From the Desk of the
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Markets Enter "Triple Higher" Regime Following Disappointing Trump–Xi Summit

- Global financial markets shifted into a materially more fragile macroeconomic phase last week after the Trump–Xi summit failed to deliver substantive progress on reopening the Strait of Hormuz or easing broader geopolitical tensions. Rather than providing reassurance, the outcome reinforced concerns that the global economy may be entering a prolonged period of structurally elevated inflation, driven by persistent energy supply disruptions and tightening financial conditions.
- Market reactions were swift and broad-based. Oil prices surged, with Brent crude rising above USD109 and WTI exceeding USD101, as participants increasingly priced a prolonged disruption to Hormuz rather than a near-term resolution. The resurgence in energy prices reignited global inflation concerns and triggered a sharp selloff across sovereign bond markets. Yields rose across major economies, including U.S. Treasuries, Gilts, Bunds, and Japanese government bonds, as investors adjusted expectations toward a "higher-for-longer" interest rate environment.
- This repricing culminated in the emergence of a "Triple Higher" regime—dominated by higher oil prices, higher bond yields, and a stronger U.S. dollar. The combination has acted as a powerful tightening force across global financial markets. Equities reversed prior gains, precious metals declined amid rising real yields and Dollar strength, and overall risk sentiment deteriorated as concerns intensified over the durability of the current inflation shock.

Trump–Xi Summit: Symbolism Without Substance

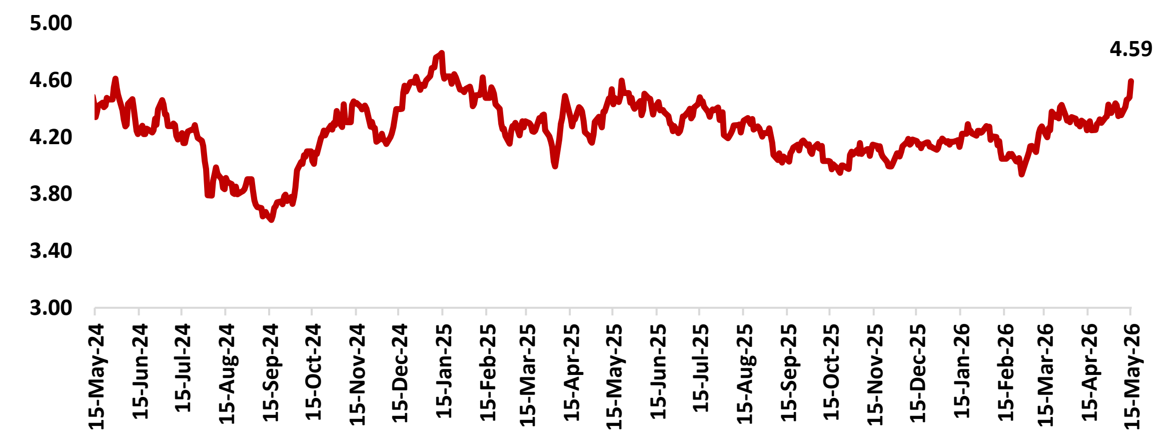
- The Trump–Xi summit in Beijing had been widely anticipated as a potential catalyst for geopolitical de-escalation. However, the meeting delivered largely symbolic outcomes without addressing the structural drivers of the ongoing energy and inflation shock.
- While both sides adopted constructive rhetoric, emphasising the reopening of shipping routes and expanded bilateral trade, the absence of concrete implementation mechanisms, enforcement frameworks, or coordinated pressure on key actors left investors unconvinced. In particular, there was no credible indication that China would exert decisive influence on Iran to facilitate the reopening of the Strait of Hormuz.
- For markets, this shortfall proved critical. Rather than pricing a pathway to normalisation, oil markets shifted toward a baseline scenario of sustained disruption. Signals such as increased Chinese purchases of U.S. crude suggested that major economies may be adapting to prolonged instability rather than anticipating a rapid resolution. Similarly, announcements related to trade, covering aircraft, agricultural products, and purchase commitments, were largely viewed as incremental and insufficient to alter the broader trajectory of U.S.–China strategic competition.

Global Bond Yields Surge Amid Inflation Repricing

- Global bond markets experienced a pronounced and synchronised selloff as investors reassessed the persistence of the inflation shock linked to the Hormuz crisis. The absence of geopolitical progress accelerated a shift toward expectations of structurally higher inflation, tighter financial conditions, and elevated policy rates across major economies.

