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Global Markets Update: Oil, Bond Yields and Technology Stocks Remain Key Drivers

Key Takeaways

- Global financial markets remained driven by three key themes during the week: escalating geopolitical tensions in the Middle East, evolving expectations surrounding US monetary policy, and growing investor scrutiny over AI-related technology valuations.
- Oil prices extended their recent gains as concerns over potential supply disruptions in the Middle East increased the geopolitical risk premium embedded in energy markets. Meanwhile, US Treasury yields declined for a third consecutive week despite persistent inflation concerns, reflecting increased demand for safe-haven assets amid heightened market uncertainty. In equity markets, technology stocks came under pressure as investors reassessed valuations and the pace of returns from substantial AI-related capital expenditure spending.
- Looking ahead, attention will centre on upcoming central bank meetings, inflation releases and earnings reports from major technology companies, which could have important implications for global risk sentiment and financial market direction.

Global Markets Converge at Critical Turning Points

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- Global financial markets ended the week at an important inflection point, with crude oil prices, Treasury yields and technology equities simultaneously approaching key levels. Brent crude climbed to its highest level since April and is testing the USD120/barrel threshold, while the US 10-year Treasury yield remains near the psychologically important 5% level after retreating from recent highs. Meanwhile, the Nasdaq Composite has slipped close to major technical support as concerns surrounding AI investment returns continue to intensify.
- These developments reflect competing forces currently driving global markets. Rising oil prices risk prolonging inflation and keeping interest rates elevated, while softer investor confidence in technology shares is increasing demand for safer assets such as US Treasuries. The coming week could prove pivotal as investors digest the Federal Reserve's policy decision, US growth and inflation data, and earnings reports from major technology companies.

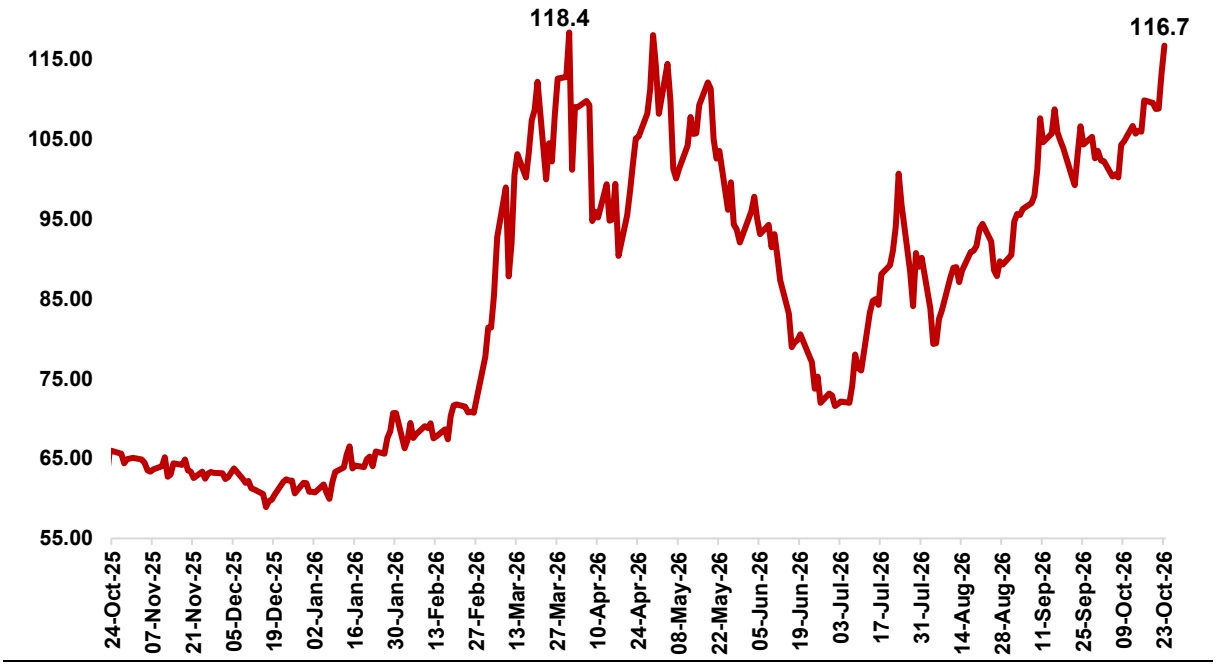
Oil Markets: Brent Crude Approaches Key Resistance Near USD120/bbl

