ETD ecosystem, which remains heavily concentrated in a single product.

While price volatility<sup>1</sup> was observed, with a yearly low of RM3,728.00 per metric tonne recorded in early May 2025, FCPO maintained a relatively resilient performance thereafter and continued to advance, averaging RM4,235.75 per metric tonne for the year. This represents a +2.70% year-on-year increase. Favourable sector dynamics was also evident in the financial results of the top 10 plantation PLCs<sup>2</sup> on BMS, with positive earnings in Q3 2025<sup>3</sup> within their respective plantation segments, underpinned by favourable CPO realised prices and robust fresh fruit bunches (FFB) production.

The second most actively traded contract, FKLI, demonstrated a buoyant trend in 2025, influenced by various factors, including evolving global market sentiment, robust domestic macroeconomic conditions and supportive policy developments. Notably, the index dipped to a yearly low of 1,405.50 points on 9 April 2025, before trending upward, supported by improvements in global trade relations, such as the trade truce among major economies and reduction in tariff rates on Malaysia, which collectively strengthened investor confidence and market sentiment (refer to page 17 of CMSR 2025).

The increase in FKLI position limits from 10,000 contracts to 15,000 contracts for all months combined, effective 1 December 2025, also demonstrated growing market demand. Institutional investors, who accounted for over 70% of the contract’s trading activity, were the leading force as they sought greater flexibility in managing their exposure to FKLI.

## Leading derivatives mirrored trends in underlying asset as market sentiment aligned

FCPO and FKLI traded largely in line with their underlying markets, indicating strong linkage between derivatives price movements and spot market prices. While some divergences occurred during the 1H 2025 for FCPO, overall spreads remained steady, reflecting that the markets largely moved in tandem without triggering heightened volatility.

*Volatility in FKLI tracked developments observed in the domestic equity market*

*Top-traded contracts tracked underlying market movement*

<sup>1</sup> The FCPO price performance is based on the most active and liquid futures contract.

<sup>2</sup> Top 10 is derived from the market capitalisation as at 31 December 2025.

<sup>3</sup> The Q3 reporting period covers July to September 2025, with the exception of one company, whose Q3 reporting period covers August to October 2025.

## Rising safe haven flows into gold and an uptick in soybean oil contracts contributed to the growing participation in the commodities segment

Gold, a globally traded precious metal, experienced a significant bull run throughout the year, reaching a record high. This upward momentum was driven by safe-haven demand amid heightened geopolitical tensions and a challenging market landscape shaped by tariff-related concerns and evolving trade policy developments. Strong demand for the yellow metal also permeated derivatives trading in Asia, underpinned by the region's strong jewellery consumption and growing investment demand. Mirroring the trend, trading activity in the Gold Futures (FGLD) on BMD intensified, with contracts traded rising by over +490% to 34,415, representing a substantial increase from 5,796 contracts recorded in 2024. This heightened trading activity underscores the growing market participation in gold derivatives, as investors sought both hedging and speculative opportunities in response to persistent macroeconomic and geopolitical risks.

*Bullish trends in safe haven assets supported higher gold derivatives trading*

In 2025, a price correction was observed between palm oil and soybean oil, two closely substitutable commodities, once again making palm oil comparatively more affordable than its rival after months of trading at a premium since 2024. Amid these price movements, the Bursa Malaysia DCE<sup>4</sup> Soybean Oil Futures (FSOY), gained further traction in its second year of introduction, signalling greater market acceptance. Volume traded reached 0.14 million contracts, equivalent to 3.42 million metric tonnes of soybean oil, showing a significant +72% increase. Nonetheless, FSOY's overall market share remained modest, particularly when measured against the more established soybean oil contracts traded on the DCE<sup>5</sup> and the Chicago Board of Trade (CBOT)<sup>6</sup>. Furthermore, trading activity in FSOY was largely concentrated among domestic retail participants, suggesting that the contract was primarily utilised for trading purposes rather than serving as a key instrument for risk management by stakeholders in the soybean oil industry.

*In its second year, FSOY showed improved uptake, though still modest compared to established exchanges*

## Over half of market activity was driven by foreign institutions

Overall, the ETD market participation was still concentrated among foreign institutions (Chart 2), attributable in part to FCPO and FKLI's global appeal. This reinforced the domestic ETD market role as a venue for international investors seeking risk management opportunities via the offered instruments.

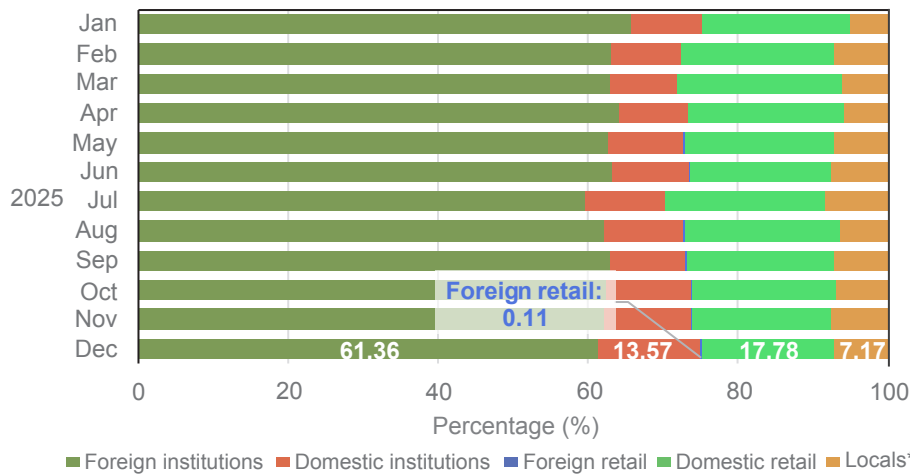
*ETD market remained a key avenue for foreign investors*

<sup>4</sup> DCE – Dalian Commodity Exchange.

<sup>5</sup> In 2025, DCE Soybean Oil Futures Contract recorded 108.15 million contracts traded, equivalent to 1,081.47 million metric tonnes of soybean oil.

<sup>6</sup> In 2025, CBOT Soybean Oil Futures Contract recorded 45.94 million contracts traded, equivalent to 2.76 trillion pounds of soybean oil.

**CHART 2**  
Participants of ETD market



Note:  
\* Locals are professional derivatives traders who trade for their own account. In essence, self-employed traders.

Source: Bursa Malaysia.

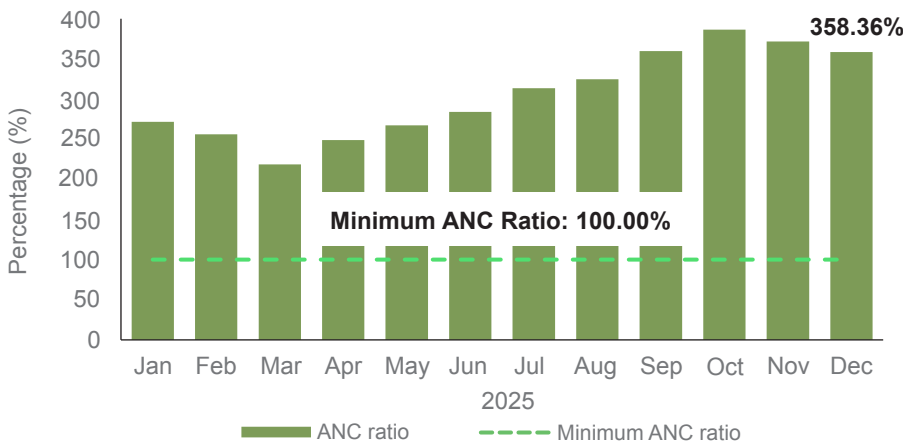
## Derivatives broking companies demonstrated financial resilience throughout the year

The growth in the trading activity throughout the year was evidenced in the DBCs' revenue performance. In 2025, DBCs generated RM56.69 million in revenue from derivatives commission and brokerage, representing an increase of +2.03%.

*DBC's reported higher revenue, while consistently meeting minimum financial requirement*

DBC's ANC ratio increased to 358.36% as at December 2025 (Chart 3) compared to 222.28% last year. Nonetheless, the ratio consistently remained above 200% each month, well above the minimum requirement of 100%.

**CHART 3**  
DBC's average ANC ratio



Note:  
The ANC ratio of a DBC is calculated by dividing its ANC by the minimum requirement (the greater of RM0.50 million or 10% of aggregate margins required).

Source: SC.

All DBCs demonstrated notable resilience, consistently meeting their mandated minimum financial requirements, underscoring the strength and stability of their financial position despite shifting market dynamics. Essential risk monitoring and management tools were in place to manage the credit and market risks faced by the Bursa Malaysia Derivatives Clearing (BMDC).

*DBC and BMDC managed their respective liquidity positions prudently and adequately*

Overall, both DBCs and BMDC have managed their respective liquidity positions prudently and adequately. In particular, BMDC demonstrated its ability to adapt to changing market conditions, ensuring the continued safety and efficiency of the derivatives market. There was no utilisation of the clearing fund in 2025, underscoring the ongoing effectiveness of market risk management mechanisms and the resilience of the market infrastructure.

Clearing and settlement operations remained unaffected despite a temporary service disruption on Chicago Mercantile Exchange Group's trading platform, Globex, impacted trading of Bursa Malaysia's derivatives products in late November 2025.

# BOND MARKET

## Global and domestic bond markets navigated volatility with resilience

The bond market remains central in facilitating the mobilisation of capital, supporting both sovereigns and corporations to secure funding in the face of uncertain market conditions. Throughout 2025, global bond markets navigated a complex landscape shaped by fiscal policy developments, divergent monetary stances across economies, alongside evolving trade dynamics, and persistent geopolitical uncertainty.

*Global bond market indices ended in positive territory, overcoming market headwinds*

Following the global sell-off in April 2025 amid heightened global trade uncertainty after the tariffs developments, both the J.P. Morgan Global Aggregate Bond Index and the J.P. Morgan EM Bond Index Global fell notably (Chart 1). The market subsequently embarked on a sustained recovery, positioning both indices to close the period on a positive note. Notably, EM bonds outperformed, underpinned by supportive fundamentals and credible policy framework with effective inflation-targeting regimes amid periods of US dollar weakness.

**CHART 1**  
Global and EM bond indices



Source: Bloomberg.

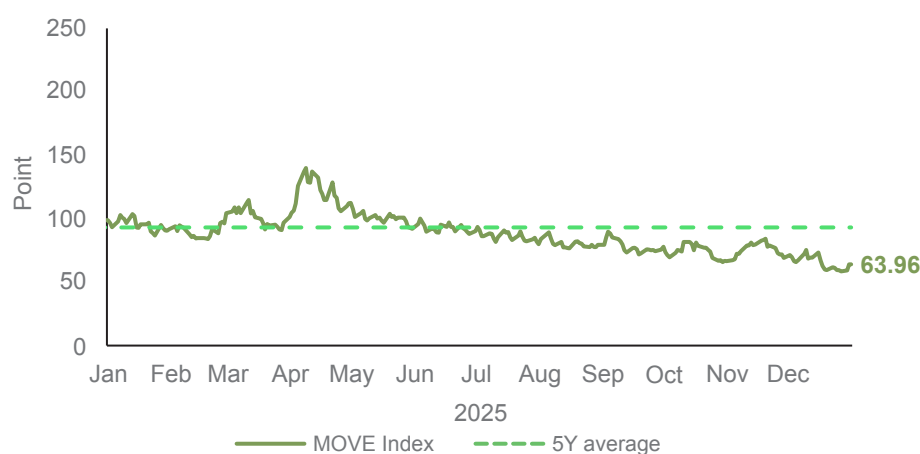
## Bond market fluctuations mirrored equity swings amid market stress

While equity market turmoil has traditionally prompted a flight to safety into bonds, the year saw bond market volatility spiking in tandem (Chart 2). The surge in the early second quarter reflected growing concerns over global trade and economic policies, which resonated throughout global financial markets. In 2H 2025, bond market volatility declined below its five-year average, signalling reduced market uncertainties.

*Volatility unexpectedly spiked to a peak in April 2025 before easing subsequently*

Proposals for tax and fiscal spending plans under the new US administration, alongside sovereign debt levels in major economies, heightened market attention on fiscal sustainability. This heightened scrutiny exerted upward pressure on long-term bond yields. The rise in US Treasury (UST) yields during the market turmoil also signalled investor concerns on inflation and the world's largest economy growth, prompting a reassessment of UST's safe haven status. However, market stress subsequently eased following the implementation of a 90-day pause in reciprocal tariffs. This temporary reprieve contributed to a reduction in trade-related tensions, which in turn helped moderate market volatility.

**CHART 2**  
Bond market volatility indicator



Source: Bloomberg.

## Domestic yield movements tracked both global trends and local dynamics

The domestic bond market was influenced by global financial market dynamics, particularly movements in UST. A brief uptick in MGS yields during early April 2025 coincided with a spike in UST yields (Chart 3). Nevertheless, MGS yields remained broadly stable, reflecting underlying resilience at a time when investor sentiment towards US debt was dampened by Moody's downgrade of the US sovereign credit rating from Aaa to Aa1, as well as persistent legal and political uncertainties. The Fed initially maintained the federal funds rate target range at 4.25%-4.50% amid persistent inflationary pressures, before lowering it by a total of 75 basis points, bringing the rate to 3.50%-3.75% in December 2025. This adjustment signalled a recognition of a shifting balance of risks: while economic activity growth moderated based on available indicators, uncertainty about the economic outlook remained elevated and downside risks to employment were also rising.

