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REGIONAL CONFLICT AND TRADE AMBIGUITY DRIVE SAFE-HAVEN DEMAND AMID GLOBAL ECONOMIC UNCERTAINTY

U.S. Israeli Strikes on Iran Trigger Global Energy Crisis and Widespread Conflict. The Middle East has entered a phase of acute and highly volatile instability following an intensive, coordinated U.S.–Israeli air campaign against Iran. Donald Trump signalled that the operation could extend for four to five weeks, or potentially much longer, underscoring the risk of a protracted confrontation. The escalation was precipitated by the killing of Iran's Supreme Leader, Ayatollah Ali Khamenei, and the absence of a clearly defined exit strategy has further amplified uncertainty. In response, Tehran and its regional proxies have launched retaliatory strikes targeting Israel, U.S. diplomatic missions, and key energy infrastructure in Qatar and Saudi Arabia. The conflict has since spilled over into previously stable areas such as Dubai, intensifying regional risk perceptions, driving a sharp surge in global energy prices, and prompting the U.S. State Department to issue urgent evacuation advisories for American citizens across more than a dozen Middle Eastern countries. With the Iranian Red Crescent reporting at least 555 deaths from U.S.-Israeli operations and dozens more killed in Lebanon and Israel, the situation has set the stage for a prolonged and devastating conflict with far-reaching global consequences. The rapid expansion of the conflict into vital energy corridors has severely rattled global markets, particularly after Qatar Energy suspended liquefied natural gas production indefinitely, causing European gas prices to surge by 40%. Geopolitical risk has spiked as Iranian-aligned drones and missiles targeted the U.S. Embassy in Riyadh and the Ras Tanura oil refinery in Saudi Arabia, while Iran reported that airstrikes targeted its Natanz nuclear enrichment site. Amid the chaos, which included the accidental downing of three U.S. fighter jets by Kuwaiti defenses, the U.S. military confirmed the deaths of six American service members. With Israel now striking Hezbollah's financial infrastructure and keeping a potential ground invasion of Lebanon on the table, the regional crisis has moved into a dangerous new phase of direct and devastating confrontation.

BOJ Signals Future Hikes Amid Global Uncertainty. Bank of Japan (BOJ) Deputy Governor Ryozo Himino indicated that the central bank intends to persist with its cycle of interest rate hikes, moving toward a "neutral" level that neither stimulates nor restricts the economy. Speaking in the wake of a sudden escalation in the Middle East conflict, Himino emphasized that the BOJ will not be deterred by market volatility, arguing that policy decisions must remain independent of speculative pressure and short-term fluctuations. While he maintained a hawkish long-term outlook, Himino offered no specific hints regarding the timing of the next adjustment, contrasting with his more transparent signalling prior to the January 2025 hike. He noted that although underlying inflation is approaching the 2% target, it has not yet reached a stable equilibrium, and the new geopolitical risks, particularly the potential for crude oil price spikes have added a layer of uncertainty to Japan's growth and price forecasts. Consequently, the bank plans to rigorously scrutinize upcoming economic data and the "inflation gap" before committing to a move, as markets weigh the possibility of a rate increase to 1.0% as early as the March or April policy meetings.

Upcoming Events: Key Economic Data Release

Tuesday	Euro Area Flash Inflation (Feb)
Wednesday	Global PMI Data (Feb)
Thursday	U.S. Trade Data (Jan)
Friday	U.S. Labor Data (Feb)

Weekly Changes, basis points (bps)

UST	Yields (%) 13-Feb-26	Yields (%) 20-Feb-26	Change (bps)	Yields (%) 27-Feb-26	Change (bps)
3-Y UST	3.43	3.50	7	3.39	-11
5-Y UST	3.61	3.65	4	3.51	-14
7-Y UST	3.81	3.85	4	3.72	-13
10-Y UST	4.04	4.08	4	3.97	-11
MGS	**Yields (%) 13-Feb-26**	**Yields (%) 20-Feb-26**	**Change (bps)**	**Yields (%) 27-Feb-26**	**Change (bps)**
3-Y MGS	3.06	3.06	0	3.06	-1
5-Y MGS	3.30	3.30	0	3.31	2
7-Y MGS	3.46	3.45	-1	3.42	-2
10-Y MGS	3.55	3.53	-2	3.50	-3
GII	**Yields (%) 13-Feb-26**	**Yields (%) 20-Feb-26**	**Change (bps)**	**Yields (%) 27-Feb-26**	**Change (bps)**
3-Y GII	3.10	3.10	0	3.10	1
5-Y GII	3.28	3.28	0	3.27	-1
7-Y GII	3.37	3.37	0	3.36	-2
10-Y GII	3.54	3.54	-1	3.51	-2