- Brent crude oil extended its gains for a third consecutive week, reaching its highest closing level since April as geopolitical tensions in the Middle East intensified. The market has increasingly priced in potential supply disruptions following renewed threats to energy infrastructure, shipping routes and regional security conditions.
- Fundamentally, crude prices continue to be supported by relatively tight supply conditions and limited spare production capacity among major producers. While global demand growth has moderated compared with earlier expectations, geopolitical developments have overshadowed

concerns over a softer demand outlook.

- The sharp increase in prices has been amplified by limited spare production capacity within OPEC+, leaving global energy markets vulnerable to any unexpected supply disruptions. While global oil production has recovered and slowing economic growth may temper demand, persistent geopolitical uncertainty continues to support a substantial risk premium in oil prices.
- From a market perspective, the USD120/bbl level represents an important resistance zone. A sustained break above this threshold could trigger a further rally and reinforce inflation concerns globally. However, momentum indicators suggest that the market is becoming increasingly stretched, raising the possibility of near-term consolidation or profit-taking.

Chart 1: Brent Crude Oil (USD/bbl)



Sources: Bloomberg, Bank Islam

- From a technical perspective, Brent crude remains firmly within an established upward trend channel. Prices have successfully broken above the previous resistance area near USD110/bbl and are now approaching the psychologically important USD120/bbl level.
- Brent is approaching a particularly consequential resistance region. The March high at USD119.50 is followed closely by USD120.53. A sustained break above this region would carry Brent beyond the earlier wartime spike and strengthen the case for an extension toward USD136.23.
- However, daily RSI has risen to approximately 74, indicating increasingly stretched momentum. An initial rejection around USD120 would therefore not be surprising. The important distinction is whether Brent can establish itself above the resistance region on a closing basis, rather than merely recording another intraday spike.
    - ➢ Immediate resistance: USD120/bbl; Secondary resistance: USD125-130/bbl

- Initial support: USD112-115/bbl; Major support: USD105/bbl

- Momentum indicators remain positive, although overbought conditions have become increasingly evident. This suggests that while the broader trend remains supportive, periods of consolidation or corrective pullbacks cannot be ruled out following the recent sharp advance.

Implications for Malaysia

- Higher oil prices continue to provide support for Malaysia's energy exports, petroleum-related government revenue and earnings within the oil and gas sector. However, sustained increases in energy prices may gradually lift transportation and production costs domestically, creating upside risks to inflation and increasing fiscal pressures associated with fuel subsidy management.

Fixed Income Market: US Treasury Yields Ease Despite Persistent Inflation Risks

- The US 10-year Treasury yield ended the week at around 5%, following a volatile reversal from its early-October peak of 5.365%. The benchmark yield has declined for three consecutive weeks, reflecting a significant change in momentum after the earlier surge in borrowing costs.

- Last Thursday provided the clearest example of the competing forces influencing the bond market. As technology shares retreated sharply, investors sought protection in Treasuries, pushing the 10-year yield down approximately 16bps. Inflation-adjusted yields also declined, suggesting that the move was closely associated with defensive demand and concerns about the growth and financing outlook.

- Friday brought a partial reversal. Treasury yields rebounded toward 5% as oil extended its rally, even as US equities remained under pressure. The contrasting sessions illustrate how the bond market is being pulled between weaker risk appetite and renewed inflation concerns. Nevertheless, individual yield movements cannot be attributed exclusively to either factor, with policy expectations, Treasury supply and term premiums also influencing borrowing costs.

- The decline in yields occurred despite higher energy prices and ongoing concerns that inflationary pressures could remain elevated for longer than previously anticipated. This highlights the growing influence of safe-haven demand and increasing caution regarding the broader economic outlook.