*MGS yields broadly tracked UST movements, exhibiting a downward trend*

Domestically, MGS yields trended lower over the year, with the 10-year benchmark moderating from a high of 3.84% to a low of 3.35%, before rebounding to close the year at 3.49% (Chart 3). In addition to tracking the decline in UST yields subsequent to the Fed's rate cuts, MGS yields' downward trajectory was supported by relatively stable domestic macroeconomic conditions and ongoing fiscal consolidation, which helped reduce financing needs. The trend was further reinforced by Bank Negara

Malaysia’s (BNM) decision in July 2025 to lower the Overnight Policy Rate (OPR) by 25 basis points to 2.75% – its first rate cut since July 2020 – aimed at preserving the nation’s steady growth path amid moderate inflation prospects. In December 2025, Fitch Ratings reaffirmed Malaysia’s sovereign credit rating at BBB+ with a stable outlook, noting that improved political stability has enhanced policy certainty, which in turn supported medium-term growth prospects and reinforced fiscal resilience.

**CHART 3**  
MGS and UST yields



Source: Bloomberg, BNM.

**Resilient investor demand in the primary market with limited credit quality issues, while robust activity prevailed in the secondary market**

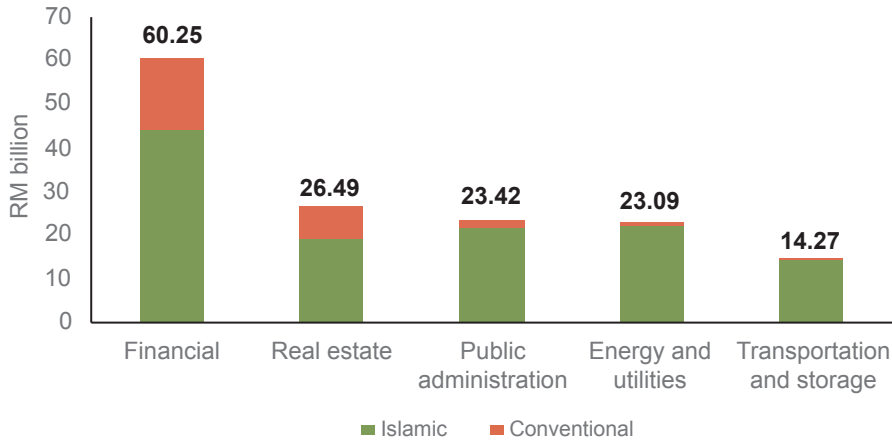
Demand for Malaysian government bond<sup>1</sup> auctions remained firm as reflected by a healthy weighted average bid-to-cover ratio of 2.59 times, affirming the continued appeal of government securities and sustained investor interest. In the corporate space, bond and sukuk issuances continued to demonstrate resilience with total funds raised amounting to RM176.78 billion. Fundraising activities were concentrated in key sectors, with issuance totalling RM60.25 billion in the financials sector, RM26.49 billion in the real estate sector, and RM23.42 billion in the public administration sector (Chart 4). The largest issuing sector represented close to half of the total issuance. This dominance implies that any adverse developments within the leading sector could potentially exert broader spillover effects across the corporate bonds segment.

*Demand remained healthy, evidenced by steady pick up and active issuance*

Despite this, over half of the corporate issuances carried maturities of at least five years, underscoring the Malaysian bond market’s capacity to facilitate longer-term financing and reinforcing its role as a bridge between financial intermediation and the real economy. Meanwhile, issuances in Sustainable and Responsible Investment (SRI) sukuk saw notable growth, rising to RM21.25 billion (2024: RM9.98 billion), with the transportation and storage sector contributing approximately 32% of the total issuance. The expansion in this segment highlights the growing traction of green financing in supporting the nation’s long-term sustainability objectives.

<sup>1</sup> Comprises MGS, Government Investment Issues (GII), Malaysian Treasury Bills (MTB) and Malaysian Islamic Treasury Bills (MITB).

**CHART 4**  
**Top five sectors in corporate bond and sukuk issuances<sup>2</sup>**



Source: SC.

The issuance activity was supported by a favourable credit environment, with the corporate bond and sukuk market remaining broadly resilient with no defaults recorded in 2025 (2024: no defaults). Issuers experiencing credit quality challenges accounted for only 1.40% (2024: 1.43%) of the overall segment, highlighting the continued stability of the market. While one corporate issuer in the energy sector experienced a downgrade, this did not pose systemic risks to the broader market. Overall, rating migration trends remained favourable, with rating actions tilting towards upgrades rather than downgrades in 2025.

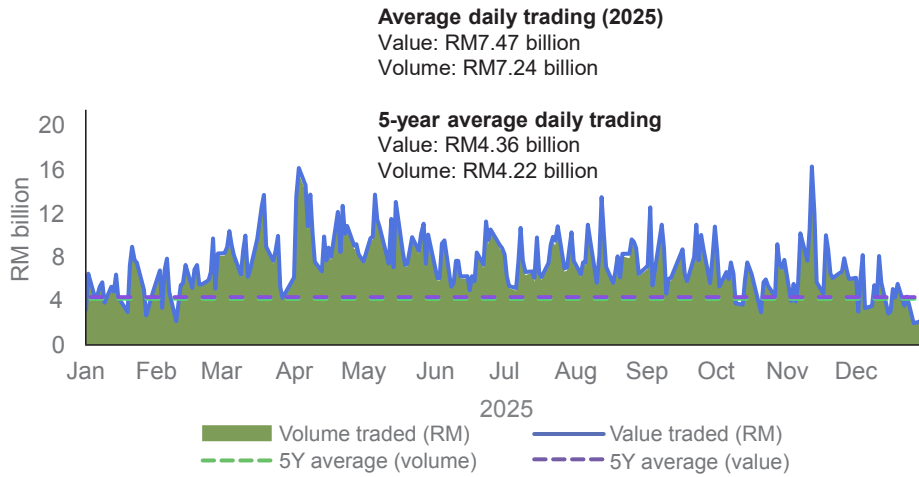
*No defaults were recorded in the corporate bond segment*

Meanwhile, the secondary market remained active, with daily trading activity consistently exceeding the five-year average<sup>3</sup>. In 2025, average daily trading value and volume stood at RM7.47 billion and RM7.24 billion, respectively – both considerably higher than their five-year averages of RM4.36 billion and RM4.22 billion (Chart 5). Robust investor participation and ample liquidity coincided with a global capital rotation towards EM assets, underscoring the strength and resilience of the domestic bond market.

<sup>2</sup> Sector classification is based on BPAM.

<sup>3</sup> A five-year average covering average daily trading between 2020 and 2024.

**CHART 5**  
Average daily trading



Note:  
Trading volume refers to the face value/nominal of the bonds traded. Trading value refers to the actual transaction price paid for the bonds.

Source: SC.

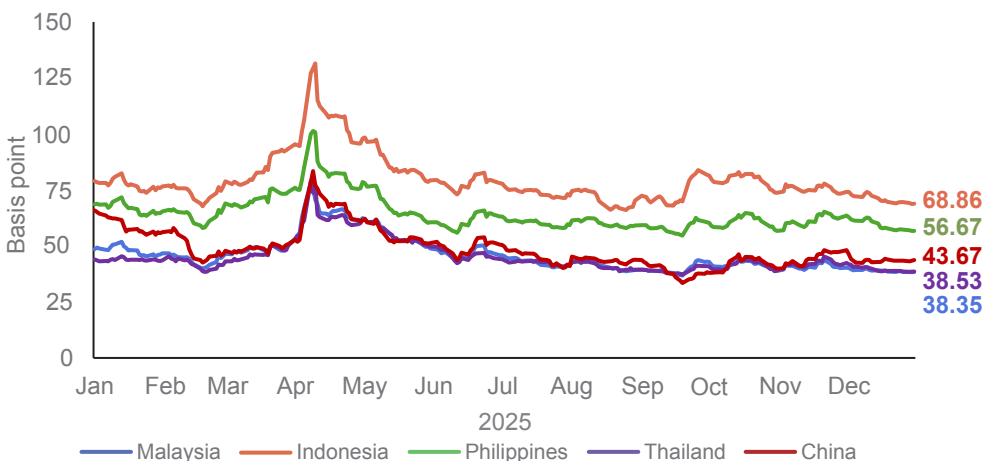
### Credit risk cemented regional competitive position

Despite market turmoil, Malaysia’s credit default swap (CDS) spread remained comparatively low and stable relative to regional peers, closing the year at the lowest level in the region. A temporary widening in April 2025 was primarily driven by global spillovers stemming from heightened financial market uncertainty. This was triggered by a sharp sell-off in global markets following the escalation of tariff measures and subsequent retaliatory actions among countries (Chart 6).

*Over the year, Malaysia’s CDS spread eased, signalling growing confidence in domestic sovereign credit quality*

The resilient performance of Malaysia’s CDS underscores the nation’s robust economic fundamentals and ongoing fiscal consolidation efforts, reinforcing a favourable outlook for its credit rating. This lower perceived credit risk sustained investor confidence, contributing to the overall stability and continued attractiveness of the domestic bond market.

**CHART 6**  
Asian EM Five-Year CDS performance



Source: Bloomberg.

Fundamentally, the Malaysian bond market continued to play a pivotal role as a key channel for project financing. It facilitated issuer access to long-term funding for capital-intensive projects, while offering investors stable and credible investment instruments.

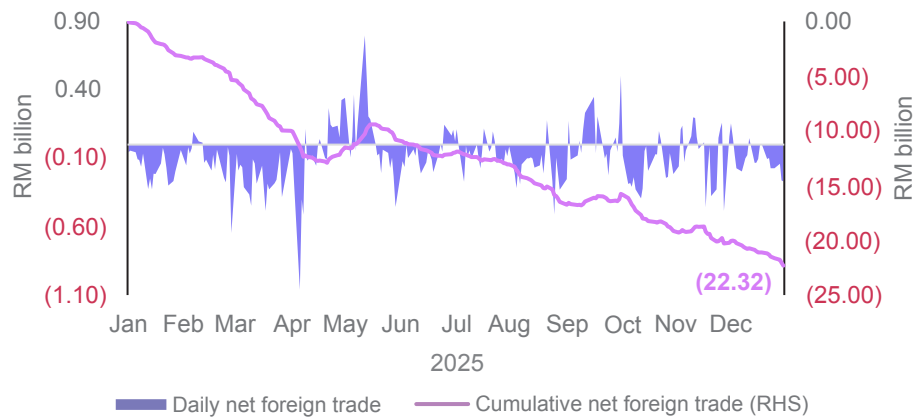
**BOX ARTICLE 1**

**TRENDS IN LOCAL AND FOREIGN INVESTORS**

The diverging growth trajectories between developed and EM economies continue to influence global capital flows, with implications for foreign investor participation in domestic equity and bond markets.

While foreign investors had gradually increased allocations to riskier assets in recent years, they turned net sellers of the domestic equity market as at end-December 2025, recording a cumulative net outflow of -RM22.32 billion (Chart 1). Although a high level of foreign participation in the local bourse was observed at 41.08% compared to 36.20% a year earlier, net outflows led to foreign holdings declining to 19.02% as at end-December 2025 (Chart 2).

**CHART 1**  
Equity foreign trading



Source: SC.

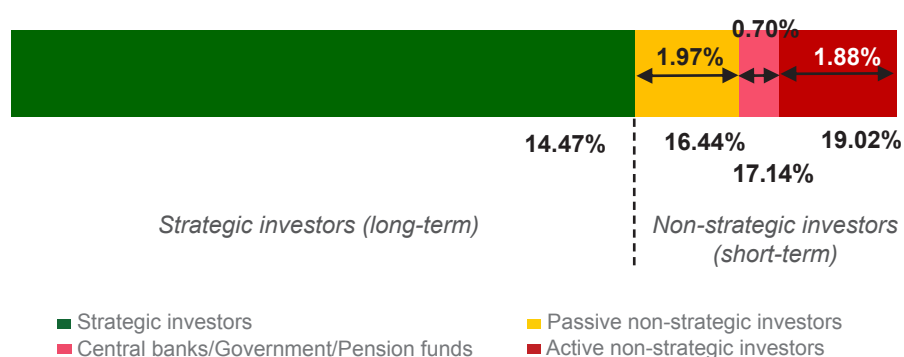
**CHART 2**  
Foreign holdings in Malaysian equities



Source: SC.

Foreign holdings remain a key channel of external spillovers into the domestic equity market, with implications for market stability during periods of heightened global risk aversion. In a hypothetical worst-case scenario in which all non-strategic investors<sup>1</sup> whose holdings amount to RM132.06 billion (33.70% of total foreign holdings) were to exit, it would result in a decline of foreign ownership from 19.02% to 14.47% (Chart 3). However, such an abrupt exit is highly unlikely, as even the COVID-19 exodus between February and May 2020 resulted in cumulative outflows of only RM13.2 billion. This demonstrates that while sudden foreign outflows remain as a tail risk, the likelihood of a disorderly exit is low.

**CHART 3**  
Scenarios if non-strategic foreign investors exit the equity market



Source: SC.

