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By **CECILIA KOK**
cecilia_kok@thestar.com.my

MALAYSIA'S stock market heads into the second half of 2026 (2H26) with hopes of stronger company earnings, steady spending and more investments. But it is not all smooth sailing, as investors still have to keep one eye on global conflicts, US interest rates and local politics.

Think of it as driving on a highway with a few potholes along the way. Even so, major research houses expect the market to end the year on a brighter note after a bumpy ride.

The investment playbook for the rest of the year revolves around a few familiar themes. Artificial intelligence (AI), data centres (DCs), renewable energy (RE), domestic infrastructure spending and resilient consumer demand are expected to remain key drivers, while defensive companies are seen helping investors ride out market swings.

Maybank Investment Bank Research (Maybank IB) makes a key strategy change by upgrading the technology sector to "positive", saying "the AI and DC themes should take centre stage. It also remains 'positive' on healthcare, real estate investment trust (REIT), RE and transport, while selectively favouring consumer staples, mechanical and electrical construction plays, and offshore support vessel operators within the oil and gas (O&G) industry."

Maybank IB is "neutral" on banks, telecommunications, utilities, automotive and property, while petrochemicals, gloves and media remain its least preferred sectors.

Hong Leong Investment Bank (HLIB) Research, on the other hand, upgrades automotive to "overweight" from "neutral", while downgrading banking and healthcare to "neutral".

It continues to favour brewers, construction, consumer, O&G, plantation, power infrastructure, property, RE, telecommunications, technology, transportation and utilities.

Gaming, gloves and REIT remain "neutral", while electronic manufacturing services stay "underweight".

As for MBSB Research, it prefers sectors offering "either defen-

sive earnings visibility or clear domestic recovery catalysts". These include utilities, consumer, banking, telecommunications, construction and selected technology counters.

It also expects Visit Malaysia 2026, RE projects, construction activity, DC investments and resilient consumer spending to attract renewed interest.

"We believe defensive names should remain the foundation in the 2H26," it explains, adding that this is especially so if markets remain volatile following the US Federal Reserve's Fed interest rate decisions.

Phillip Capital Research, meanwhile, has identified four key investment themes for the 2H26: AI expansion, the green energy transition, infrastructure rollout and tourism recovery.

It says rapid DC expansion should continue supporting demand for power infrastructure and RE. The brokerage also refreshes its small and mid-cap list to reflect "stronger conviction in AI-driven and domestic recovery themes", while downgrading the O&G sector to "neutral" from "overweight".

Top stock picks

Driven by key investment themes shaping the market outlook, several stocks have emerged as top picks across multiple brokerages.

Tenaga Nasional Bhd (TNB), SD Guthrie Bhd, IHH Healthcare Bhd, CelcomDigi Bhd, CIMB Group Holdings Bhd, Gamuda Bhd, Solarvest Holdings Bhd and MN Holdings Bhd (MNH) all appear on multiple recommended lists, highlighting broad confidence in their earnings prospects.

Maybank IB's preferred large-cap stocks are TNB (target price of TP: RM15.70), IHH (TP: RM11.17), Press Metal Aluminium Holdings Bhd (TP: RM10.46), SD Guthrie (TP: RM6.69), RHB Bank Bhd (TP: RM9.40), Nestle (M) Bhd (TP: RM120), Westports Holdings Bhd (TP: RM6.48), MR DIY Group Bhd (TP: RM1.97) and Vitrox Corp Bhd (TP: RM9).

Its preferred mid and small-cap names are Bursa Malaysia Bhd (TP: RM9.50), Pentamaster Corp Bhd (TP: RM6), Solarvest (TP: RM4.31), Paradigm-REIT (TP: RM1.32), MNH (RM4.17) and Kee Ming Group Bhd (TP: RM1.94).