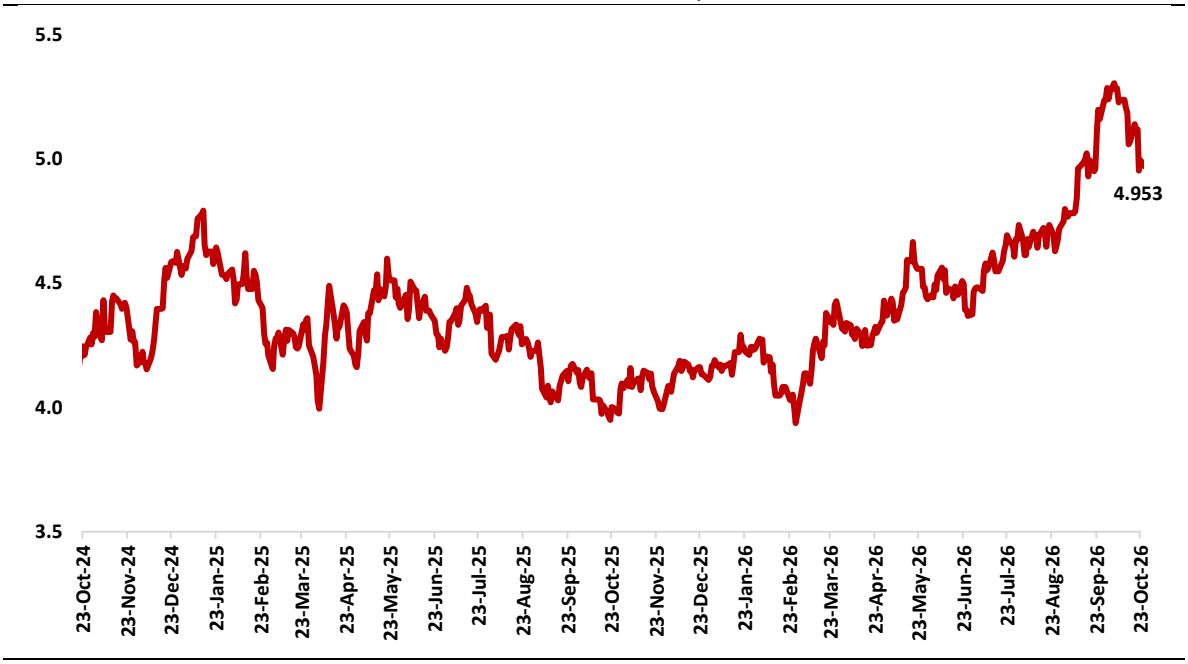
- Fed futures continue to favor an unchanged policy rate at Wednesday's meeting:

  - October 28 meeting: ~90% probability of a hold, ~10% probability of a hike
  - December meeting: ~71% probability of at least one increase

- The distribution suggests that investors have become less convinced of an immediate move without abandoning expectations for further tightening later in the year.

- Markets continue to expect the Federal Reserve to maintain policy rates at current levels over the near term. Nevertheless, investors remain attentive to incoming inflation data and labor market conditions that may influence the future path of monetary policy.

Chart 2: UST 10Y Yield, %



Sources: Bloomberg, Bank Islam

- From a technical perspective, the 5% threshold and the daily 55 EMA around 4.976% form the immediate decision zone. A sustained break below this area would reinforce the recent decline and bring 4.815%, into focus. Further weakness would expose 4.476%.
- Conversely, a sustained recovery above 5% would suggest that the recent Treasury rally is losing momentum. If accompanied by continued oil strength and weaker equities, such a move would raise concerns that renewed inflation or borrowing-cost pressures were becoming more influential.
- The 10-year Treasury yield remains within a broader elevated range despite recent declines. Key technical levels include:
  - Immediate support: 4.60%-4.70%; Secondary support: 4.40%
  - Resistance: 5.00%; Major resistance: 5.15%-5.20%
- The direction of yields this week will therefore be important not only for the Treasury market itself, but also for determining whether financial conditions provide relief or additional pressure for technology shares.
- The recent decline has eased some upward pressure; however, yields remain well above long-term averages, suggesting that financial conditions continue to be restrictive.