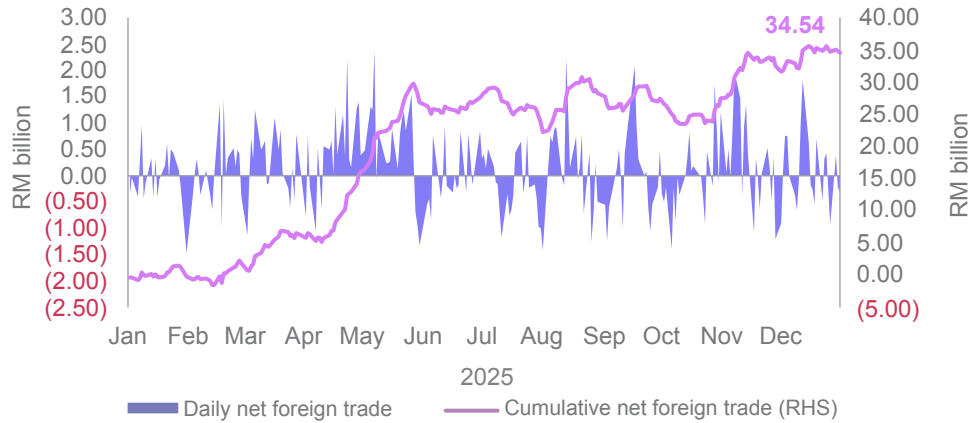
In the period of foreign outflow, local institutional investors have partially cushioned the impact of sell-off by foreign investors. For the year 2025, local institutional investors recorded a participation rate of 41.34%, while, local retail investors registered lower participation rate of 17.58%.

While the market experienced foreign outflows during the year, the domestic market's diversified investor base continued to provide resilience against sudden shifts in investor sentiment.

Turning to the bond market, foreign investors returned as net buyers of Malaysian bonds in 2025 (Chart 4), in contrast to their net selling position in 2024. This shift was largely underpinned by persistent uncertainties in global equity markets, which encouraged investors to diversify beyond the US and allocate more assets towards EM such as Malaysia. Despite the cumulative net buying position, episodes of outflows were still observed, stemming from weaker sentiment as markets turned increasingly cautious ahead of the looming deadline for the implementation of reciprocal tariffs.

<sup>1</sup> Strategic investors consist of parent or holding companies that are based outside of Malaysia, e.g., Nestle, Telenor, and Lotte. Non-strategic investors are investment managers that have shorter investment horizons. Movements are mainly based on demand or discretion of fund managers or clients.

**CHART 4**  
Bond foreign trading

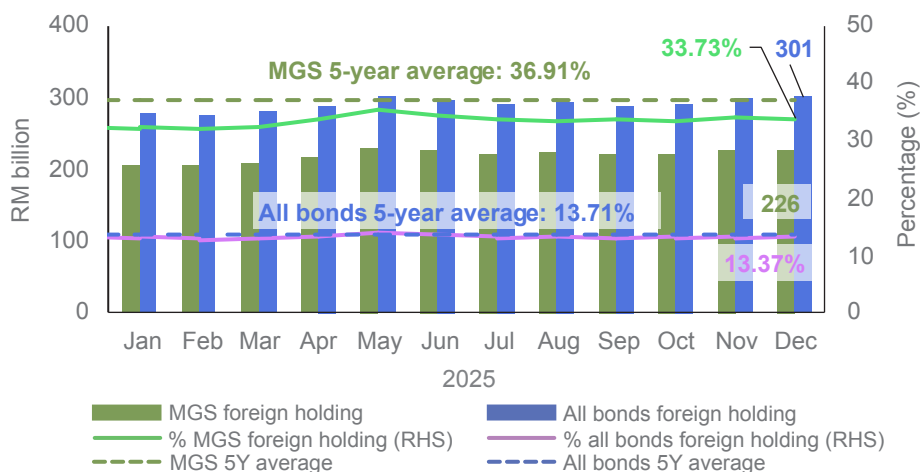


Source: SC.

Although the increase in foreign investor participation throughout the year translated into notably higher daily trading activity, foreign holdings of bonds stood at 13.37% in December 2025, remaining below the five-year average of 13.71% (Chart 5). Intermittent upticks were recorded, with May and June 2025 topping foreign holdings for the year, underpinned by improving global investor sentiment and progress in trade dialogues that helped ease trade tensions and rekindle risk appetite for EM assets.

Within the overall bond market composition, foreign investor allocations were heavily tilted towards MGS. Specifically, MGS accounted for 75.11% of total foreign holdings (2024: 74.37%), followed by GII at 17.30% (2024: 18.26%), corporate bonds and sukuk at 7.17% (2024: 5.45%), and MTB and MITB at 0.42% (2024: 1.92%).

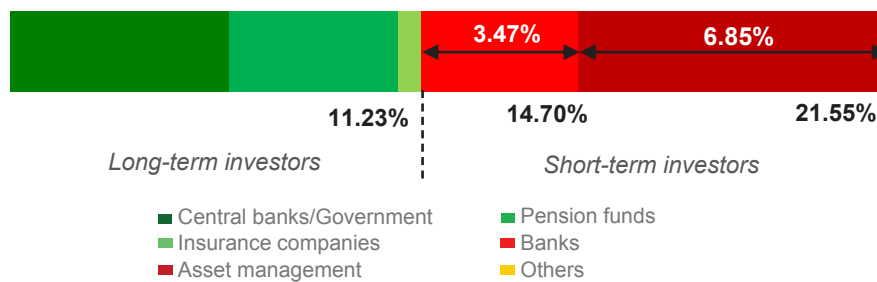
**CHART 5**  
Foreign holdings in ringgit bonds



Source: BNM, SC.

While foreign investors cumulatively held a moderate share of the Malaysian bond market, any abrupt reversal in their investment flows could heighten volatility and undermine the broader financial market stability. The share of foreign holdings held by short-term investors amounted to RM133.14 billion (47.90% of total foreign holdings). In a hypothetical worst-case scenario whereby all short-term investors exited, the level of foreign holdings in government bonds would decrease to an estimated 11.23% (Chart 6). Similar to the equity non-strategic foreign investor scenario, an exit of this magnitude is highly unlikely, given that the most substantial outflow on record was limited to RM31.1 billion from September 2016 to May 2017, coinciding with the US election and the eventual US presidency.

**CHART 6**  
Scenarios if non-strategic foreign investors exit the bond market



Source: SC.

# INVESTMENT MANAGEMENT

## Asset size continued to increase in 2025

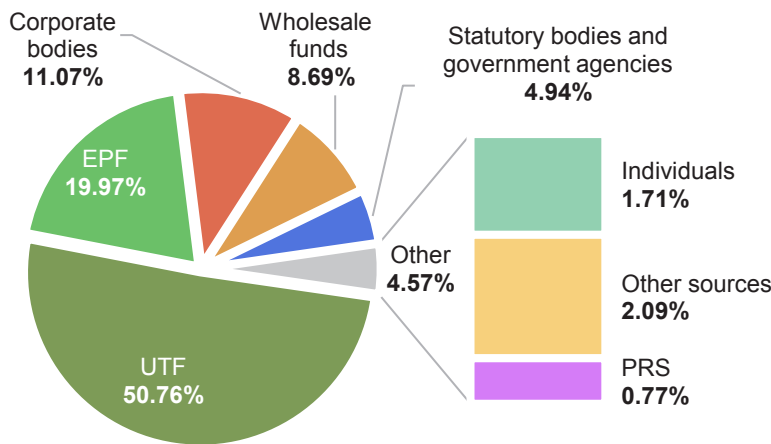
The investment management industry plays a pivotal role in channelling savings into productive investments and, despite global uncertainties and heightened market volatility in 2025, remained resilient in sustaining investor confidence and capital mobilisation. Despite pockets of market volatility in early 2025, the industry's AUM ended December 2025 on a strong footing, recording above the RM1 trillion mark and registering an increase of +RM73.97 billion, tracking on market valuation gains alongside net injections recorded for the year.

*The investment management industry remained stable, with growth recorded for 2025*

Overall, UTFs retained the largest share at 50.76% of total AUM, followed by the Employees Provident Fund (EPF) at 19.97% and corporate bodies at 11.07%. Together, these three categories represented more than 80% of AUM, a profile broadly unchanged from 2024. The other categories contributed single-digit proportions, reflecting consistent structure of AUM sources, with private retirement schemes (PRS) holding the smallest share at 0.77% (Chart 1).

*Sources of AUM were stable, with the largest share of AUM continued to be held by UTFs*

**CHART 1**  
Sources of AUM by categories

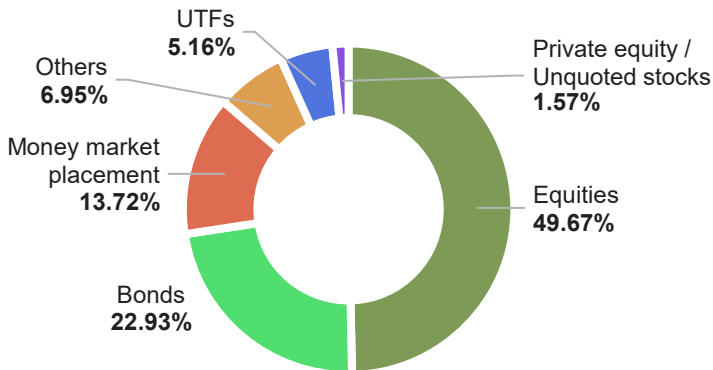


Note:  
Values may not add up due to rounding.

Source: SC.

Beyond stability in overall size and sources, the allocation of AUM across different asset classes provides deeper insights into industry trends and risk exposures. Equities continued to represent the largest share of asset classes in AUM at 49.67%, followed by bonds at 22.93% (Chart 2). Notably, global and domestic equity markets experienced a brief period of stress in April 2025 after the tariff announcements, but rebounded swiftly, evidenced by the rise in equity exposure as valuations recovered. Even against this backdrop of volatility, Malaysia's AUM profile demonstrated resilience and remained broadly stable.

**CHART 2**  
Asset allocation of AUM



Note:  
Values may not add up due to rounding.

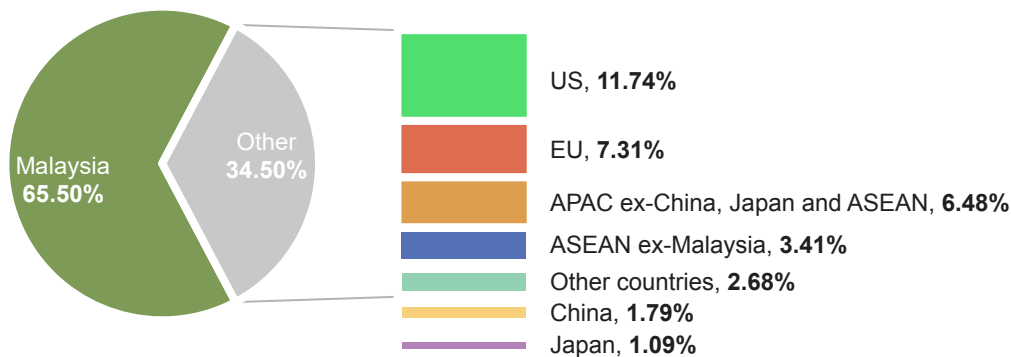
Source: SC.

### Domestic assets continued to dominate, comprising around two-thirds of total AUM

AUM allocation also remained concentrated in domestic assets, which account for an estimated two-thirds of total AUM (65.50%), while the remaining 34.50% was allocated to foreign assets across seven regions (Chart 3). Geographical exposure of AUM was largely stable, with both domestic and foreign assets allocations registering mild fluctuations throughout the year.

*Domestic and foreign asset allocations registered mild fluctuations*

**CHART 3**  
Geographical exposure of AUM



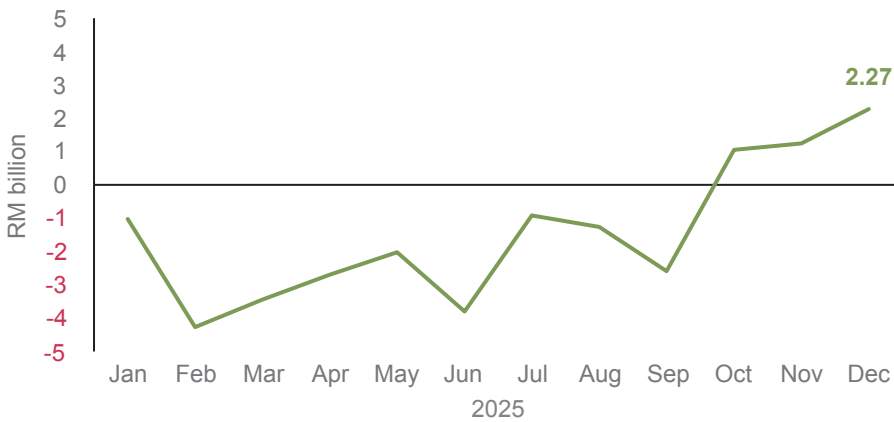
Note:  
Values may not add up due to rounding.

Source: SC.

## Unit trust funds recorded net sales amidst investors appeared to adopt a more defensive stance

UTFs recorded cumulative net sales of +RM2.27 billion by the end of December 2025<sup>1</sup> (Chart 4), driven primarily by fixed income and money market funds, with these inflows helping to offset the inverse sales trend in equity funds. This reflects a shift in investors’ preference toward more defensive portfolio allocations.

**CHART 4**  
UTF cumulative net sales



Source: SC.

## Liquidity risk management in the UTF industry remained robust

UTFs present a key risk transmission channel to the domestic capital market due to their scale and sensitivity to market movements. Hence, it is imperative for UTFs to maintain stable liquidity conditions to meet redemption obligations. By the end of December 2025, these funds continued to maintain stable liquidity positions, with aggregate holdings of cash and cash equivalents (CCEq) including deposits and money market placements, standing at 10.70% of NAV. This provided sufficient buffers, with redemption coverage ratios signalling adequate liquidity to meet redemption. Money market UTFs, were excluded from this analysis given their distinct role as cash management vehicles, which typically record higher redemption rates than other fund categories.

*Liquidity conditions remained sufficient to meet UTF redemption*

In support of its systemic risk oversight mandate, the SC conducts periodic, system-wide stress tests on UTFs and wholesale funds (WSFs). The most recent exercise (refer to pages 47-57 of CMSR 2025)<sup>2</sup> indicated that investment funds remain resilient and are able to withstand potential redemption shocks, reinforcing confidence in the sector’s role in supporting the overall market stability.