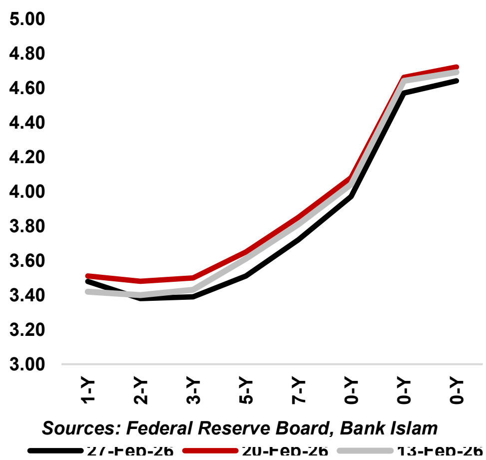
Sources: Federal Reserve Board, BNM, Bank Islam

Commentaries

UST Yields The U.S. Treasury (UST) yields mostly ticked lower in the range of 11bps to 14 bps w-o-w for the week ending February 27 (February 20: +4bp to +7bps). UST yields softened following a string of weak economic indicators, including a lackluster 4Q2025 GDP print, slowing business output, and a cooling housing market. Rising jobless claims further signaled a loss of momentum, prompting incoming Fed Chair Christopher Waller to warn of potential hiring weakness. Beyond labor concerns, policymakers are navigating a complex triple threat of A.I.-driven productivity shifts, equity volatility, and the renewed 15% tariff push from President Trump. In light of persistent safe-haven demand, investors are currently navigating a complex environment defined by the Trump administration's unclear trade agenda, escalating Middle East instability, and growing doubts about the endurance of the U.S. economy.

Short-term outlook: UST yields are expected to remain range-bound in the coming week as investors process a dense calendar of high-impact US economic data. The upcoming labor market updates like Non-Farm Payrolls (NFP) and the unemployment rate—is likely to paint a complex picture of decelerating growth coupled with persistent inflation. Market direction will hinge on shifting risk sentiment. While any flare-up in US–Iran tensions would likely

UST Yield Curves, %



Sources: Federal Reserve Board, Bank Islam drive a flight to quality into Treasuries, a stabilization in equity markets could provide a floor for yields, preventing them from slipping further.

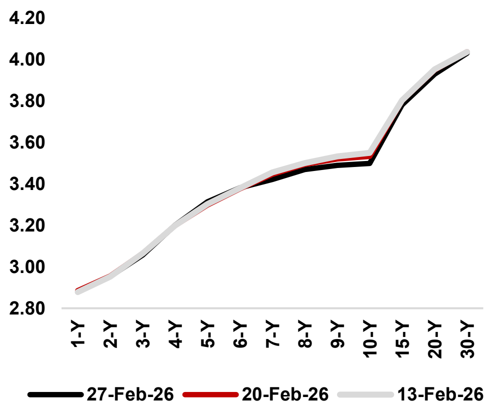
MGS/GII Yields Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed, moving within a narrow range of -3bp to +2bps for the week ending February 27 (February 20: -2bps to 0bp) against a backdrop of ongoing global macro challenges.

Local market stability was bolstered by strong domestic data, highlighted by a 19.6% surge in January exports, the sharpest growth in over three years led by robust E&E shipments and a steady recovery in tourism. This momentum, paired with significant investment commitments, has notably strengthened investor confidence.

On the global front, bond markets found support as renewed tariff concerns and volatility in AI-driven equities pushed investors toward the safety of fixed income. Although the threat of tariffs continues to weigh on overall sentiment, its actual macroeconomic impact is expected to vary across different sectors.

Short-term Outlook: Market direction will largely depend on shifting risk sentiment as investors keep a close watch on evolving tariff policies, and geopolitical friction between the U.S. and Iran. While upcoming U.S. labor data is a major focus, the market is not betting on early Fed rate cuts unless employment figures take a significant hit. Consequently, the local government bonds are likely to remain range-bound, underpinned by resilient domestic demand.

MGS Yield Curves, %



Sources: BNM, Bank Islam

Auction Results (February 2026)

Of note, a total of RM15.0 billion was raised through three public offerings: a RM5.0 billion 10-Y Reopening of MGS, a RM5.0 billion 20-Y Reopening of GII and a RM5.0 billion 5-Y Reopening of GII. 5-Y MGS and 20-Y GII bonds logged robust demand with bid-to-cover (BTC) ratio of above 2.0x. Meanwhile, 10-Y MGS gained a slightly tepid demand with a BTC of 1.6x.

Issues	Amount (RM mil)	Amount Applied (RM mil)	BTC (x)	Private Placements (RM mil)
10-yr Reopening of MGS 7/35 3.476%	5,000	8,015	1.6	-
20-yr Reopening of MGII 5/45 3.775%	3,000	8,689	2.9	2,000
5-yr Reopening of MGS 6/31 4.232%	5,000	14,604	2.9	-

Sources: BNM, Bank Islam

Upcoming auction (March 2026)

There will be three issuances scheduled for in March which is a 15-Y reopening of GII with private placement, 3-Y New Issue of MGS and 7-Y New Issue of GII.

Issues	Month	Private Placements
15-yr Reopening of MGII 7/40 3.974%	March	Yes
3-yr New Issue of MGS (Mat on 03/29)	March	No
7-yr New Issue of MGII (Mat on 03/33)	March	No

Sources: BNM, Bank Islam