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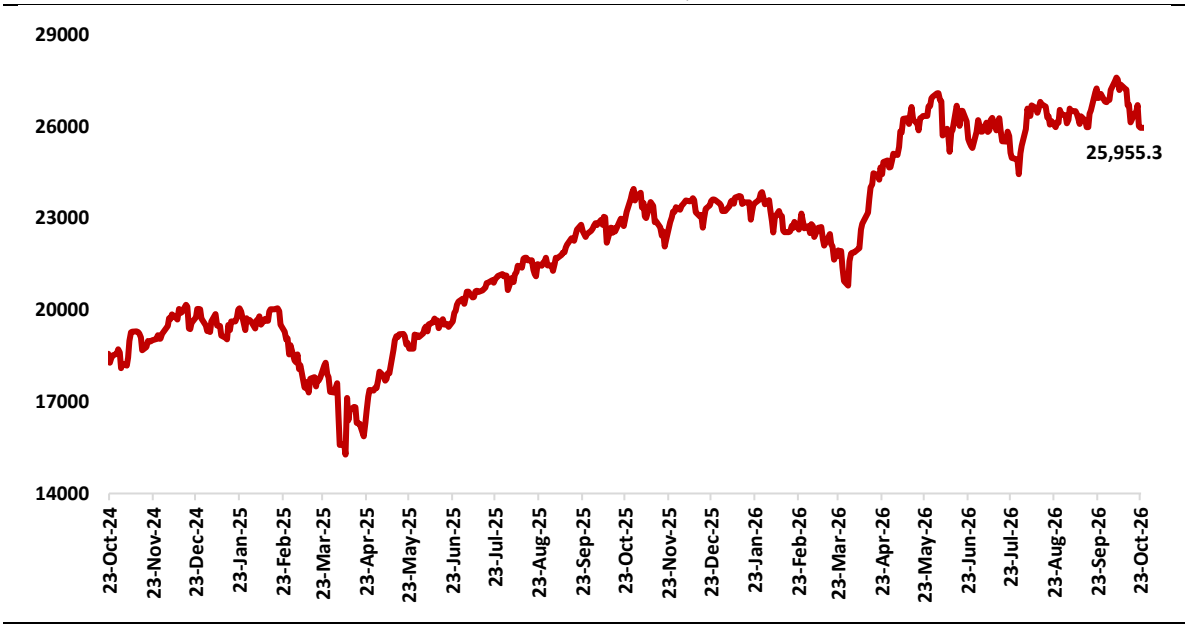
Implications for Malaysia

- Although yields have moderated, elevated US rates continue to influence global capital flows and risk appetite. For Malaysia, higher-for-longer US interest rates may maintain pressure on portfolio flows and contribute to continued volatility in both the ringgit and Malaysian Government Securities (MGS) market. Nonetheless, improving domestic growth prospects and relatively stable inflation should continue to provide support for local bond market fundamentals.

Equity Market: Technology Stocks Consolidate as Investors Reassess AI Spending

- US equity markets ended the week mixed, with technology shares underperforming broader indices. The Nasdaq Composite extended its recent correction as investors became increasingly focused on the profitability and sustainability of ongoing AI-related investments.
- Nasdaq Composite ended Friday at 25,955, following Thursday's 2.6% decline, its largest daily loss since June. The index has retreated approximately 6% from its early-October record near 27,723, as investors increasingly question the financing requirements and eventual returns of large-scale AI investment.
- While demand for artificial intelligence infrastructure remains robust, concerns have emerged regarding the scale of capital expenditure commitments required to support future growth. Investors are increasingly seeking evidence that heavy spending on data centres, semiconductors and AI platforms will translate into stronger earnings growth and improved profitability.
- Upcoming quarterly earnings from major technology companies are expected to provide further clarity regarding AI investment plans, margins and revenue outlooks.