*Stress test exercise concluded that investment funds remained resilient*

<sup>1</sup> Excluding reinvestment of distribution.

<sup>2</sup> Subject to eligibility.

# DIGITAL ASSET

## Favourable regulatory developments in 2025 charted cryptocurrencies into new territory

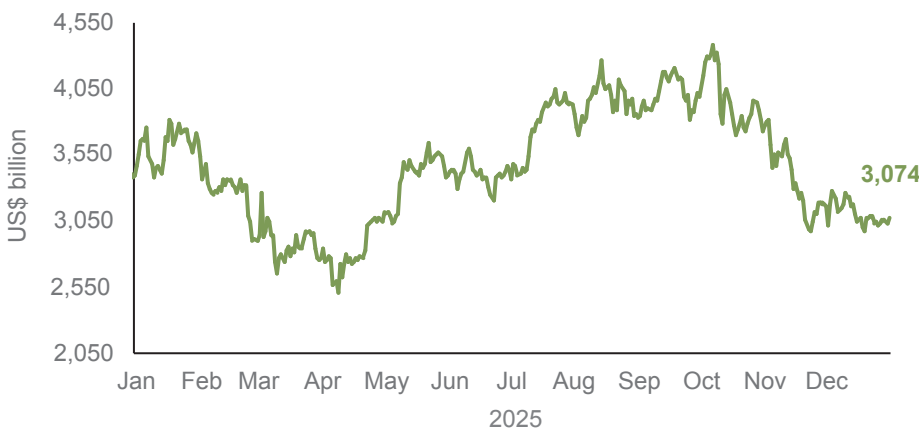
While the equity market remains the primary channel for capital raising and investment, the growth of the digital asset market reflects the expanding role of alternative asset class in complementing equities, derivatives, and bonds within a diversified investment landscape amid an uncertain year of 2025.

*Crypto-friendly regulation and global uncertainty shaped cryptocurrencies' performance in 2025*

In 2025, cryptocurrencies' market performance was shaped not only by macroeconomic factors, such as global trade tensions and tariff-related shocks, but also by policy developments, particularly the adoption of a more pro-crypto regulatory stance in the US. These policy shifts included the introduction of the GENIUS Act and the CLARITY Act, alongside measures enabling the inclusion of crypto assets in 401(k) retirement accounts, as well as the continued evolution of regulatory frameworks globally. Together with greater regulatory clarity across jurisdictions, these developments underscore the growing sensitivity of crypto asset markets to both macroeconomic conditions and policy environments (refer to page 42 of CMSR 2025). Rising investor's interest, particularly increased institutional adoption driving demand for key crypto assets, contributed to significant valuation gains during the year, with global market capitalisation of crypto assets surpassing US\$4 trillion at its peak in 2025, before settling to remain above US\$3 trillion as at end-December 2025 (Chart 1).

Greater institutional adoption, supported by an increasingly accommodating regulatory stance, highlights both the scale of the opportunity and the potential for amplified spillover effects moving forward as market participants, infrastructures and exposures become more interconnected.

**CHART 1**  
Market capitalisation of global cryptocurrencies



Source: CoinGecko.

**BOX ARTICLE 2****THE EVOLVING GLOBAL REGULATORY LANDSCAPE FOR DIGITAL ASSETS**

One of the most cited vulnerabilities associated with digital assets is regulatory uncertainty and divergence in regulatory frameworks across jurisdictions. However, in 2025, the US introduced three new bills to provide greater clarity and regulatory certainty in the digital assets domain. The first major crypto legislation passed by the US Congress, the GENIUS Act, focuses on regulating stablecoins. The US joins the list of countries who have passed their respective stablecoin's regulation including the EU's Markets in Crypto-Assets Regulation (MiCA) and Hong Kong's Stablecoin Ordinance.

In view of the growing demand in the digital assets landscape, Malaysia aims to enable responsible access to digital asset investment onshore by enhancing market competitiveness, strengthening market players' capabilities, promoting blockchain-based innovation, and safeguard investors interests.

The strategies were outlined in a consultation paper issued in June 2025, covering regulatory enhancements such as to liberalise the digital asset listing process, enhance client asset safeguards and increase financial, shareholding and management proficiency.

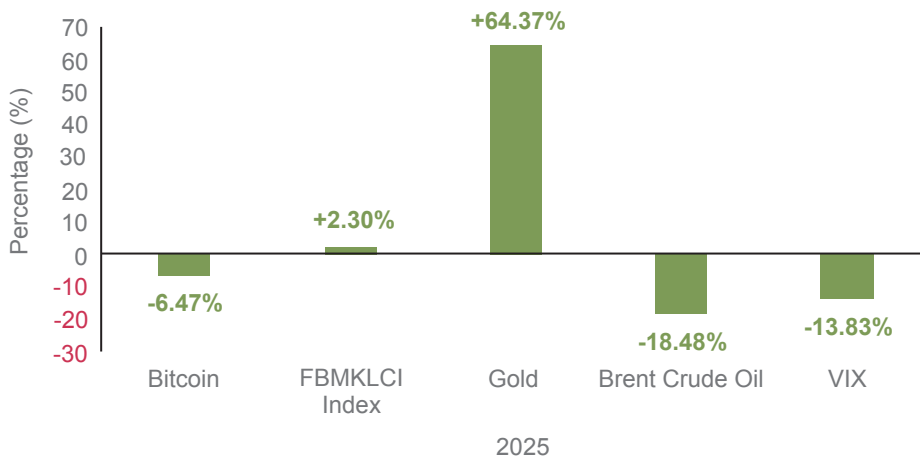
Notwithstanding this, broader digital finance landscape has evolved beyond digital currencies and digital tokens to increasingly encompass the tokenisation of capital market products, including bonds, equities and funds. While regulatory clarity for crypto assets has advanced in certain jurisdictions, markets such as Singapore and Hong Kong, have placed emphasis on establishing regulatory frameworks for tokenised capital market products. Recognising this and to encourage blockchain-based innovation, the SC also issued a consultation paper in May 2025 that sought views on the proposed regulatory framework towards tokenised capital market by adopting a regulatory neutrality approach.

These developments are aimed at strengthening investor protection by providing certainty through regulatory requirements. With the rapid growth of digital assets both globally and in Malaysia, and the risks of misuse that remain, it is essential for regulators worldwide to work towards harmonising frameworks. Greater alignment helps to reduce the risk of regulatory arbitrage and limit potential cross-border contagion, thereby supporting a safer and more stable environment for digital asset market development.

Cryptocurrencies tend to exhibit heightened volatility during periods of uncertainty. Throughout the year, Bitcoin experienced significant price fluctuations. Nevertheless, as at end-December 2025, Bitcoin's YTD market movement was relatively lower than that of most traditional asset classes (Chart 2), as gains earlier in the year were largely offset by subsequent sell-offs, resulting in a moderated net movement. Nonetheless, the decline from its peak recorded in October 2025 amounted to more than a -30% drop in its year-end closing price, reflecting a multitude of interlocking factors, including leverage-induced liquidation cascades and constraints in derivatives markets as well as broader macroeconomic triggers. Collectively, these dynamics underscored the sensitivity and vulnerabilities of crypto asset markets during periods of reduced liquidity and weakening risk appetite.

*Bitcoin retreated sharply from new highs, ending the year with a moderate annual decline*

**CHART 2**  
Market movement of Bitcoin and traditional assets



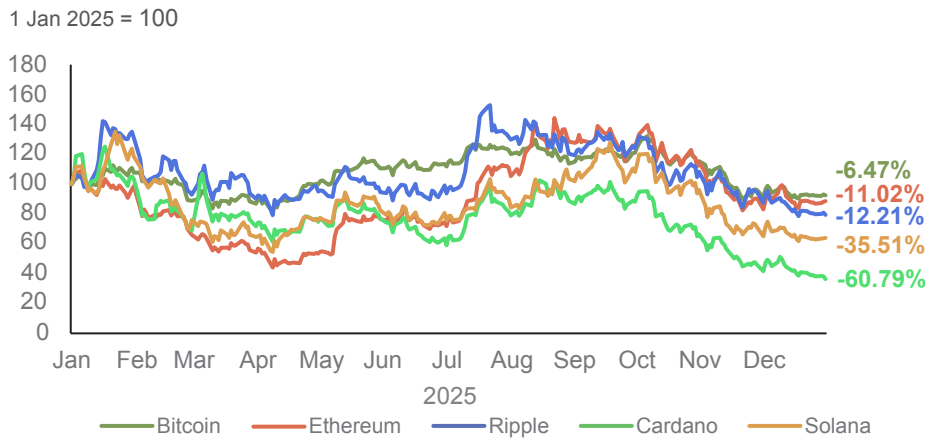
Source: Bloomberg, SC's internal calculation.

While most cryptocurrencies generally move in the same direction under common crypto risk factors, idiosyncratic characteristics may also influence individual crypto asset price performance. Historically, Bitcoin and equities have not moved in tandem, as cryptocurrencies were primarily regarded as alternative investments. However, with broader adoption by retail investors and institutional participants, the correlation between Bitcoin and the stock market, particularly AI-related equities, appeared to be strengthening. Concerns over potential overvaluation in AI-related equities, and the risk of an asset bubble, were associated with heightened volatility across both asset classes.

*Increased investor appetite, including growing acceptance by institutions, was observed in 2025*

By end-December 2025, Bitcoin traded below US\$100,000 with a YTD decrease of -6.47% after rallying above US\$120,000 in October 2025 (Chart 3). Bitcoin's movements have tended to cluster around halving events, which occur on an approximately four-year cycle. However, in the current environment, macroeconomic developments and supportive regulatory shifts may alter these patterns.

**CHART 3**  
Cryptocurrencies' performance



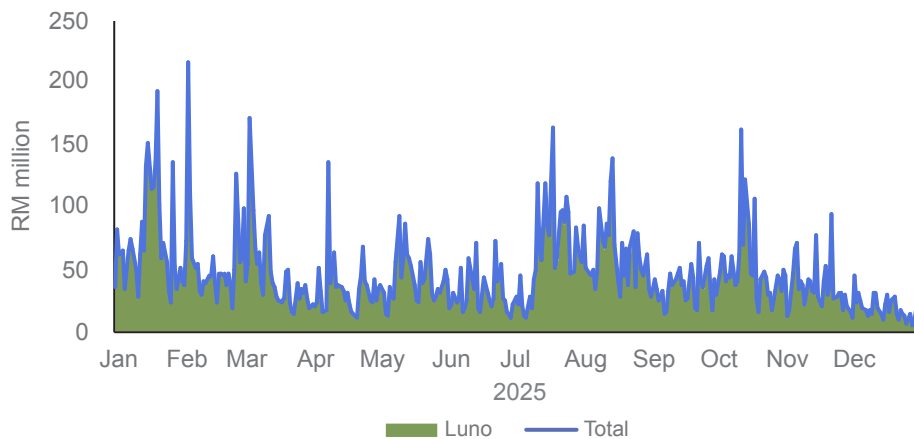
Source: Bloomberg.

**Trading value of local digital asset exchanges increased in 2025**

Global events and crypto asset performance continued to influence domestic trading activity. In 2025, the largest daily trading value was recorded on 3 February 2025, attributable to an increase in trading volume while major crypto asset prices recorded declines. The drop in price was triggered by renewed trade war concerns, which weighed on investor sentiment and prompted heightened trading activity in the domestic market. Despite this, the average daily trading value in 2025 still rose by +23.38% compared to the same period in 2024, reflecting increasing investor interest in the digital asset market. Luno remained the key contributing DAX, consistently accounting for approximately 98% of the total daily trading value across platforms (Chart 4).

*The domestic digital asset market continued to be dominated by the same operator*

**CHART 4**  
Luno's daily trading value



Note:  
Luno accounts for 97.82% of the overall DAX trading value as at end-December 2025, with marginal contribution from the other DAXs.

Source: SC.

While Malaysia's digital asset market has continued to diversify its product offerings, the value of digital asset holdings remains highly concentrated, as reflected by the Herfindahl-Hirschman Index (HHI) indicator of 2,639<sup>1</sup>. Bitcoin dominated overall market share, followed by XRP and Ethereum, reflecting the current composition of investor preference across major digital assets despite broader product availability. Most of the investments in the regulated trading space remained concentrated within retail investors since more than 99% are retail-based accounts, and the remaining corporate-based accounts.

*Bitcoin maintained the largest share in market holdings*

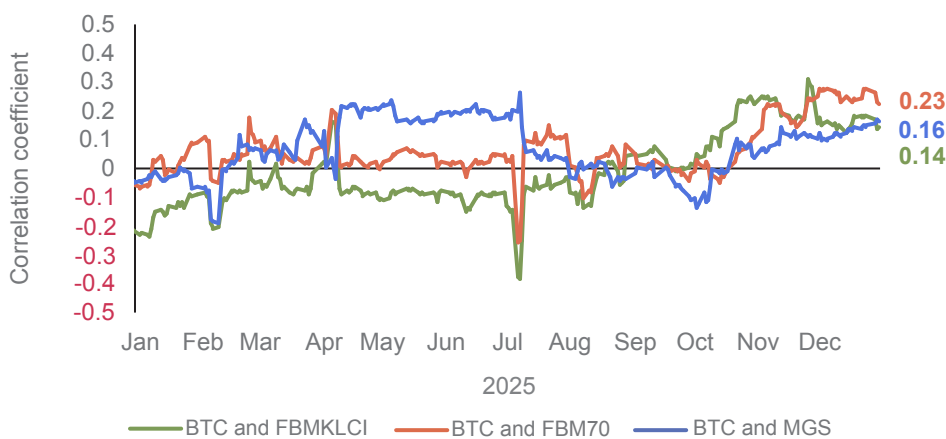
## There is a weak correlation between crypto assets and traditional domestic assets

While crypto assets have been impacted by periods of high uncertainty in 2025 similar to equities and bond markets, the 60-day rolling correlations between the digital asset market and the equity market and between the digital asset market and the bond market hovered below 0.30, suggesting a weak correlation between Bitcoin and traditional assets. Notably, the correlation between Bitcoin and local equity market indices moved into negative territory in July 2025 (Chart 5) as the prices moved in opposite ways amid trade tariff concerns while crypto assets were supported by increased demands, before moving upward after July 2025. Conversely, there was a spike in the correlation between Bitcoin and domestic bonds in July 2025, coinciding with periods of heightened uncertainty in global trade relations.