- U.S. Treasury (UST) yields led the repricing. The 10-year yield broke decisively above 4.5%, closing near 4.59%, while front-end yields rose as expectations for monetary easing were pared back. Resilient economic data, elevated commodity prices, and sticky inflation reinforced the view that price pressures could remain entrenched. In addition, leadership transition dynamics at the Federal Reserve contributed to a more hawkish policy outlook, with markets assigning growing probability to further tightening.

Chart 1: UST 10Y Yield, %



Sources: Bloomberg, Bank Islam

- This repricing is transmitted globally. UK gilt yields rose to 5.15%, their highest level since 2008, reflecting a combination of inflation risks and domestic political uncertainty. German Bund yields reached 3.14%, a multi-year high, despite subdued growth prospects in the Eurozone. Japan also saw a notable shift, with 10-year JGB yields climbing to 2.73%, levels last observed in the late 1990s, amid concerns over fiscal sustainability.

- Across Asia, yields also moved higher, with India, South Korea, and Singapore all experiencing upward pressure. Malaysia’s yields also surged.

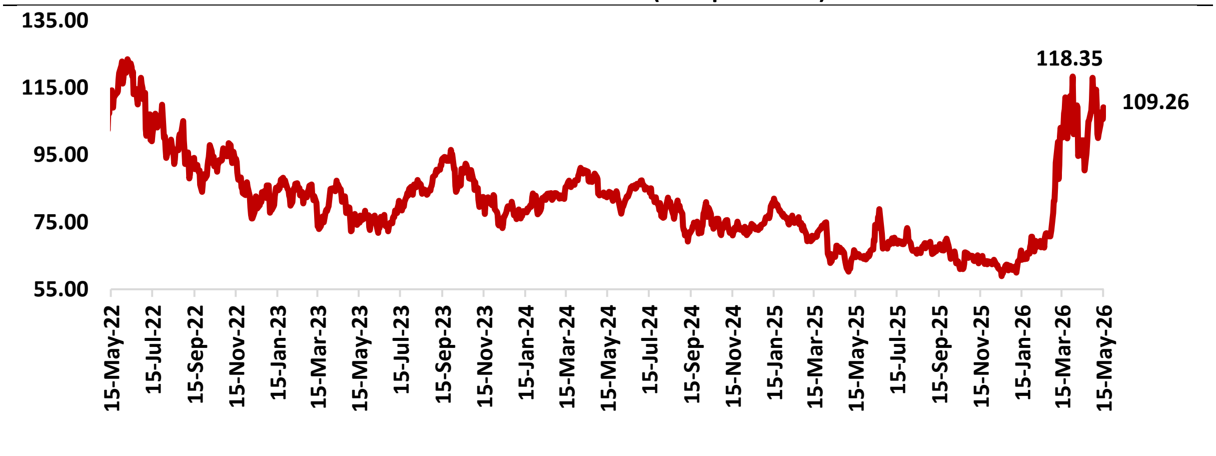
Oil–Inflation Feedback Loop Intensifies

- At the core of recent market volatility lies a reinforcing feedback loop between energy prices and inflation expectations. With the Strait of Hormuz effectively constrained and no credible reopening timeline emerging, oil prices have become structurally elevated, reinforcing concerns over persistent cost pressures.

- Higher energy prices are feeding directly into inflation expectations, particularly in economies already grappling with sticky core inflation. This dynamic is forcing central banks into a constrained policy position, either maintaining restrictive rates for longer or risk allowing inflation expectations to become de-anchored.

- The resulting "Triple Higher" configuration—elevated oil prices, rising bond yields, and a strengthening USD—has materially tightened global financial conditions. Higher yields have widened rate differentials in favor of the U.S., supporting USD appreciation, while simultaneously exerting downward pressure on equities and other risk assets.