Chart 3: NASDAQ



Sources: Bloomberg, Bank Islam

- Technically, Nasdaq's retreat has taken it below the daily 55 EMA near 26,528, while daily RSI has fallen to around 38 and MACD has weakened. The immediate focus is 25,803 supports. A firm break below 25,803 would signal an extension of the current correction, but the more significant level lies around 25,035. This level also coincides with the lower boundary of the rising channel from the April low.
- A sustained breakthrough that support region would carry greater implications for the broader bullish structure, suggesting that the retreat is developing beyond a relatively contained correction. Further downside references would include 24,425 and the 61.8% retracement near 23,377.
- On the other hand, stabilization above 25,803, followed by recovery through the daily moving

average, would suggest that selling pressure is easing. This week's technology earnings could provide the catalyst for either outcome, particularly through guidance on capital expenditure, margins and expected AI-related returns.

- A successful defence of support levels would be consistent with a continuation of the longer-term uptrend. Conversely, a decisive break below key support zones could trigger a deeper correction and broader risk-off sentiment.

Implications for Malaysia

- Developments within the global technology sector remain highly relevant for Malaysia given the country's position within regional semiconductor and electronics supply chains. Continued investment in AI infrastructure would provide support for electronics exports and technology-related investment activity. However, a prolonged correction in technology spending could weigh on demand across parts of the manufacturing sector.

Oil, Treasury Yields and Nasdaq: Three Markets, One Competing Set of Risks

- The interaction between these markets could become more important than their individual movements.
- Higher oil prices represent an inflation and operating-cost risk. A sustained advance beyond USD120 could reinforce concerns about consumer prices, business costs and the prospect of interest rates remaining elevated. Higher borrowing costs, in turn, would be an additional challenge for technology companies already facing scrutiny over AI investment financing.
- By contrast, a deeper Nasdaq correction could encourage defensive Treasury buying, pushing yields lower even if inflation concerns remain elevated. Such a decline in yields would not necessarily signal improving financial conditions if it reflected deteriorating investor confidence or concerns about future growth.
- Three broad scenarios stand out:
  - ✓ **An inflation-dominated adjustment** would feature Brent breaking sustainably above USD120, Treasury yields recovering above 5%, and Nasdaq weakening further - suggesting higher energy costs and borrowing-rate pressures were compounding technology-sector concerns.
  - ✓ **A growth- and financing-driven adjustment** would feature Nasdaq breaking below 25,803 and potentially 25,036, accompanied by Treasury yields declining toward 4.815% - consistent with stronger defensive demand and concerns about the sustainability of investment and growth.
  - ✓ **A stabilization scenario** would involve oil consolidating or retreating, Treasury yields finding a more stable range, and Nasdaq holding its major support levels - suggesting neither the inflation shock nor technology-related financing concerns were intensifying.
- These are conditional interpretations rather than definitive explanations of future market movements. Nevertheless, the relationship between Nasdaq and Treasury yields should help distinguish whether the next stage of market volatility is dominated by inflation pressures or concerns about growth and financing.

Precious Metals: Gold Trades Lower Despite Falling Bond Yields

- Gold prices weakened further during the week and fell below key psychological support levels

despite softer Treasury yields and a generally weaker US dollar environment.

- Gold (XAU) prices recorded a 4.1% w-o-w drop for the week ending 23 October and break below the critical USD4,000-support level, with XAU closing Friday's session at USD3,996, despite a weakening US dollar and falling Treasury yields. At first glance, this combination creates a tailwind for precious metals; however, markets rise or fall on expectations.
- The decline suggests investors remain concerned that higher oil prices could prolong inflationary pressures and limit the scope for future monetary easing. Elevated real interest rates also continue to reduce the relative attractiveness of non-yielding assets such as gold.