HLIB Research's top picks are TNB (TP: RM18.15), SD Guthrie (TP: RM7.05), Sunway Bhd (TP: RM5.50), CelcomDigi (TP: RM3.70), 99 Speed Mart Retail Holdings (TP: RM4.24), Dialog Group Bhd (TP: RM2.52), Alliance Bank Malaysia Bhd (TP: RM5.70), IJM Corp Bhd (TP: RM3.02), UWC Bhd (TP: RM7.10), OSK Holdings Bhd (TP: RM2.85), ITMAX System Bhd (TP: RM6), MNH (TP: RM3.28), SkyWorld Development Bhd (TP: 90 sen) and Focus Point Holdings Bhd (TP: 89 sen).

MBSB Research's top stock picks are Petronas Chemicals Group Bhd (TP: RM6.60), Hong Leong Bank Bhd (TP: RM30.50), YTL Power International Bhd (TP: RM5.65), CelcomDigi (TP: RM3.54), Inari Amertron Bhd (TP: RM2.95), Gamuda (TP: RM5.60), MR DIY (TP: RM2.13), CIMB (TP: RM9.29), 99 Speed Mart (TP: RM4.57) and TNB (TP: RM16.40).

Phillip Capital Research's large-cap favourites remain unchanged: CIMB (TP: RM9.30), Gamuda (TP: RM5.33), Frontkem Corp Bhd (TP: RM5.32), Telekom Malaysia Bhd (TP: RM9.17), IHH (TP: RM11.03) and SD Guthrie (TP: RM7).

Its preferred small and mid-cap stocks are AGX Group Bhd (TP: 91 sen), CBH Engineering Holding Bhd (TP: 91 sen), Critical Holdings Bhd (TP: RM2.55), EG Industries Bhd (TP: RM2.10), HE Group Bhd (TP: 73 sen), MNH (TP: RM3.35), Oriental Kogi Holdings Bhd (TP: RM1.26), RGB International Bhd (TP: 45 sen), Solarvest (TP: RM3.52) and Uzma Bhd (TP: RM1.03).

Stronger end

The FBM KLCI fell almost 1% over the 1H26 to end at 1,664.06 on June 30. Looking ahead, analysts remain broadly positive on the market's outlook, although they differ on how far the benchmark index can climb by year-end.

Maybank IB remains constructive on the equity market, with a base case end-2026 FBM KLCI target of 1,750, pegged at 15 times forward price-to-earnings ratio and underpinned by an estimated 7.5% earnings growth, sustained investment upcycle effects, stable consumer essentials spending and moderate foreign participation.

It also outlines a bull-case end-

■ **Analysts remain broadly bullish, but differ on how far the FBM KLCI can rise by year-end**

■ **Key drivers remain AI, DCs, RE, domestic infrastructure spending and resilient consumer demand**

2026 target of 1,850 and a bear-case target of 1,500, adding that a fall to 1,200 is "highly unlikely unless a black swan event emerges".

While HLIB Research raises its 2026 gross domestic product growth forecast to 4.7% from 4.5%, supported by strong electrical and electronics exports, it says the market "could experience a more sombre mood in the 2H26" because of lingering supply chain pressures, expectations of a hawkish Fed, rising political risk linked to the possibility of an early 16th General Election (GE16) and the potential impact of an expanded benchmark index.

HLIB Research lowers its end-2026 FBM KLCI target to 1,770, pegged to 15.4 times P/E, from its earlier target of 1,790.

MBSB Research has also trimmed its end-2026 FBM KLCI target, lowering it to 1,770 from 1,800. It expects "a cautious start" to the 2H26, with the Fed action and ringgit weakness posing key risks.

However, it believes any US rate increase "may be an 'adjustment hike' rather than the start of a prolonged tightening cycle".

Similarly, Phillip Capital Research lowers its end-2026 FBM KLCI target slightly to 1,700 from 1,710.

It stays "neutral" on the FBM KLCI because near-term catalysts remain limited and foreign inflows could stay subdued amid uncertainty over the timing of GE16.

Nevertheless, it points out that Malaysia remains supported by resilient corporate earnings growth, a more constructive macro backdrop, and sustained thematic tailwinds.