

July 2025

Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 30 June 2025

Over the
month

Equities

Global

- June 2025 saw global markets navigating a complex backdrop of easing trade tensions alongside persistent inflation and fiscal concerns.
- However, the partial tariff framework agreed between the United States (US) and China on 10 June 2025 helped ease fears of a full-scale trade war, with reciprocal tariffs reduced to a baseline of 10% on many goods, down from previous highs of 125%-145%.
- This agreement, along with healthy earnings growth and optimistic guidance from corporations sparked a market rally, with the NASDAQ Composite Index leading gains at +6.6%, while the S&P 500 Index and small caps followed suit at +5.1% and +5.4% respectively.

Asia Pacific

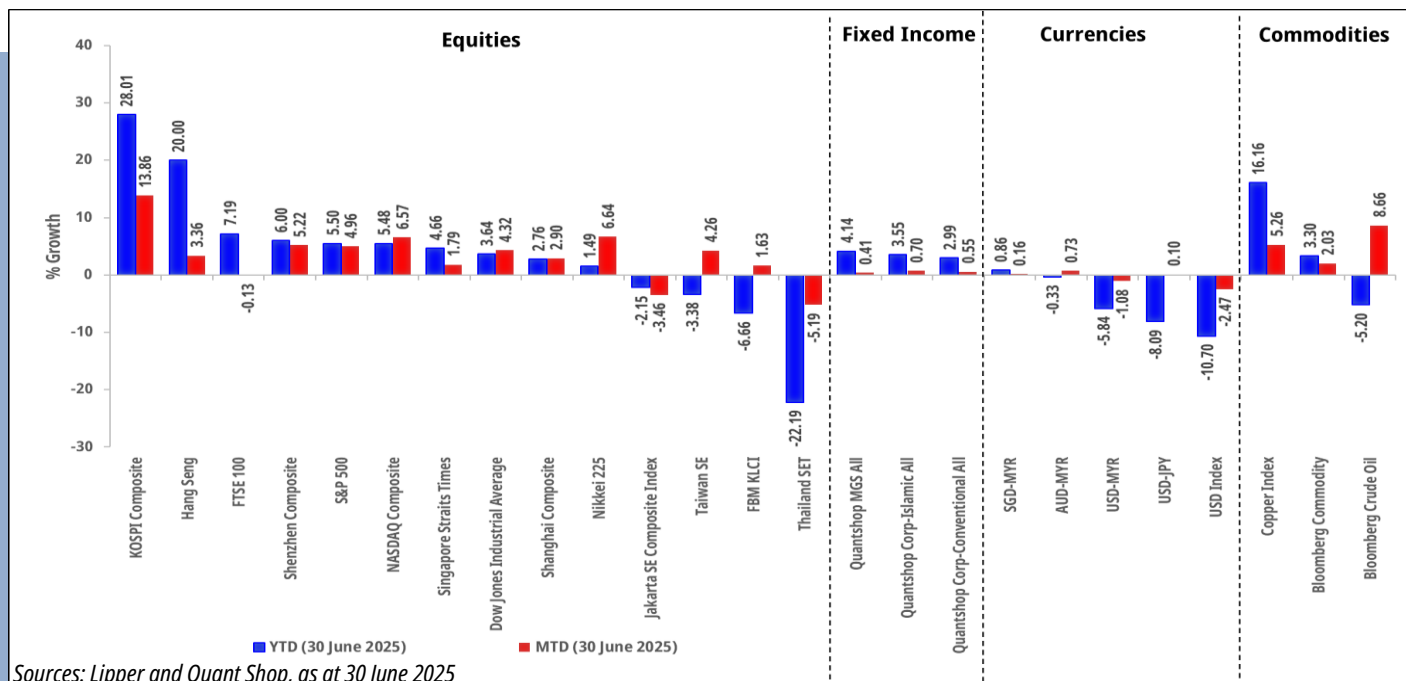
- The Asia Pacific region saw a robust +6.2% increase in June, extending the positive trajectory observed since May.
- This surge was primarily propelled by a de-escalation of tariff-related anxieties and a consequent reduction in US recession fears, coupled with renewed optimism surrounding capital expenditure in Artificial Intelligence (AI).
- These gains occurred despite some drag from a renewed sell-off in developed market bonds.

