

Market Review & Outlook

June 2025

(as of 30 June 2025)

Overview

In 2Q2025, the main factor impacting markets were the tariff announcements by President Trump of the United States ("US") on 2 April 2025 followed by a 90-day pause as well as the tit-for-tat on tariffs between US and China and also a 90-day truce with China. Of note is that the base Universal Tariff of 10% imposed by the US since 5 April 2025 is still in effect. The two deals struck by the US were with United Kingdom ("UK") and Vietnam respectively and it is clear that some form of tariffs will persist, likely throughout Trump 2.0.

Geo-political risk spiked at the end of the quarter for 12 days from 13 June 2025 to 24 June 2025 during the Israel-Iran conflict which also had the US bomb Iran's nuclear facilities. Following the US action there was a swift agreement to a ceasefire which caused markets to rally as risk seeking behaviour returned.

While most central banks were cutting interest rates, the Federal Reserve ("Fed") kept the federal funds rate steady at 4.25% to 4.50% level, maintaining the target range unchanged since December 2024. The Federal Open Market Committee ("FOMC") signalled ongoing caution amid persistent inflation pressures and slowing economic growth, while indicating the possibility of two rate cuts later in 2025.

The Fed's economic projections highlighted continued stagflation risks, with gross domestic product ("GDP") growth expected to slow to about 1.4% in 2025 and inflation projected to remain elevated at around 3%. US consumer spending decelerated following earlier front-loaded purchases ahead of tariffs and business investment remains cautious amid trade uncertainties. Meanwhile, the US fiscal policy continues to widen the deficit, projected at approximately 6.4% of GDP, driven by higher government spending and interest expenses, which may exert upward pressure on borrowing costs.

In the Eurozone, the European Central Bank ("ECB") continued to lower its three key interest rates. At the end of the quarter, in June 2025, it continued to ease, marking its 8th consecutive monetary policy easing since June 2024, reducing the deposit facility rate from 2.25% to 2.00%. This decision was based on the ECB's updated assessment of the inflation outlook, underlying inflation dynamics, and monetary policy transmission strength.

Eurozone GDP growth is expected to be modest, at 0.9% to 1.1% in 2025, due to weaker domestic demand, global trade disruptions and inflationary pressures. Increased government spending on infrastructure and defence across several member states, including Germany, is providing some fiscal stimulus. However, trade policy uncertainty and supply chain challenges continue to weigh on business sentiment, investment and exports. Inflation in the Eurozone fell unexpectedly to 1.9% in May 2025, below the ECB's 2% medium-term target. The ECB's projections now forecast headline inflation averaging 2.0% in 2025 and 1.6% in 2026, reflecting downward revisions mainly due to lower energy prices and a stronger Euro.

Overall, both the US and Eurozone economies face a challenging environment in 3Q2025, with moderating growth, persistent inflation pressures, and significant trade uncertainties. Central banks are adopting



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cautious monetary policies—the Fed holding rates steady with potential cuts later, and the ECB continuing its rate cuts. Fiscal policies remain expansionary but raise sustainability concerns.

Malaysia

On 9 June 2025, the Government of Malaysia announced that it would implement an expansion of items subject to Sales and Service Tax (“SST”) aimed at broadening the tax base and strengthening the country’s fiscal position without overly burdening lower-income households. Among other revisions, the update will have new service tax levels of 6%-8% as the SST will now cover previously untaxed services such as financial services and private healthcare. The changes will take effect on 1st July 2025.

On the macroeconomic front, Malaysia’s 51-month low Consumer Price Index (“CPI”) figure made headlines with inflation easing to 1.2% year-on-year (“YoY”) in May 2025 (April 2025: 1.4%). Meanwhile core inflation moderated to 1.8% (April 2025: 2%). The decline in headline inflation was largely attributed to lower commodity prices while the drop in core inflation reflected price pressures for rental and streaming services.

In terms of trade, exports registered a slight decline of 1.1% YoY despite continued resilience in export of electrical and electronics (“E&E”) products which account for over 42% of total exports and grew about 7% YoY. The overall drag in exports was mainly due to a nearly 30% YoY drop in petroleum product exports. On the other hand, imports rose by 6.6% YoY driven by higher demand for E&E products and machinery.

Manufacturing showed signs of stabilization with the latest purchasing managers’ index (“PMI”) reading improving to 49.3 in June 2025 (May 2025: 48.8), its highest reading since February 2025. While the reading remains below the 50.0 neutral mark, the improvement reflects gradual improvement in demand conditions although businesses are still relatively cautious.

Bond Market Review

Ringgit bonds rallied in 2Q2025 as demand surged due to interest rates being cut across many countries from Europe to UK and India and Australia while Malaysia’s overnight policy rate (“OPR”) was held steady as well as the safe haven status of our local bond market.

Across tenures, from 3 years to 15 years, Malaysian Government Securities (“MGS”) rallied by 23 to 40bps. The 5-year MGS performed the best, rallying by 40bps followed by the 10-year MGS which rallied by 33bps. The strong demand was also reflected sovereign bond/sukuk auctions in the quarter as the majority of auctions garnered bid-to-cover ratios of more than 3 times.

Equities Market Review

The FTSE Bursa Malaysia KLCI (“FBMKLCI”) rose 1.3% in the second quarter of 2025, while the broader FBM100 was up 1.1%. Gains were led by the Construction sector which rallied 12.6% quarter-on-quarter



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("QoQ") followed by REITS which rose 5.8%. Healthcare continued its decline from the last quarter, coming off 7.2% in 2Q2025. Global and regional markets performed well with the MSCI Asia ex-Japan and MSCI Emerging Markets up 11.5% and 11.0% respectively.

Strategy

Market Outlook

Malaysia's slowing inflation and export-led weakness, as highlighted in recent economic data, are reinforcing expectations of a potential OPR cut in the second half of 2025. This shift in monetary policy outlook is supportive of bond valuations. The combination of subdued inflation and stable bond yields has led to more attractive real returns on Malaysian fixed income assets. Market participants will be closely watching the upcoming Monetary Policy Committee meetings for further guidance on Bank Negara Malaysia's policy direction.

We maintain a moderate overweight in duration, with a focus on intermediate tenors (5–10 years), where we see the most favourable risk-reward positioning on the yield curve. We continue to prefer high-quality corporate bonds over government bonds, given their attractive carry despite tight credit spreads. For credits, our preferred allocation remains in AA/AAA-rated issuers, particularly in the utilities, infrastructure, and financial sectors, which offer strong fundamentals and relatively high liquidity.

The local stock market is expected to start 3Q2025 on a cautious footing as the impending deadline for the US 90-day pause on reciprocal tariffs has heightened investor unease. This trade policy ambiguity is likely to drive episodic volatility, particularly in export linked sectors while prompting cautious foreign capital flows. Domestic portfolios continue to be positioned into dividend yielding stocks and domestic-driven sectors.

Most global equity markets have rebounded and attained new highs driven by easing trade tensions. However, valuations are elevated, especially in the US, suggesting limited room for further multiple expansion. Nonetheless, we remain cautiously optimistic on Asia equities, supported by stable inflation, strong technology sector performance, and currency appreciation driven by a weaker US dollar. Countries like Korea and Taiwan are benefiting from global demand for semiconductors and artificial intelligence ("AI"), while most Asian economies maintain fiscal flexibility due to controlled inflation. However, risks remain from potential trade disruptions as the US reciprocal tariff pause nears expiration, and export headwinds could emerge from stronger regional currencies. We maintain our investment preference for sectors benefiting from domestic demand and high-yielding markets, given concerns about a global trade slowdown.

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