Chart 2: Brent Crude Oil (USD per barrel)



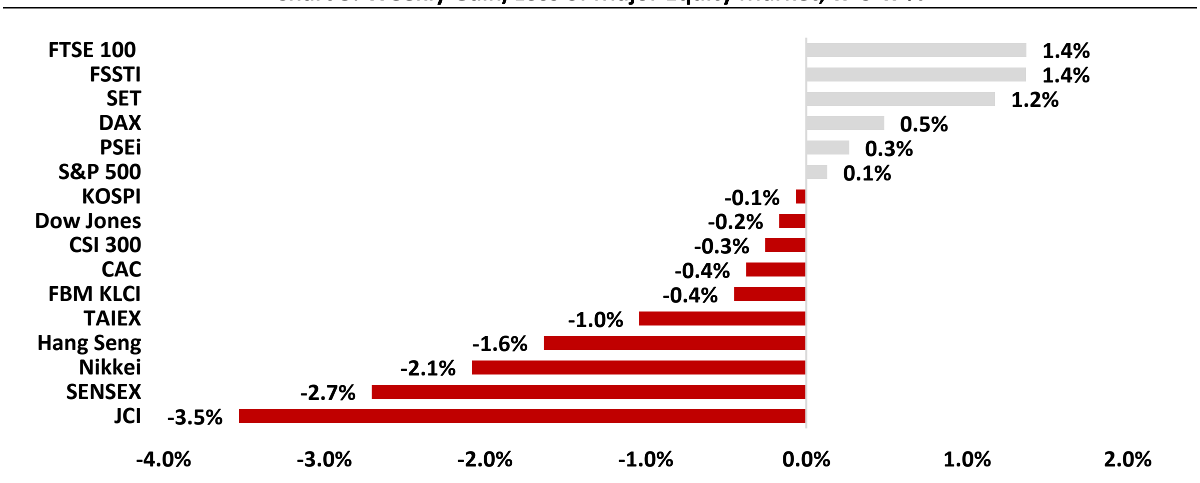
Sources: Bloomberg, Bank Islam

Cross-Asset Impact: Broad-Based Risk Repricing

- The tightening in financial conditions has driven a broad-based repricing across asset classes. Equity markets, which initially showed resilience on the back of AI-driven momentum, ultimately succumbed to rising discount rates and deteriorating macro conditions.

- Major global indices declined, with Japan's Nikkei and Germany's DAX posting notable losses as higher energy costs and weakening growth expectations weighed on sentiment. U.S. equities demonstrated relative resilience due to continued enthusiasm around large-cap technology and artificial intelligence themes; however, even these sectors began to show signs of strain as yields rose sharply.

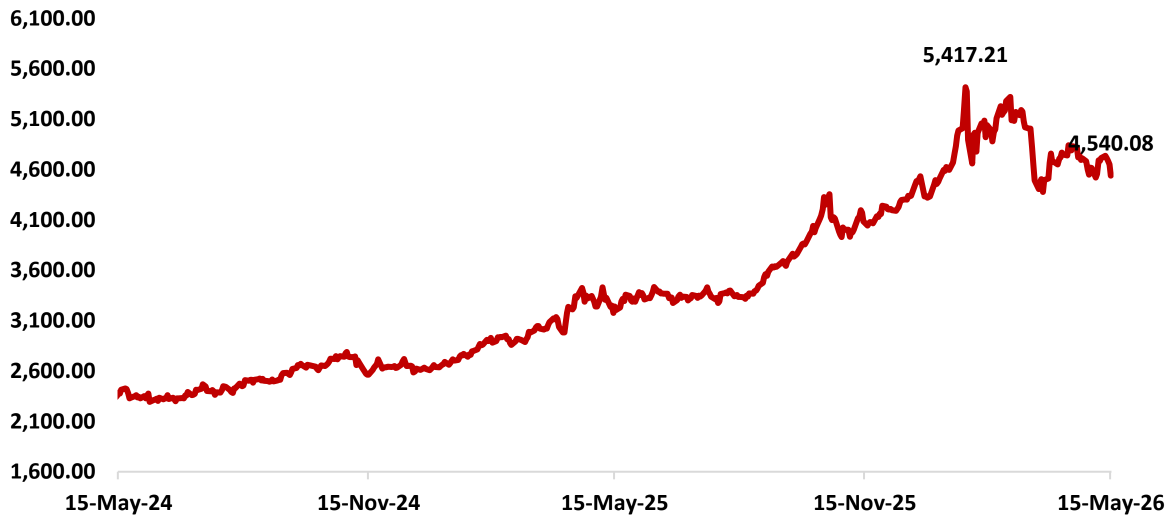
Chart 3: Weekly Gain/Loss of Major Equity Market, w-o-w %