*The correlation between crypto-assets and traditional assets was generally negligible but portfolio shifts for riskier assets may alter these patterns*

### CHART 5

Rolling 60-day correlation between Bitcoin and selected domestic assets



Source: Bloomberg, SC's internal calculation.

While digital assets are viewed as a new asset class that introduces novel risks, their growth remained small relative to traditional equity and bond markets, with limited interconnection with the two markets. Even though the domestic digital asset trading activity has grown, the average daily trading value remained relatively small at 1.70% compared to the equity market. At the current level of adoption, the spillover impact from digital assets to the broader parts of the domestic capital market remains limited, with the price volatility observed posing no systemic concerns.

*Overall trading activity of digital assets remained relatively small compared to the domestic equity market*

<sup>1</sup> According to the Malaysia Competition Commission, an HHI of less than 1,500 denotes an unconcentrated (competitive) market; between 1,500 and 2,500 denotes a moderate level of concentration; and over 2,500 denotes a highly concentrated market.





## **STRESS TEST ON FUNDS**

## BACKGROUND

The UTF and WSF segments, collectively the investment fund industry, serve as an alternative avenue for retail and institutional investors to invest in the domestic and global capital markets. As at 30 September 2025, the industry aggregate NAV stood at RM673 billion, equivalent to approximately one-third of Bursa Malaysia's market capitalisation. Given the industry's scale and interconnection with the broader capital market, preserving its resilience, particularly the capacity to withstand redemption shocks, remains essential for ensuring an orderly market and safeguarding the broader capital market stability.

In this context, the SC conducts periodic macro stress test on investment funds to identify potential risks and vulnerabilities, and to assess the adequacy of their liquidity profile. The stress test applied a net redemption shock to a sample of 1,131 funds, simulating scenarios of high and sustained redemption pressures occurring alongside downward pressures on asset prices.

# ASSESSING LIQUIDITY RISK IN INVESTMENT FUNDS

From a stability standpoint, vulnerabilities across investment funds primarily arise from asset-liability mismatches. This may impair funds’ ability to meet redemption requests, potentially triggering an asset sell down. This situation could result in a residual portfolio increasingly concentrated in less liquid assets, thereby altering the funds’ overall risk profile and exacerbating stress under adverse market conditions.

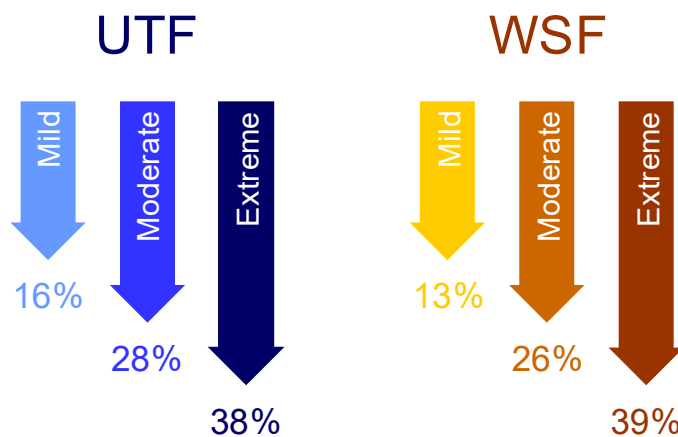
In line with its mandate to monitor, mitigate, and manage systemic risk, and promote capital market stability, the SC conducts macro stress tests on investment funds to examine the resilience of investment funds in meeting redemption requests under both stressed and normal market conditions. Further, as investment funds account for nearly 13% of the FBMKLCI’s market capitalisation, any sizeable sell-down by these funds could generate notable spillover effects on the benchmark index. To assess the potential spillover risk, the SC evaluates the extent of the risk transmission impact between the investment funds and the index.

## SCENARIOS AND METHODOLOGY

The macro stress test simulated severe but plausible redemption shocks to assess the resilience of investment funds. The simulation encompasses three scenarios reflecting the varying degrees of the redemption shock, i.e., mild, moderate, and extreme scenarios (Figure 1).

The calibration of the redemption shock integrates two adverse elements. The first element captures the worst single-day net redemption pressure derived from historical redemption data. The second element simulates a run-like dynamics, in which redemption pressures will sustain at high levels for a specified duration<sup>1</sup> before gradually normalising.

**FIGURE 1**  
Stress test scenarios based on redemption of investment fund



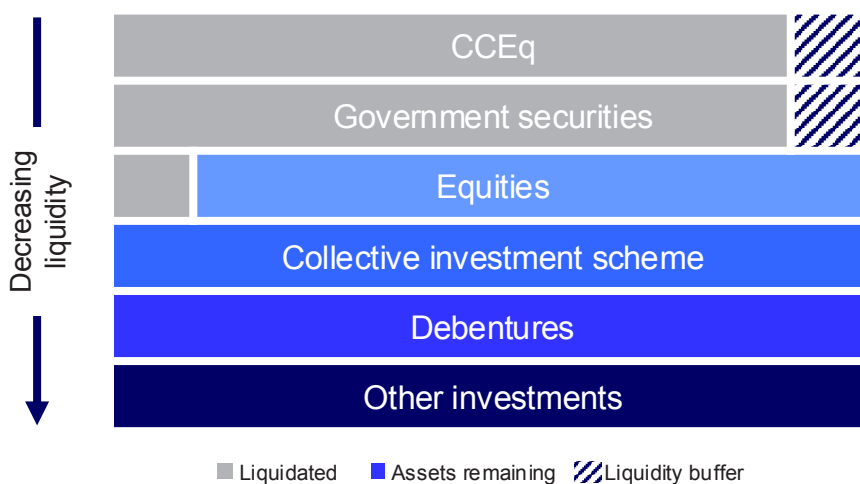
Source: SC.

<sup>1</sup> The specified duration is in line with the redemption payout period stipulated in the SC’s *Guidelines on Unit Trust Funds*, to capture additional redemption requests by unitholders which may occur prior to the initial redemption payout.

Leveraging on fund-level data, the stress test evaluates how adverse shocks could affect funds’ asset and liability structures. On the asset side, the model incorporates the liquidation of selected asset classes below their fair value, capturing heightened market risk and adverse price dynamics during periods of stress. On the liability side, the model applies elevated and persistent redemption pressures at the individual fund level, consistent with a run-like episode<sup>2</sup>. The resilience of investment funds is assessed based on the adequacy of their liquidity profiles. In this approach, a fund is considered illiquid if, under the simulation scenario, it is required to draw on hypothetical liquidity buffers.

Two asset liquidation strategies were considered. Under the horizontal slicing (or waterfall) approach, assets are liquidated sequentially, beginning with the most liquid assets and progressing to those less liquid. Meanwhile, the vertical slicing approach assumes proportional liquidation across all portfolio assets to preserve the original portfolio structure. As the choice of liquidation strategy affects the stress test outcomes; the analysis employed horizontal slicing as the primary liquidation approach. This method captures the risk of first-mover advantage, where remaining investors inherit a significantly less-liquid fund<sup>3</sup> and thereby amplifying run-like dynamics. Figure 2 illustrates the defined liquidation sequence by asset class.

**FIGURE 2**  
Asset liquidation strategy based on horizontal slicing approach



Source: SC.

The stress test was conducted under a set of key assumptions. During periods of market stress, investors were assumed to exhibit herding behaviour, leading to sustained and elevated redemption pressures across all scenarios. Investment funds were assumed to maintain minimum liquidity buffers of no less than 10% across asset classes. To isolate funds’ intrinsic resilience, the stress test assumed neither the regulatory authorities nor the trustees would intervene to mitigate stress or preserve fund stability.

<sup>2</sup> *Asset Managers and Financial Instability: Evidence of Run Behavior and Run Incentives in Corporate Bond Funds*, Harvard Kennedy School, (2015).

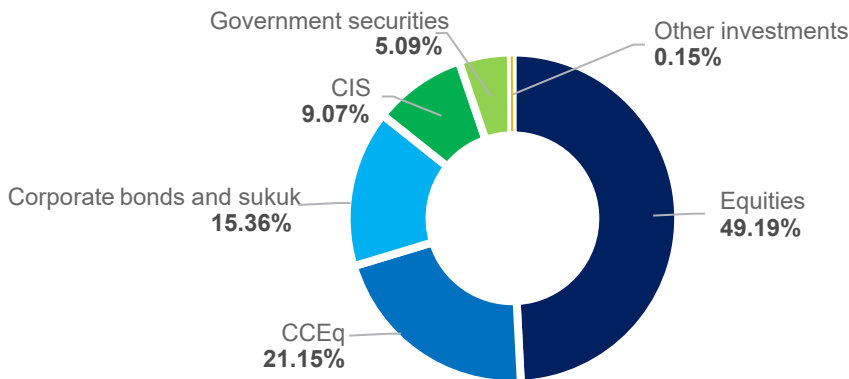
<sup>3</sup> *Simulating stress across the financial system: The resilience of corporate bond markets and the role of investment funds*, Bank of England, (2017).

# INVESTMENT FUNDS SUBJECT TO THE STRESS TEST

As at 30 September 2025, a total of 1,131<sup>1</sup> investment funds with an aggregate NAV of RM666.57 billion were tested. Mixed assets funds accounted for the largest share by fund type, followed by equity funds, and fixed income funds. In terms of asset allocation, investment funds were primarily invested in equities (49.19%), CCEq (21.15%), and corporate bonds and sukuk (15.36%). The remaining allocations comprised collective investment schemes (CIS), government securities, and other investments, which together accounted for 14.31% of total assets (Chart 1). CCEq, domestic equities, and government securities are considered key components of the overall asset allocation as they collectively contribute to approximately half of investment funds' total NAV and represent the highest utilisation under the stress test's liquidation strategy.

The investment fund industry exhibits pronounced size-based concentration, in which there is a highly concentrated distribution of market share. Measuring by number of funds, 0.71% of tested funds accounted for 45.07% of total NAV, with each fund managing assets in excess of RM10 billion. In contrast, 55.61% of funds reported NAVs below RM100 million and collectively accounted for 2.88% of total NAV. The remaining 43.68% of funds represented approximately 52.05% of aggregate NAV (Chart 2).

**CHART 1**  
Asset allocation of investment funds

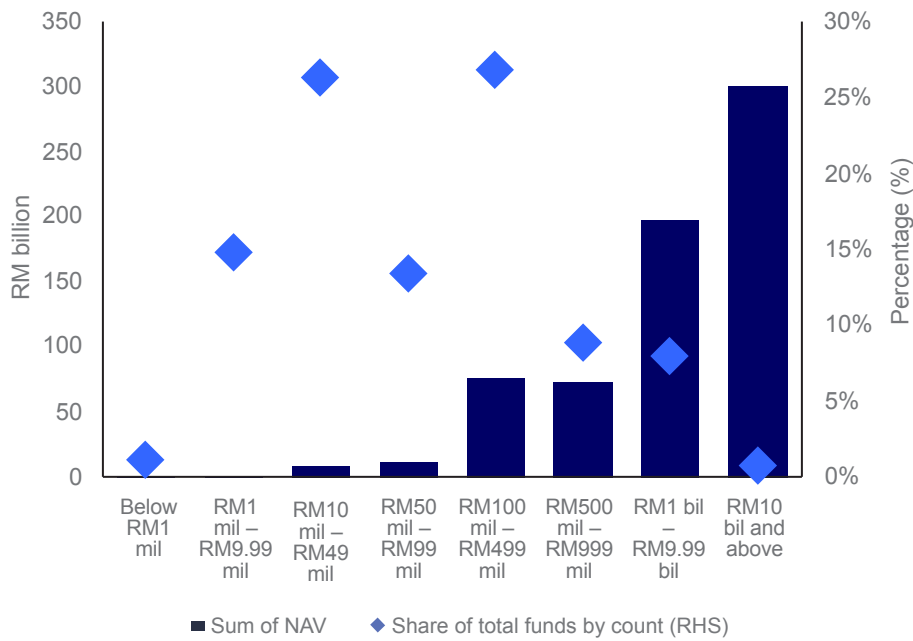


Note:  
Values may not add up due to rounding.

Source: SC.

<sup>1</sup> Excluding funds with zero NAV, funds with no investable assets, and funds which invest primarily in property assets.