Malaysia

- Bursa Malaysia's FBM KLCI closed June with a positive gain of +1.8%, driven by strong performances in sectors such as utilities, telecommunications and construction.
- These sectors have attracted increased Foreign Direct Investment (FDI), largely fuelled by robust demand for Data Centres (DC).
- Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00%, reflecting confidence in the country's manageable inflation levels and steady domestic growth.

Fixed Income

- The Federal Reserve (Fed) kept interest rates unchanged at 4.25%-4.50% at the June Federal Open Market Committee (FOMC) despite heightened risks on inflation and employment. The Committee viewed the unemployment rate as low and inflation somewhat elevated, but will continue to assess incoming data and balance of risks. May core inflation reading was at 2.7% year-on-year (YoY), higher-than-anticipated. Following the external headwinds and uncertainties arising from Trump's tariffs and geopolitical tensions in the Middle East, the market is now expecting two Fed rate cuts for 2025 which led to 2Y and 10Y US Treasury (UST) yields declining 18 basis points (bps) and 17 bps month-on-month (MoM) to 3.72% and 4.23% respectively.
- Malaysia's headline Consumer Price Index (CPI) declined to 1.2% YoY in May (April: 1.4%), marking the lowest inflation rate since February 2021. Core inflation was also lower at 1.8% YoY (April: 2.0%), suggesting that inflationary pressures continued to be benign. Meanwhile, Malaysia's exports fell by 1.1% YoY as compared to 16.4% in April, reflecting the external headwinds from Trump's tariffs and geopolitical tensions in the Middle East. 3Y, 5Y and 10Y Malaysian Government Securities (MGS) yields were volatile in the month of June and ended at 3.15% (-1 bp), 3.19% (-2 bps) and 3.52% (0 bp) respectively.



Equities : Outlook & Strategy

Global

- The partial rollback and restructuring of US-China tariffs reduce some trade uncertainties but do not fully resolve underlying frictions, which continue to exert upward pressure on inflation and supply chains.
- Elevated US government debt and fiscal expansion are likely to keep bond yields elevated, complicating monetary policy decisions.
- Central banks, led by the Fed, are expected to maintain a cautious, data-driven approach, balancing inflation containment with the need to support growth amid persistent uncertainties.

Asia Pacific

- At present, the economic environment remains stable, with market attention centred on immediate developments.
- However, June marks the approaching deadline for the expiration of the tariff suspension, with a key ruling on the legality of broad-based tariffs set to have a major impact.
- July is expected to introduce a fresh wave of uncertainty, despite equity markets having regained ground and long-term bond yields continuing to stay high and fluctuate.

Malaysia

- A cautious but constructive stance is advised amidst market uncertainties.
- Investors may consider defensive large-cap stocks with stable earnings and attractive dividends, while selectively exploring sectors like utilities and construction that may benefit from increased investments into AI.
- Monitoring developments in trade negotiations and geopolitical risks will be critical for timely portfolio adjustments.

Fixed Income : Outlook & Strategy

Malaysia

- We expect UST yields to remain volatile but on a downward trend in the near to medium term in view of the likelihood of monetary easing once hard economic data shows significant tariff impact in the coming months.
 - On the local front, we expect BNM to cut OPR by 25 bps in 3Q 2025 to support economic growth amid heightened risks from tariff uncertainties and rising geopolitical tensions.
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- We continue to overweight high credit quality corporate bonds over government and government guaranteed papers for yield pickup.
 - We prefer participating in primary issuances and shall look for trading opportunities to generate returns.

*Notes: Q = Quarter
Y = Year*

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