Sources: Bloomberg, Bank Islam

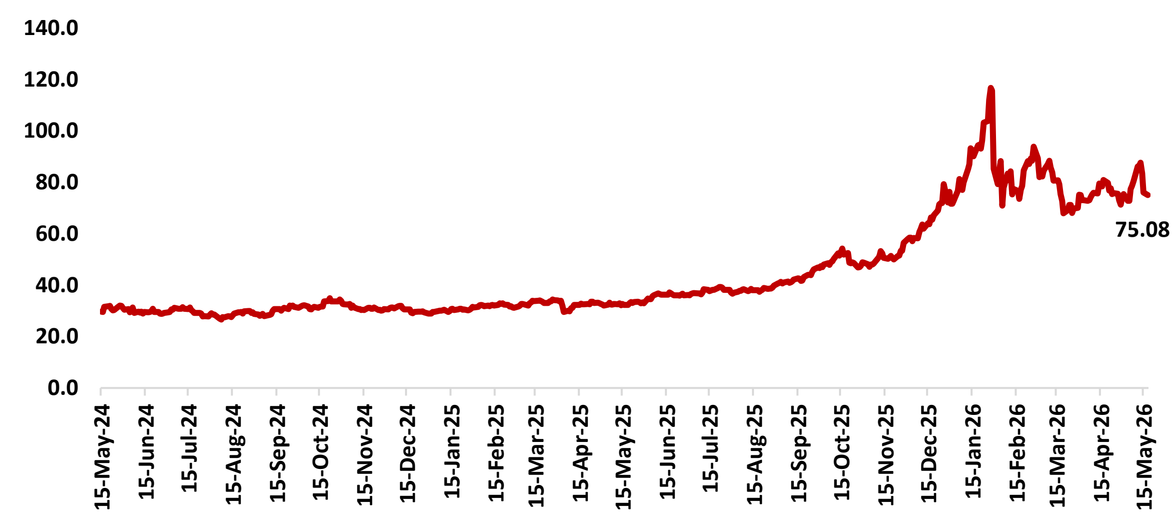
- Precious metals came under significant pressure as rising real yields and a stronger USD eroded their appeal, contributing to a broader deterioration in global risk sentiment as markets questioned the sustainability of the current inflation shock.
- Gold declined sharply over the week, falling by approximately USD170 to around USD4,560, as the combined impact of higher real yields and dollar strength outweighed any safe-haven demand arising from geopolitical tensions. Silver underperformed further, experiencing a pronounced late-week selloff driven not only by rising yields but also by concerns over weakening industrial demand, particularly linked to China's supply chain outlook.

Chart 4: Gold (USD per ounce)



Sources: Bloomberg, Bank Islam

Chart 5: Silver (USD per ounce)