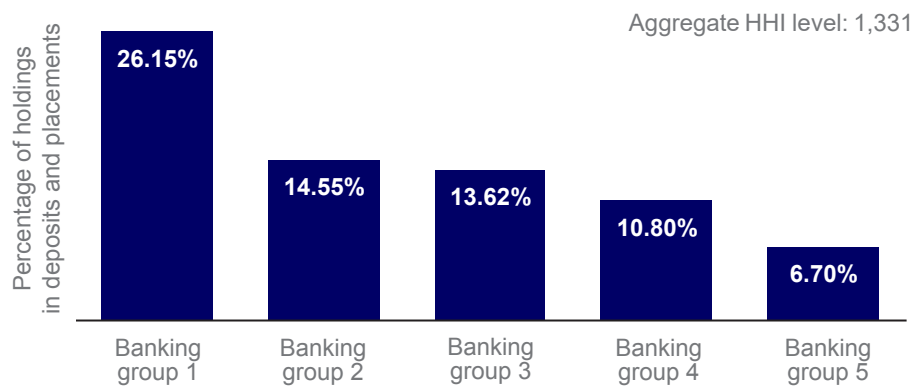
**CHART 2**  
Distribution of investment funds by fund size and market share



Source: SC.

A detailed analysis of deposits and placements revealed that the three major domestic banking groups collectively account for approximately half of total holdings. The corresponding HHI indicator of 1,331 suggests a low degree of concentration in deposits and placements (Chart 3).

**CHART 3**  
Distribution of deposits and placements



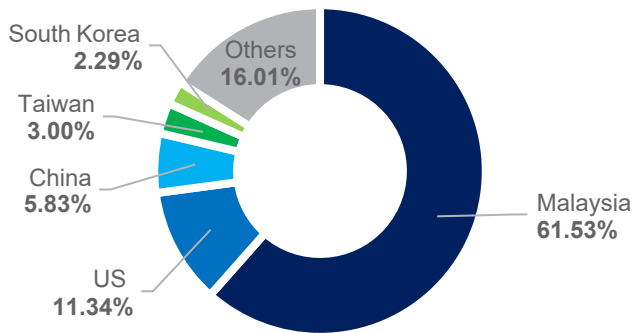
Source: SC.

## Equities Exposure

An assessment of the equities asset class indicated that 61.53% of holdings was allocated domestically. Foreign exposures were concentrated primarily in the US (11.34%), followed by China (5.83%), Taiwan (3.00%), and South Korea (2.29%), which together accounted for 22.46% of total equities holdings (Chart 4).

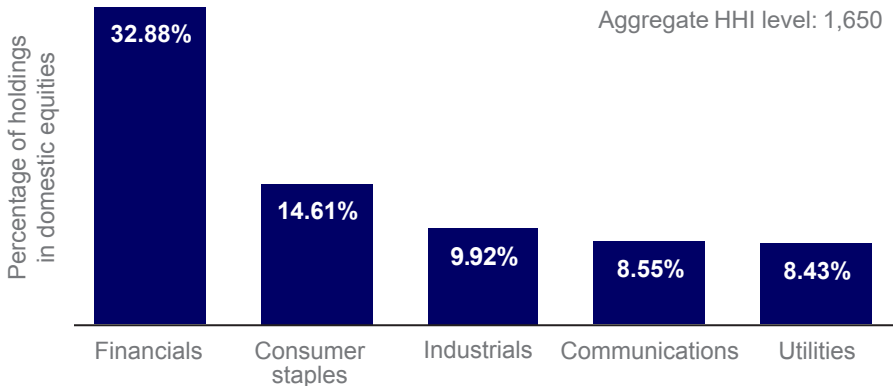
Within domestic equities, exposures were predominantly concentrated in the financials sector (32.88%), followed by consumer staples (14.61%), and industrials (9.92%). The five largest sectors collectively accounted for approximately 70% of domestic equities holdings. The associated HHI indicator of 1,650 indicated a moderate level of sectoral concentration across 12 sectors (Chart 5).

**CHART 4**  
Equities holdings by geographic allocation



Source: SC.

**CHART 5**  
Sectoral distribution of domestic equities



Source: SC.

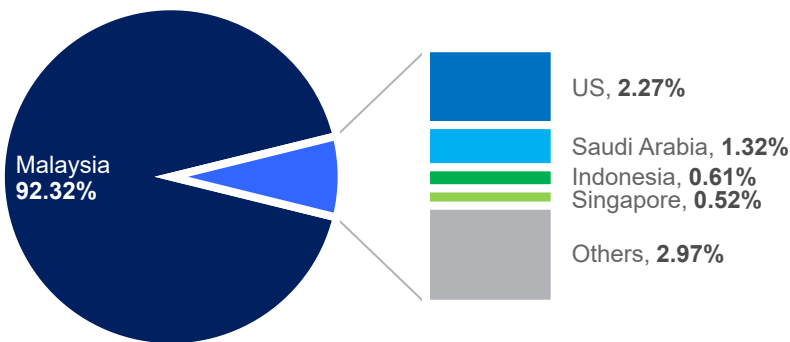
## Bonds and Sukuk Exposure

An assessment of bonds and sukuk<sup>2</sup> holdings indicated that holdings are concentrated domestically, with Malaysia accounting for 92.32% of total exposure, while foreign allocations remained limited comprising the US (2.27%), Saudi Arabia (1.32%), Indonesia (0.61%) and Singapore (0.52%) (Chart 6). Holdings in this segment were also skewed towards corporate instruments, with the corporate-government bonds/sukuk mix standing at 75:25.

Within ringgit denominated corporate bonds and sukuk, credit quality remained skewed towards the upper end of the investment-grade spectrum. Corporate bonds and sukuk rated 'AA' represented the largest share of holdings at 52.35%, followed by 'AAA' rated at 26.69% while 'A' rated instruments accounted for 7.69% of this portfolio segment (Chart 7). Similarly in the non-ringgit segment, exposures were concentrated in higher quality credit. Securities rated 'AA' accounted for the largest share of holdings at 42.03%, followed by 'A' rated at 24.56%, and 'BBB' rated instruments at 19.62%. Overall, holdings in both ringgit and non-ringgit denominated corporate bonds and sukuk were primarily of investment grade<sup>3</sup>.

Ringgit denominated corporate bonds and sukuk exhibited a high degree of sectoral concentration, with financials sector accounting for 45.41% of the total exposure, ahead of utilities (15.00%), and industrials (14.76%) sectors. The HHI indicator of 2,597 across 13 sectors reflected concentration arising from the substantial weight in the financials sector (Chart 8).

**CHART 6**  
Bond and sukuk holdings by geographic allocation



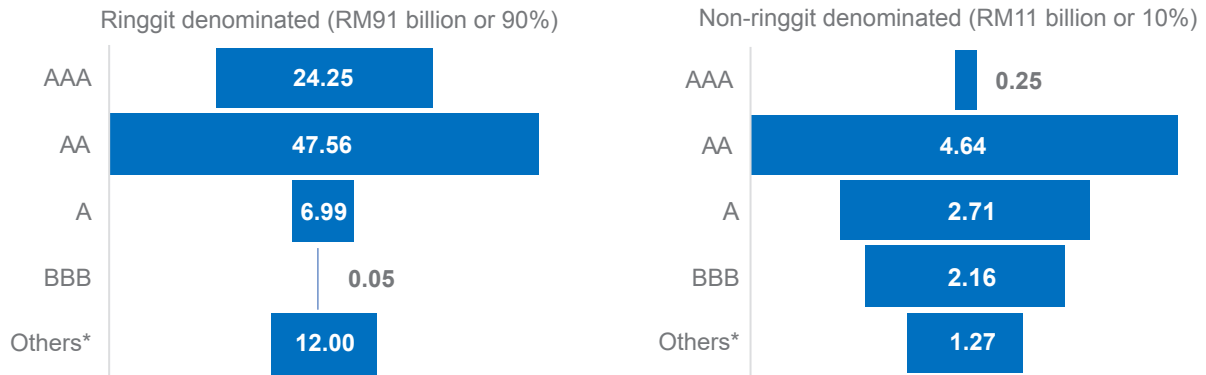
Note:  
Values may not add up due to rounding.

Source: SC.

<sup>2</sup> Corporate bonds and sukuk and government securities.  
<sup>3</sup> Investment grade ratings refer to ratings of 'BBB-' and above.

**CHART 7**

Credit ratings of ringgit and non-ringgit denominated corporate bonds and sukuk



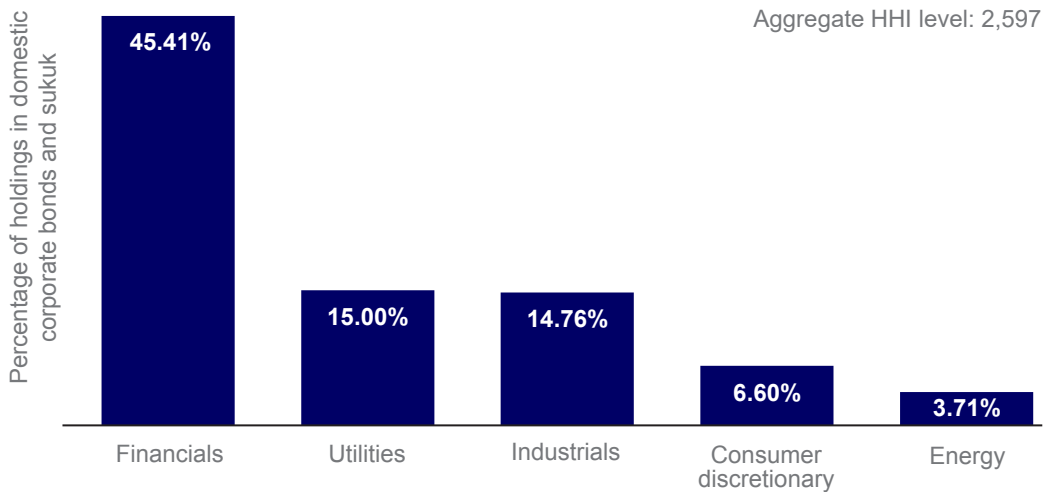
Note:

\* Rating 'Others' comprise of bonds and sukuk rated 'BB' and lower, short-term ratings, and those undefined by fund management companies.

Source: SC.

**CHART 8**

Sectoral distribution of domestic corporate bonds and sukuk



Source: SC.

## STRESS TEST RESULTS

Under the extreme scenario, tested funds were estimated to liquidate approximately 44.12% of aggregate portfolio assets to meet elevated redemption demands. Notably, the hypothetical liquidity buffers were not drawn upon under any scenario, suggesting the portfolio structure provided adequate inherent liquidity. Overall, the results highlighted the resilience of investment funds in responding to redemption shocks, even in the context of adverse asset price dynamics.

Relative to their total holdings, CCEq and government securities were liquidated at 59.49% and 75.61%, respectively, while equities experienced moderate liquidation at 45.83%. In contrast, CIS and corporate bonds and sukuk saw lower liquidation rates at 28.63% and 17.99%, respectively, reflecting their lower liquidity standing relative to other asset classes.

## POTENTIAL RISK TRANSMISSION

Systemic risk in the investment fund industry could potentially arise when investment funds respond in a correlated manner to a common shock, particularly through concurrent asset liquidations. Given that investment funds hold nearly 13% of FBMKLCI constituent counters, a broad-based liquidation by fund managers could induce temporary dislocation in the equity market. To assess the potential impact, the macro stress test simulated a single-day sell-down under the extreme scenario amounting to RM6.85 billion across FBMKLCI counters; approximately two times the average daily trading value recorded in 2025<sup>1</sup>. In this context, the extent of price impact is primarily influenced by two factors; the scale of asset liquidation and the liquidity of the underlying securities<sup>2</sup>. Based on the SC's estimation, the simulated sell-down would result in a -6.35% decline in the benchmark index, reducing it to 1,509.58 points, -102.30 points below the actual closing level on 30 September 2025. Cross-section analysis indicated that most counters would experience moderate price deteriorations, with one counter exhibiting a pronounced decline. Importantly, the aggregate impact remains within the acceptable level, as the estimated decline falls below BMS' first-level circuit breaker threshold<sup>3</sup>.

<sup>1</sup> Bursa Malaysia recorded average daily trading value of RM2.76 billion in 2025.

<sup>2</sup> *Stress simulation for investment funds*, European Securities and Markets Authority, (2019).

<sup>3</sup> Bursa Malaysia's 'Level 1' circuit breaker trigger is at -10%.

## CONCLUSION

Results from the macro stress test indicated that investment funds were resilient to redemption shocks. Under the extreme scenario, investment funds were able to liquidate a share of their portfolios without resorting to hypothetical liquidity buffers. Furthermore, the spillover risk analysis suggested that the projected sell-down would result in only a moderate decline in the benchmark index, remaining below the first-level circuit breaker threshold.





**THEMATIC REVIEW OF  
CAPITAL MARKET  
SEGMENTS – INSIGHTS  
INTO EQUITY  
MARKET DYNAMICS**

## INTRODUCTION

The Malaysian equity market continues to demonstrate resilience despite navigating a complex mix of external and domestic challenges. As a cornerstone of the economy, the equity market serves both companies and investors by enabling capital raising and providing opportunities for wealth creation and savings growth.

As global financial conditions evolve and investors are able to diversify across numerous assets classes and jurisdictions, the vibrancy of the Malaysian equity market remains central to maintaining its attractiveness. A vibrant equity market is primarily shaped by two fundamental components, namely, supply and demand. Such vibrancy is reflected in the presence of a broad and diversified investor base, a deep pool of high-quality PLCs, strong governance and stewardship by boards and management, strong market liquidity, and enhanced market infrastructure and innovation. Collectively, these elements strengthen the market's ability to attract participation and foster investor confidence, with potential positive spillover effects across other segments of the capital market.

