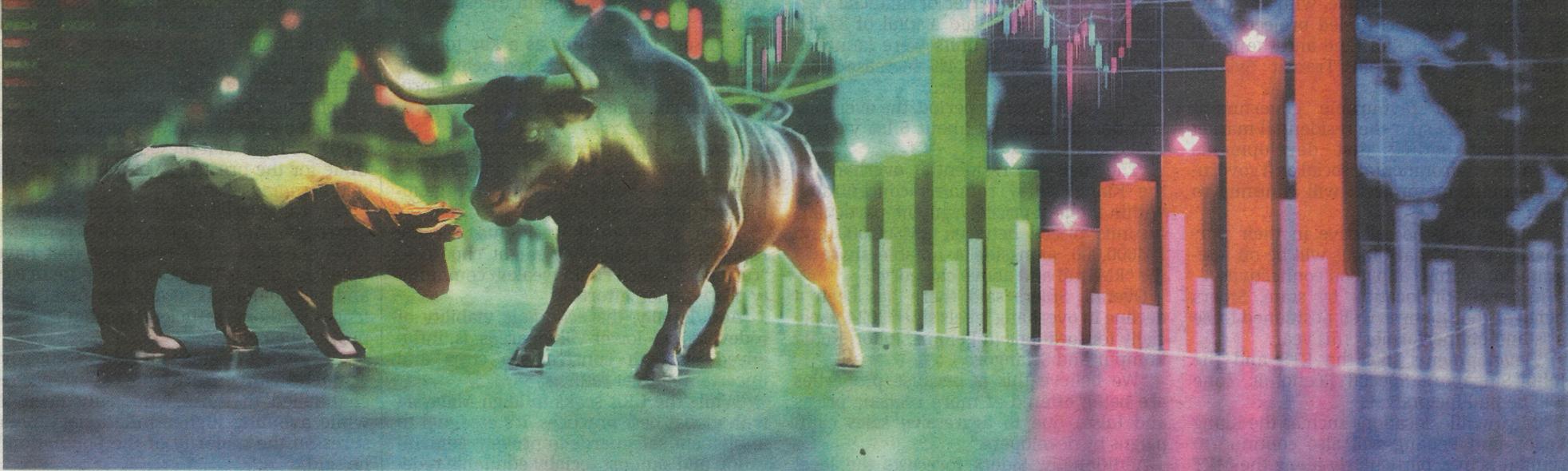


# Hopes for broad-based recovery fragile

Sustained foreign inflows needed as trading momentum concentrates in large-cap stocks only



## STOCK MARKET

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**PETALING JAYA:** Sustained foreign inflows will be crucial to broaden market participation and meaningfully lift Bursa Malaysia's trading momentum, as the market's current rebound remains fragile and largely index-led.

Tradeview Capital chief executive officer Ng Zhu Hann said the average daily value (ADV) of trades on the local bourse is still lagging despite the FBM KLCI's move above the psychological 1,700-point level this year, because the rally so far has been concentrated in heavyweight stocks.

"The current momentum is still very fragile. The FBM KLCI has pushed past the 1,700 level mainly because of net foreign inflow, which, for at least the last four to five days in a row, has been returning to our market.

"Nonetheless, there is still more active participation in the bigger names, and the market has yet to see spillover into the small and mid-cap stocks," he told *StarBiz*.

Foreign investors turned net buyers of Bursa Malaysia equities last week, snapping a four-week selling streak, with net inflows of RM42.5mil.

The top three sectors with net foreign inflows were industrial products and services, property and technology.

In a recent report, Kenanga Research projected ADV to rise to RM2.85bil this year from RM2.54bil last year. While this estimate may be an improvement from last year, it is still nearly one-tenth lower than 2024's ADV of RM3.16bil.

Securities-related ADV revenue accounts for about 50% of Bursa Malaysia's total operating income.

Apart from trading-related fees tied to

**"Nonetheless, there is still more active participation in the bigger names, and the market has yet to see spillover into the small- and mid-cap stocks."**

Ng Zhu Hann

ADV, Bursa Malaysia also derives its earnings from derivatives trading, listing/issuer services, depository operations, and data products.

Ng said that after last year's sizeable net foreign fund outflows of about RM21bil – the largest since the net outflow of RM24.6bil in 2020 – the local market still has "a lot of catching up to do", if it is to see sustained momentum and support a stronger ADV.

"It is still too early to tell if a broad-based recovery, which includes the second- and third-liner counters, can be expected this year.

"This is very much subjected to how long the current net foreign fund inflows can continue," he said, adding it would be "hard" to see a repeat of 2024's ADV levels as the market saw net foreign inflows for much of that year, driven largely by the data centre theme.

"The market will need to recover at least 50% of last year's RM21bil net foreign fund outflows for there to be a broad-based recovery," Ng said.

That said, Ng noted resilient domestic growth and a stronger ringgit are expected to underpin net foreign fund inflows.

"The advance gross domestic product (GDP) estimate for the fourth quarter of last year came back stronger-than-expected, which is also indicative of robust full-

year GDP growth.

This is very encouraging given that markets globally, particularly in South-East Asia, have been very concerned about the impact of trade tariffs.

Malaysia appears to be an outlier, and this gives confidence of a sustained momentum for foreign funds to return," he said.

Ng said the ringgit's strength, which was hailed as Asia's best-performing currency throughout last year, reflects Malaysia's improving economic fundamentals and helps bolster foreign investors' confidence, particularly when compared with other regional peers that are facing sustained currency weakness.

"For example, the Indonesian rupiah is of concern.

"Investors do not want to enter a market where equities perform, only to see returns wiped out by currency losses," he said.

That said, Ng cautioned that geopolitical tensions, crude oil price swings and the US Federal Reserve's (Fed) rate cut trajectory are key risks to watch for in whether net foreign fund inflows can be sustained.

"We still need to be aware of ongoing global geopolitical tensions. This is something that is still worrying considering what happened recently in Venezuela and possibly Iran next.

"The movement of oil prices will also

affect us. After all, we are an oil-producing nation.

"Further, global fund flow direction will also be affected by the Fed's monetary policy path; whether it cuts rates as expected or becomes more aggressive, or even pauses.

"I am expecting the Fed to deliver no less than two to three rate cuts this year," he said.

Brent crude was last trading at US\$62.61 a barrel and is expected to face downward pressure this year, with prices projected to ease to around US\$57 by year-end as fresh supply enters an already oversupplied market.

Meanwhile, IPPFA Sdn Bhd director of investment strategy and country economist Mohd Sedek Jantan said the RM2.85bil ADV projection for this year should be viewed as a very early and conservative reference point, formulated while market sentiment and participation are still normalising, and therefore more reflective of caution than the market's full upside potential.

He added trading velocity is currently constrained by disciplined investor behaviour, particularly selective foreign accumulation with lower turnover, while retail investors remain valuation-sensitive.

"However, as sentiment continues to improve, earnings delivery stabilises, foreign inflows broaden across sectors, sector rotation becomes more active, and retail participation gradually returns, ADV has meaningful scope to exceed these early conservative assumptions, consistent with a more constructive outlook for Malaysia in 2026," Mohd Sedek said.

He added while large-cap stocks will continue to anchor the index, recovery is gradually extending into non-index names and domestically orientated sectors.

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