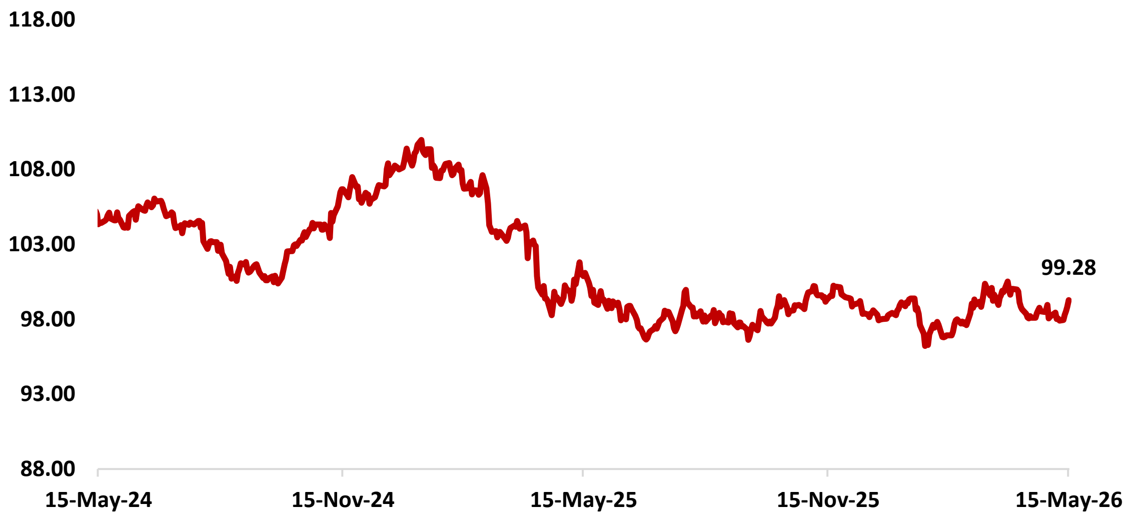
Sources: Bloomberg, Bank Islam

Dollar Strength Reinforced by Yields and Risk Aversion

- Currency markets were dominated by broad-based USD strength. The combination of rising Treasury yields, elevated oil prices, and deteriorating global risk sentiment reinforced demand for the USD as both a yield and safe-haven asset.

- The Dollar Index (DXY) posted its strongest weekly performance in over two months, with gains across all G10 currencies. Sterling (GBP) underperformed significantly amid renewed domestic political uncertainty, while cyclical currencies such as the Australian (AUD) and New Zealand (NZD) dollars weakened in response to global growth concerns. Commodity-linked currencies, including the Canadian dollar (CAD), showed relative resilience due to the rebound in oil prices, while traditional safe-haven currencies such as the Swiss franc (CHF) and Japanese yen (JPY) outperformed most peers but remained overshadowed by the dollar's yield advantage. Asian currencies also depreciated against the USD, reflecting both external pressures and capital flow dynamics.

Chart 6: US Dollar Index (DXY)



Sources: Bloomberg, Bank Islam

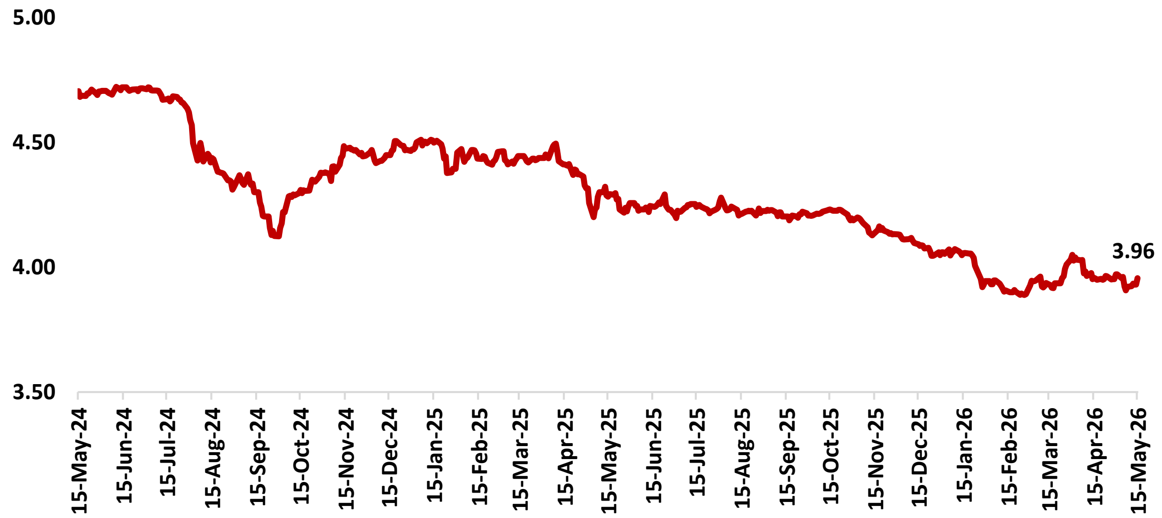
Malaysia: Resilient External Position, but Exposed to Global Tightening

- For Malaysia, the "Triple Higher" regime presents a mixed macroeconomic outlook. Elevated oil prices provide a meaningful terms-of-trade advantage, given Malaysia's status as a net energy exporter. Sustained Brent prices above USD100 are likely to support fiscal revenues, strengthen the current account balance, and offer a partial buffer to the ringgit amid broad-based USD strength. This external support differentiates Malaysia from energy-importing peers and provides a degree of macro resilience.

- However, these benefits are increasingly offset by tightening global financial conditions. Rising U.S. Treasury yields and persistent dollar strength continue to exert depreciation pressure on the ringgit and contribute to capital outflow risks. While Malaysia's domestic bond market has remained relatively stable, sustained increases in global yields could eventually transmit into higher local borrowing costs and tighter liquidity conditions. At the same time, imported inflation risks remain elevated, as higher global energy prices feed into domestic cost structures despite existing subsidy frameworks.