# CURRENT LANDSCAPE OF THE MALAYSIAN EQUITY MARKET

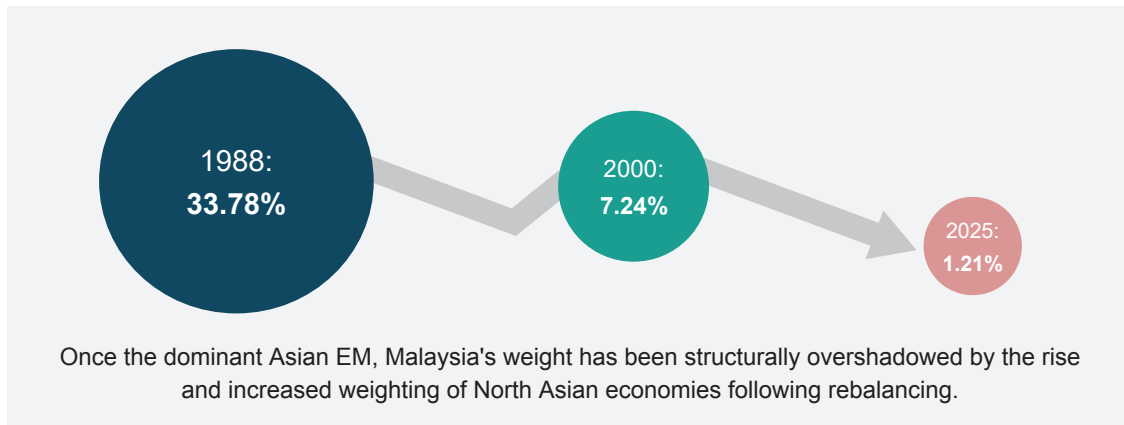
Since 2021, the Malaysian equity market has registered a compound annual growth rate of 2.58%, with the market capitalisation at end-December 2025 breaching the RM2 trillion mark. Despite this expansion, the overall market participation appeared to have softened during 2025. On the demand side, average daily trading volume and value declined to 3.39 billion units and RM2.76 billion respectively, reflecting slower activity than the previous year. Trading patterns for 2025 indicated that market activity was primarily driven by foreign and domestic institutional investors. While domestic retail participation remained active, recent trading value trends suggest moderation from the heightened level of domestic retail participation observed during the pandemic period.

On the supply side, the IPO activity continued to show a positive trajectory, with the number of new listings increasing steadily since 2021. Meanwhile, the funds raised from IPOs were above RM5 billion in 2025. With the growth in listings, the number of listed companies in the Malaysian equity market remained above 1,000.

While these developments suggest that the Malaysian equity market remains fundamentally stable, further enhancements are needed to ensure that the market remains vibrant to elevate competitiveness and support long-term market development. This includes strengthening Malaysia's visibility and relative standing within the global investment landscape. From a strategic standpoint, securing a stronger representation in major global equity indices is also crucial, as this can enhance Malaysia's global profile and help attract sustained participation from long-term foreign investors.

On the contrary, Malaysia's representation within major global indices, particularly the MSCI EM Index, which significantly influences passive investment fund flows, has been on a persistent decline since 1988 (Chart 1), reflecting a long-term decline in relative competitiveness. This erosion is largely attributable to the increasing dominance of markets such as China, Taiwan, India and South Korea, whose weightages have progressively diluted Malaysia's share in the index.

A key structural consideration is that global index providers generally construct indices using free-float-adjusted market capitalisation, a methodology that inherently advantages larger and more publicly-held companies. Consequently, countries where listed companies have relatively low free-float levels tend to receive structurally lower index weights. This under-representation reduces their attractiveness to benchmark-driven investors and further constrains overall market liquidity. Moreover, index inclusion is contingent upon meeting specified liquidity thresholds, which leads to portfolios tracking these indices being concentrated in markets with deeper liquidity pools. Smaller and less liquid companies are therefore frequently excluded from the investment universe considered by investors. This situation highlights the need to strengthen the quality and scale of Malaysian large-cap PLCs and accelerate diversification into higher-growth sectors beyond traditional industries, particularly in view of the information technology sector accounting for more than a quarter of the MSCI EM Index's total weighting as at 31 December 2025.

**CHART 1****Malaysia's shrinking participation in MSCI EM Index**

Note:  
Weightage as at 1 January 1988, 1 June 2000 and 31 December 2025.

Source: MSCI.

## A COMPARISON WITH REGIONAL PEERS

Malaysia's market competitiveness is shaped not only by domestic fundamentals but also by its relative positioning against regional peers. Assessing Malaysia's performance alongside regional peers provides a clearer perspective on its relative standing, enabling the identification of key strengths, structural gaps, and areas where targeted policy or market reforms may be warranted to enhance overall market vibrancy. Over the long term, the resilience and vibrancy of the equity market depend on the development of a balanced and well-functioning ecosystem, which is essential for sustaining investor confidence and attracting stable capital inflows.

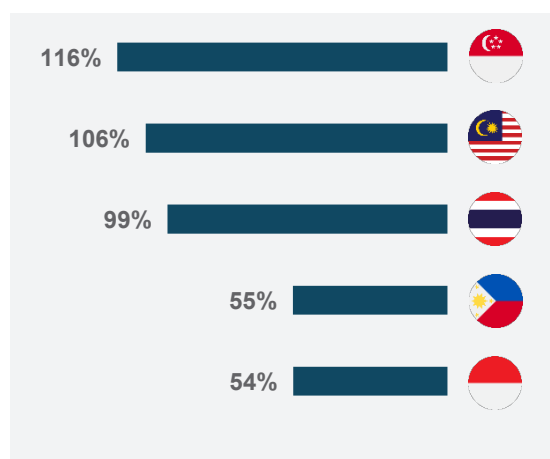
### Market Capitalisation and Listed Company Landscape

Over the past several decades, the Association of Southeast Asian Nations (ASEAN) economies, including Malaysia, have experienced tremendous growth, supported by a wide range of market reforms and initiatives aimed at strengthening their equity market ecosystem. In Malaysia's case, these efforts have helped deepened its equity market size, equivalent to 106% of its gross domestic product (GDP) as at December 2024, despite GDP having grown at a faster pace. The equity market size of Singapore stood at 116% of its GDP, followed by Thailand (99%), while Philippines and Indonesia stood below 60% (Chart 2).

Compared with its regional peers, Malaysia hosts the highest number of listed companies, with over 1,000 companies on its exchange. However, the average market capitalisation per listed company was relatively lower than its peers (Chart 3), reflecting a market characterised by a broad base of small and mid-capitalised companies. Singapore, by contrast, boasts the highest average market capitalisation despite having a comparatively modest number of listed companies, benefitting from international listings and its status as a regional hub for real estate investment trusts (REITs) and exchange-traded funds (ETFs). Ultimately, these differences vary in market structures and liquidity dynamics across ASEAN exchanges.

Despite challenging external macroeconomic conditions in 2025, Malaysia hosted 60 IPOs, nearly half of the funds raised comprising growth-oriented companies listed on the ACE market, raising a total of US\$1.47 billion<sup>1</sup>. While Malaysia led by IPO count, Singapore emerged as the regional leader in terms of value, with 12 IPOs raising US\$2.05 billion<sup>2</sup>. Notably, Singapore succeeded in staging a recovery in 2025 after recording a subdued IPO count in 2024, supported by a series of reforms aimed at revitalising its market activity. Although Malaysia continues to attract a steady pipeline of new listings, securing larger IPOs will be imperative to further strengthening the domestic capital market ecosystem and enhancing its regional competitiveness.

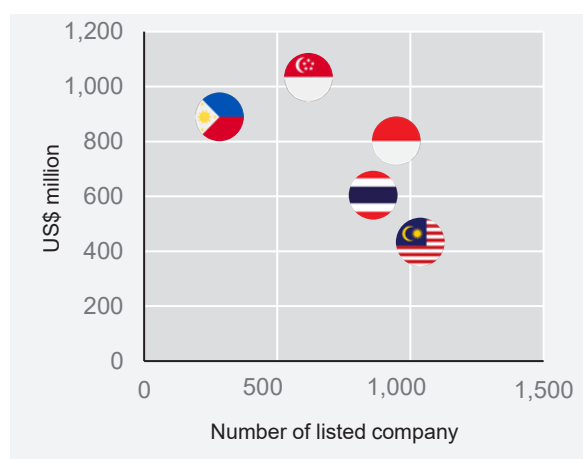
**CHART 2**  
Market capitalisation as a percentage of GDP (%)



Note:  
Values are as at December 2024.

Source: Bloomberg, World Federation of Exchanges (WFE).

**CHART 3**  
Average market capitalisation per listed companies

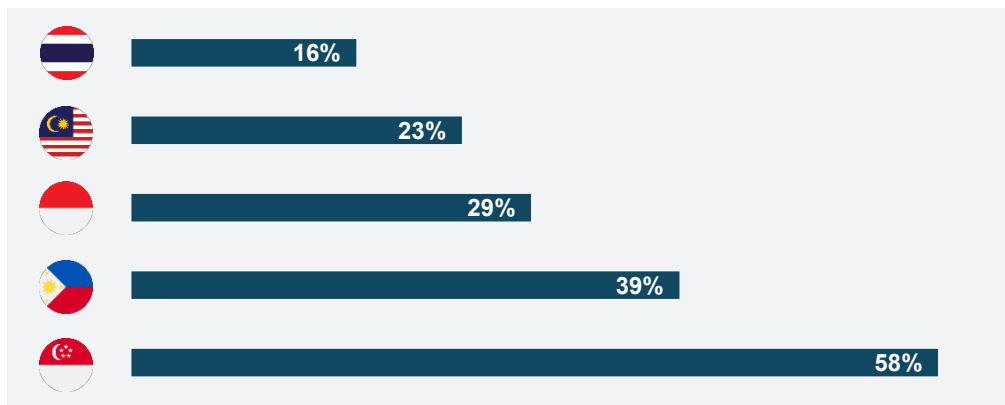


Sectoral concentration remains another defining structural feature shaping the overall market vibrancy. While the evolving IPO landscape presents opportunities to gradually rebalance the market's sectoral profile, the equity market's structure continues to exhibit a high degree of concentration. In particular, ASEAN markets remain predominantly driven by the financials sector (Chart 4), whereas other sectors particularly fast-growing, innovation-oriented sectors such as the technology sector represent a considerably smaller share. Relative to regional peers, Malaysia's financials sector stood at 23% of market capitalisation, below 30%, therefore, relatively unconcentrated, placing it at the lower end of the spectrum. Singapore (58%) is the most concentrated, while Thailand (16%) exhibits the least reliance on the financials sector. Aside from the financials sector, the consumer and industrial sectors also represent notable components of the sectoral landscape across selected ASEAN markets.

The sectoral composition tends to anchor on valuation patterns and influences investor perceptions, particularly among foreign portfolio investors who often benchmark sector weights against global and regional peers. In 2025, the global sentiments skewed towards technology and AI sectors, reflecting ongoing developments in the US. Enhancing sectoral diversity in line with the evolving market could support improvements in overall equity market liquidity and vibrancy by strengthening the market's alignment with prevailing global investment themes.

<sup>1</sup> Currency conversion is based on the US\$/RM exchange rate as at 31 December 2025 (US\$1= RM4.0610).

<sup>2</sup> *Equity Capital Markets Watch: 2025 Singapore and Southeast Asia*, PricewaterhouseCoopers, (2026).

**CHART 4****Overall financials sector concentration**

Note:

The share of the financials sector is calculated against the overall market capitalisation as at December 2024.

Source: Indonesia Stock Exchange (IDX), OECD, Philippine Stock Exchange (PSE), Singapore Exchange (SGX), SC.

## Investor Composition and Ownership Structure

Domestic investors tend to have a dominant presence in the ASEAN equity markets, particularly in the Philippines and Malaysia, while Singapore records high participation of foreign investors within the region. As at end-December 2025, the Malaysian equity market remained heavily concentrated among domestic investors at 80.98%, with foreign holdings accounting for only 19.02%. Several markets also displayed notable ownership concentration, with controlling stakes by major shareholders as at end-2024. In Thailand, fewer than 20% of listed companies have a largest shareholder owning more than half of the total equity. By contrast, approximately 57% of Indonesia's listed companies have majority shareholders with stakes exceeding 50%. In Malaysia, this share stands at 23% of listed companies.<sup>3</sup> These ownership patterns reflect varying degrees of control across markets, with implications for tradable share availability and overall market liquidity.

In this regard, the free float<sup>4</sup>, which generally represents the proportion of shares accessible to public investors, serves as a key structural determinant of market liquidity. Higher free float generally supports turnover and price discovery, whereas concentrated ownership structures tend to constrain secondary market depth, with more pronounced effects during periods of heightened market stress.

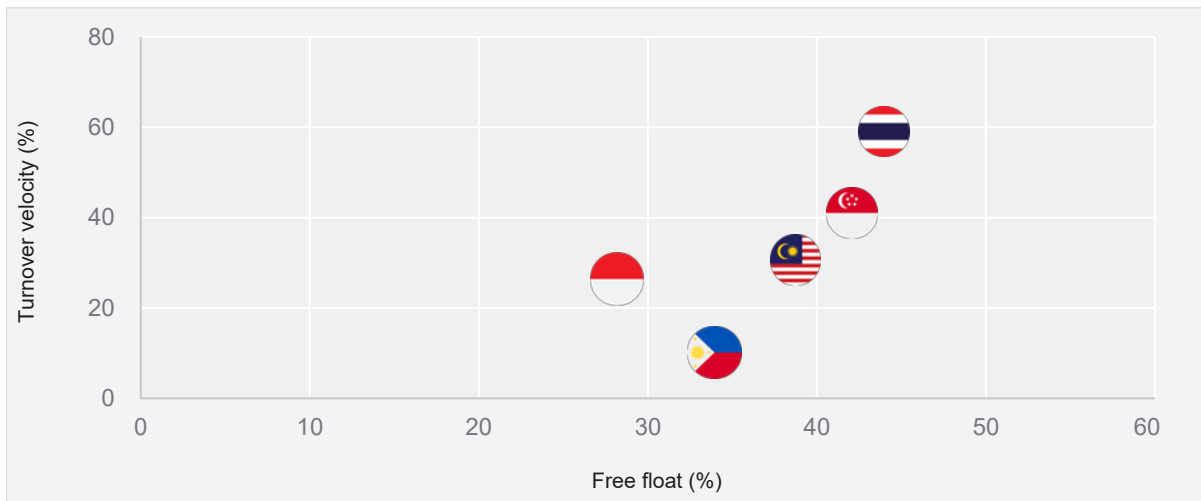
Thailand and Singapore register the highest average free float ratios in the region, at 44% and 42%, respectively (Chart 5). On the other hand, Malaysia's average free float of 39% reflects the longstanding presence of domestic institutional and strategic shareholders. Such ownership structures contribute to domestic market stability and help cushion the impact of sell-offs during stress periods. Notwithstanding this, the minimum public shareholding spread as stipulated under BMS's Listing Requirements has helped sustain overall free float levels in the market. Further, the end-beneficiary owner structure of Malaysia's Central Depository System accounts upholds ownership visibility, thereby safeguarding transparency in the market.