Chart 4: Gold (USD per ounce)



Sources: Bloomberg, Bank Islam

- Gold extended its decline as selling in technology shares intensified, dropping below the psychological USD4,000 to an intraday low near 3,972 during the early Asian session on Monday. The precious metal remains under some selling pressure near its lowest since July as elevated energy prices reinforced inflation concerns before the Fed's next policy meeting.
- Gold's latest decline has exposed an unusual divergence across traditional defensive assets. While the technology-led equity selloff drove investors toward US Treasuries, pushing the 10-year yield down, gold continued falling.
- Technically, the break below 4,000 indicates that gold's decline has resumed. The immediate focus is the 3,925 support region, where an initial rebound is possible. However, a decisive break would expose a deeper downside objective around 3,750.
- Gold has broken below an important support zone and remains vulnerable to further near-term weakness. Key levels include:
  - Immediate support: USD3,900; Secondary support: USD3,850

- Resistance: USD4,000; Major resistance: USD4,100

- If gold continued weakening under those conditions, the case for liquidity and positioning pressures overriding its traditional rate sensitivity would strengthen. Conversely, equity stabilization alongside reduced Treasury demand could suggest that the immediate defensive adjustment is losing momentum, potentially easing selling pressure on gold.
- For now, gold's failure to benefit from lower real yields remains the central market signal. While the precise scale of leveraged liquidation is uncertain, the technical breakdown keeps the 3,925 support region in focus, with a deeper decline toward 3,750 becoming a more credible risk if selling accelerates. Momentum indicators remain negative, although oversold conditions may eventually support stabilisation.

Implications for Malaysia

- While lower gold prices may weigh modestly on earnings prospects for gold-related producers, the broader impact on the Malaysian economy remains limited. Gold continues to serve as an important diversification and safe-haven asset in periods of geopolitical uncertainty.

Week Ahead: Fed, GDP, PCE and Big-Tech Earnings

- This coming week brings an unusually concentrated sequence of monetary-policy decisions, economic releases and corporate earnings that could test all three markets.
- The Fed announces its policy decision on Wednesday, October 28. With an unchanged rate widely expected, attention will focus on how Chair Kevin Warsh assesses the conflicting signals from resilient economic activity, persistent inflation and renewed financial-market volatility. The absence of new economic projections makes the accompanying statement and press conference particularly important for interpreting the near-term outlook.
- Thursday's US third-quarter GDP and September PCE inflation releases will provide further evidence of the strength of growth and the persistence of price pressures. Strong growth combined with elevated inflation could support yields, while weaker activity would increase attention on the growth risks underlying the technology correction.
- Corporate earnings will be equally important. Alphabet and Microsoft report Wednesday, followed by Amazon and Intel on Thursday. Investors will be looking beyond headline earnings toward AI capital expenditure, funding requirements, cash generation and the expected returns on infrastructure investment. Strong results may help stabilize Nasdaq, but substantial additional spending commitments could also invite further scrutiny.
- Treasury auctions across the two-, five- and seven-year maturities will offer additional indications of investor demand for government debt.
- Elsewhere, Australian inflation data, policy decisions from BoC and ECB, and Friday's BoJ meeting will contribute to the broader global interest-rate backdrop.
- Beyond the immediate week, the November 3 US midterm elections remain an important potential geopolitical turning point for oil, particularly given reports of military contingency planning involving Iran.

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Market Outlook: Three Levels to Watch

- Markets enter the new week with three closely connected thresholds: Brent around USD120, the US 10-year yield around 5%, and Nasdaq support at 25,803, followed by the more consequential 25,036 region.
- None of these levels guarantees a breakout or breakdown. Brent's rally is technically extended, Treasury yields are balancing competing economic forces, and Nasdaq's correction has not yet breached the support region that would place its broader rising structure under greater pressure.
- Nevertheless, convergence is significant. Oil is testing how much geopolitical inflation risk markets can absorb, technology shares are testing confidence in the economics of AI investment, and Treasury yields are reflecting the tension between those forces.
- With the Fed, GDP, PCE and major technology earnings arriving in quick succession, the coming week could provide a clearer indication of whether markets are approaching stabilization or another phase of adjustment.

Malaysia Perspective

- Recent global developments present both opportunities and challenges for Malaysia. Higher crude oil prices continue to support export earnings and fiscal revenue, while ongoing investment related to artificial intelligence and digital infrastructure remains favorable for Malaysia's technology and data centre ecosystem.
- However, elevated geopolitical uncertainty, higher-for-longer global interest rates and potential volatility in financial markets could continue to influence capital flows, currency movements and business sentiment. While domestic economic fundamentals remain supportive, external developments are likely to remain the key determinant of market performance in the near term.

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