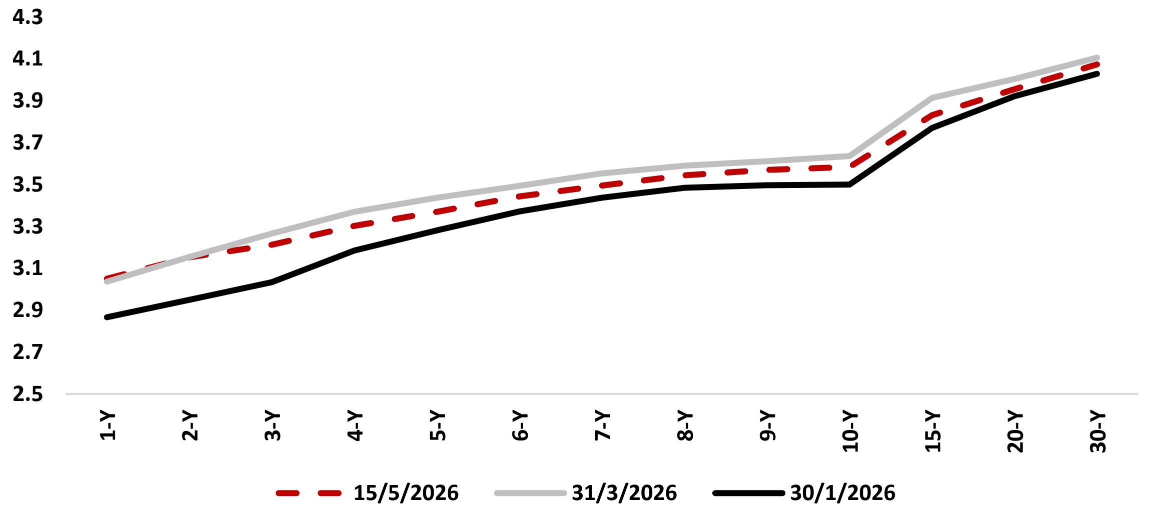
- Looking ahead, Malaysia's policy landscape is likely to be shaped by the interaction between commodity-driven support and external financial tightening. Bank Negara Malaysia may face growing trade-offs between sustaining growth and anchoring inflation expectations, particularly if currency pressures persist. Overall, while Malaysia retains a degree of resilience, it remains exposed to prolonged global volatility under the current macro regime.

Chart 7: USD/MYR



Sources: BNM, Bank Islam

Chart 8: MGS Yield, %



Sources: BNM, Bank Islam

Outlook: Persistence of the "Triple Higher" Regime

- Looking ahead, the dominant macro theme is likely to remain the persistence of the "Triple Higher" regime. As long as the Strait of Hormuz remains constrained and global energy supply disruptions persist, markets are unlikely to reverse the recent inflation repricing.
- Oil remains the critical variable. Market focus has shifted decisively toward physical supply conditions rather than diplomatic developments. Regional efforts to expand alternative export routes, such as pipeline capacity bypassing Hormuz, underscore expectations of prolonged disruption. In this environment, Brent crude is likely to remain structurally supported in the USD100–115 range, sustaining upward pressure on global inflation.
- From a rates perspective, the break in U.S. 10-year yields above 4.5% represents a significant technical and psychological shift. A further move toward the 4.75–5.00% range would imply a higher inflation risk premium and could lead to additional tightening in financial conditions, with negative implications for equities and credit markets.
- The key inflection point for global markets remains clear: a verified and sustained reopening of the Strait of Hormuz. A restoration of normal shipping flows would likely compress the geopolitical risk premium in oil prices, potentially driving a sharp decline in crude and easing inflation expectations. This, in turn, could stabilise bond yields and improve broader risk sentiment.
- Until such evidence materialises, however, investors are likely to remain cautious and continue pricing persistent inflation risk.

- One notable counterbalance remains the resilience of AI-driven equity themes, particularly in the United States. Strong performance in mega-cap technology stocks has thus far mitigated broader equity weakness. Nevertheless, even this segment may face increasing pressure if elevated energy prices and rising yields continue to tighten financial conditions.