Turnover velocity, a key indicator of trading intensity relative to market capitalisation, stands at an average of 31% for Malaysia, below Thailand (59%) and Singapore (41%) but above Indonesia (26%) and the Philippines (10%) (Chart 5). This underscores the general positive correlation between free float and turnover velocity, as greater availability of publicly tradeable shares supports a broader investor base and enhances market efficiency.

<sup>3</sup> OECD Capital Market Review of Thailand 2025, OECD, (2025).

<sup>4</sup> Free float data presented in this report are sourced from Bloomberg. Note that free float definitions and methodologies may vary by jurisdiction and data provider.

**CHART 5**  
Turnover velocity and free float



Note:

Turnover velocity indicates the monthly average for the period between January and December 2025, while free float indicates the average of PLCs' free float as at 31 December 2025.

Source: Bloomberg, SGX, WFE.

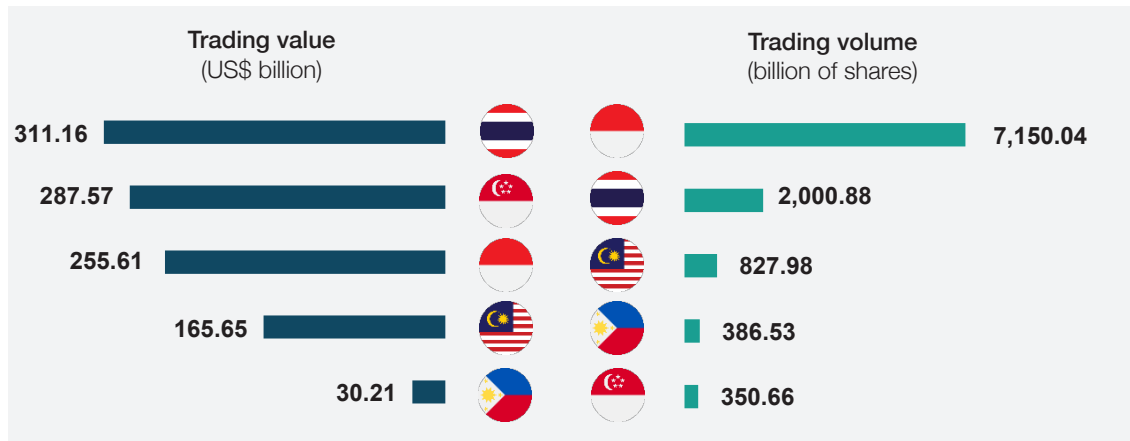
## Equity Market Trading Dynamics

Among selected ASEAN exchanges, Thailand stands out as the region's most actively traded equity market, underpinned by the highest trading value and strong trading volumes (Chart 6). This level of market vibrancy has sustained amid episodes of political and macroeconomic uncertainty, indicating deep participation profile and robust secondary market functioning. As such, Thailand serves as a regional reference point for liquidity resilience, supported by ample free float and an active investor base.

Singapore's equity market exhibits a structurally distinct liquidity profile. Trading volume is relatively lower than those observed in the more actively traded regional markets, reflecting limited trading activity alongside limited retail participation. While trading value is supported by the presence of high-priced and blue-chip counters, this capital-intensive structure does not fully offset broader liquidity constraints, as trading activity is highly concentrated in the benchmark index constituents. As a result, volume-based measures point to limited market depth, suggesting that although price discovery is relatively efficient for major stocks, overall liquidity remains uneven.

Malaysia sits in an intermediate position within the region, ranking third in trading volume and fourth in trading value. Market activity remains orderly and broadly stable; however, the value of shares traded is comparatively softer than Singapore, Thailand, as well as Indonesia. Indonesia records higher trading value than Malaysia, primarily driven by large trading volumes from a sizeable and active domestic retail investor base. While this volume-led liquidity model enhances day-to-day market activity, it also implies greater sensitivity to shifts in retail sentiment, which may amplify short-term volatility during periods of market stress.

**CHART 6**  
Trading value and volume

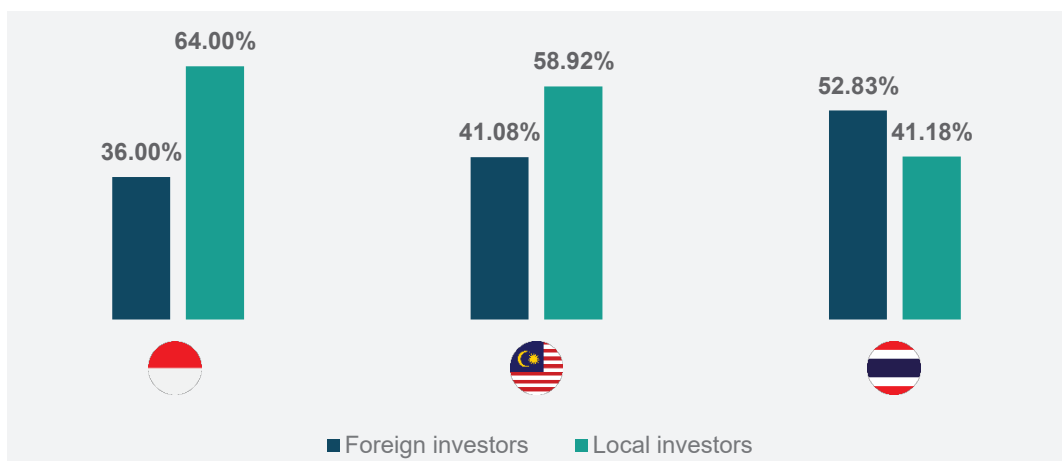


Note:  
Trading value and trading volume are measured as the totals for January to December 2025. Trading value is converted using the exchange rate of each domestic currency as at 31 December 2025.

Source: IDX, PSE, Stock Exchange of Thailand (SET), SGX, SC.

In terms of trading participation, local investors continue to dominate the markets across selected ASEAN countries, except in Thailand, where foreign participation is higher as compared to domestic participation (Chart 7). Domestic participation in Thailand is largely driven by retail investors, as opposed to Malaysia, where local institutional investors account for a substantial share of trading activity. The Philippine stock market, on the other hand, is predominantly local, with approximately 99% of accounts held by retail investors.<sup>5</sup> Despite their significant share, retail trading participation in the Philippine stock market remains relatively low.

**CHART 7**  
Trading participation by investor types



Note:  
The analysis here compares only three exchanges, based on best available breakdown by investor types in their respective websites as at December 2025.

Source: IDX, SET, SC.

<sup>5</sup> Stock Market Investor Profile 2024, PSE, (2025).

# CASE STUDIES

## Country-Level Approaches to Stock Market Revitalisation

<p>JAPAN</p> 	<ul style="list-style-type: none"> <li>• Implementing structural corporate reforms</li> </ul>
<p>THAILAND</p> 	<ul style="list-style-type: none"> <li>• Boosting trust and confidence</li> <li>• Enhancing market competitiveness</li> <li>• Promoting sustainability</li> </ul>
<p>SINGAPORE</p> 	<ul style="list-style-type: none"> <li>• Increasing investor interest</li> <li>• Increasing attractiveness to quality listings</li> <li>• Strengthening investor confidence through pro-enterprise regulations</li> </ul>

Note:

Case studies shown are drawn from multiple publicly available sources (e.g., news, journals, articles).

Across the region, countries are taking initiatives to reinvigorate their capital markets.

**Japan:** After decades of stagnation following the 1980s asset bubble, corporate structural reforms rolled out since 2012, including the subsequent enhanced listing criteria, have sparked a revival. These moves boosted profitability metrics such as return on equity (ROE) and price-to-book (P/B) ratio, as well as active share buyback, which drew foreign investors back to Japanese equities.

**Thailand:** Political uncertainty and corporate scandals have weighed on market sentiment in Thailand in recent years. In response, the SET announced a three point strategy in 2024 aimed at enhancing market resilience and restoring investor confidence. This strategy focuses on strengthening regulatory credibility through cooperation and information sharing with related agencies to support efficient market regulation, upgrading market infrastructure and capabilities to support high volume trades, and promoting sustainable practices through ESG funds that offer tax benefits.

**Singapore:** Announced a coordinated set of measures to boost equity market liquidity by strengthening both demand and supply in 2025. These include research support schemes, tax incentives, and rebates to attract investors and quality listings, notably the proposed S\$5 billion Equity Market Development Programme and a 20% tax rebate for new primary listings. These measures are supported by a shift toward a more pro-enterprise, disclosure-based regulatory approach to enhance investor confidence.

# CONCLUSION

Amid an uncertain market landscape, liquidity is essential for efficient price formation, enhancing investor attractiveness, and enabling companies to fully leverage the equity marketplace. While 2025 has seen growth in new listings in the domestic equity market, nearly half of the capital raised is in the ACE Market, which comprises companies with relatively small market capitalisation. Nonetheless, funds raised through equity issuance declined from previous year. Malaysia's diminishing weightage in the MSCI EM Index further highlights the limited presence of large-cap companies, reducing opportunities to attract foreign, particularly passive investors.

Taken together, these dynamics point to structural features that shape market liquidity, depth and investor composition over the medium term. Addressing these considerations requires continued focus on strengthening market vibrancy and resilience, including through a broader and more diversified investor base, a deeper pool of high-quality listed companies, enhanced sectoral diversification, and supportive market infrastructure.

In this regard, *Capital Market Masterplan 2026-2030* provides a strategic framework to guide the development of a more competitive, resilient and well-functioning capital market over the longer term. Its emphasis on market vibrancy, innovation, inclusivity and alignment with economic growth drivers is intended to support orderly market development while preserving financial stability.

Achieving these outcomes will require not only effective regulatory oversight by the SC and Bursa Malaysia, but also sustained engagement with institutional investors, issuers and other market participants. Collectively, such efforts are important to support efficient capital allocation, strengthen investor confidence and reinforce the equity market's role in Malaysia's broader financial system.

# ACRONYMS AND ABBREVIATIONS

AI	artificial intelligence
ANC	adjusted net capital
APT	advanced persistent threats
ASEAN	Association of Southeast Asian Nations
AUM	assets under management
BMD	Bursa Malaysia Derivatives
BMDC	Bursa Malaysia Derivatives Clearing
BMS	Bursa Malaysia Securities
BNM	Bank Negara Malaysia
BPAM	Bond Pricing Agency Malaysia
CAR	capital adequacy ratio
CBOE	Chicago Board Options Exchange
CBOT	Chicago Board of Trade
CCEq	cash and cash equivalents
CDS	credit default swap
CIS	collective investment schemes
CME	capital market entity
CMSR	Capital Market Stability Review
CPO	crude palm oil
DAX	digital asset exchange
DBC	derivatives broking company
DCE	Dalian Commodity Exchange
EM	emerging markets
EPF	Employees Provident Fund
ESG	environmental, social and governance
ETD	exchange-traded derivatives
ETF	exchange-traded fund
EU	European Union
EUDR	European Union Deforestation Regulation
FBMKLCI	FTSE Bursa Malaysia KLCI
FCPO	Crude Palm Oil Futures
Fed	Federal Reserve
FFB	fresh fruit bunches
FGLD	Gold Futures
FKLI	FTSE Bursa Malaysia KLCI Futures
FSOY	Bursa Malaysia DCE Soybean Oil Futures
GDP	gross domestic product
GII	Government Investment Issues
HHI	Herfindahl-Hirschman Index
IB	investment bank
IDX	Indonesia Stock Exchange
IMF	International Monetary Fund
IPO	initial public offering
MGS	Malaysian Government Securities
MiCA	Markets in Crypto-Assets Regulation
MITB	Malaysian Islamic Treasury Bills

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MPOB	Malaysian Palm Oil Board
MTB	Malaysian Treasury Bills
MSPO	Malaysian Sustainable Palm Oil
NAV	net asset value
NSRF	National Sustainability Reporting Framework
OECD	Organisation for Economic Co-operation and Development
OPEC+	Organization of the Petroleum Exporting Countries Plus
OPR	Overnight Policy Rate
P/B	price-to-book
PLC	public-listed company
PRS	private retirement schemes
PSE	Philippine Stock Exchange
REIT	real estate investment trust
ROE	return on equity
RWCR	risk-weighted capital ratio
SBC	stockbroking company
SC	Securities Commission Malaysia
SET	Stock Exchange of Thailand
SGX	Singapore Exchange
SPX	S&P 500 Index
SRI	Sustainable and Responsible Investment
US	United States of America
UST	US Treasury
UTF	unit trust fund
WFE	World Federation of Exchanges
WSF	wholesale fund
YTD	year-to-date