Monthly MARKET OUTLOOK

October 2025

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

Over the month

Equities

Global

- September saw global equities maintain their positive trajectory, successfully concluding a strong third quarter, but with noticeable volatility.
- The rally was fundamentally driven by the Federal Reserve's (Fed) decision to cut interest rates, easing immediate pressure on financial conditions.
- However, this bullish move was moderated by the Fed's commentary, which highlighted the complexities of managing both sticky inflation and decelerating growth, injecting uncertainty and causing markets to retract from their intra-month highs.

Asia Pacific

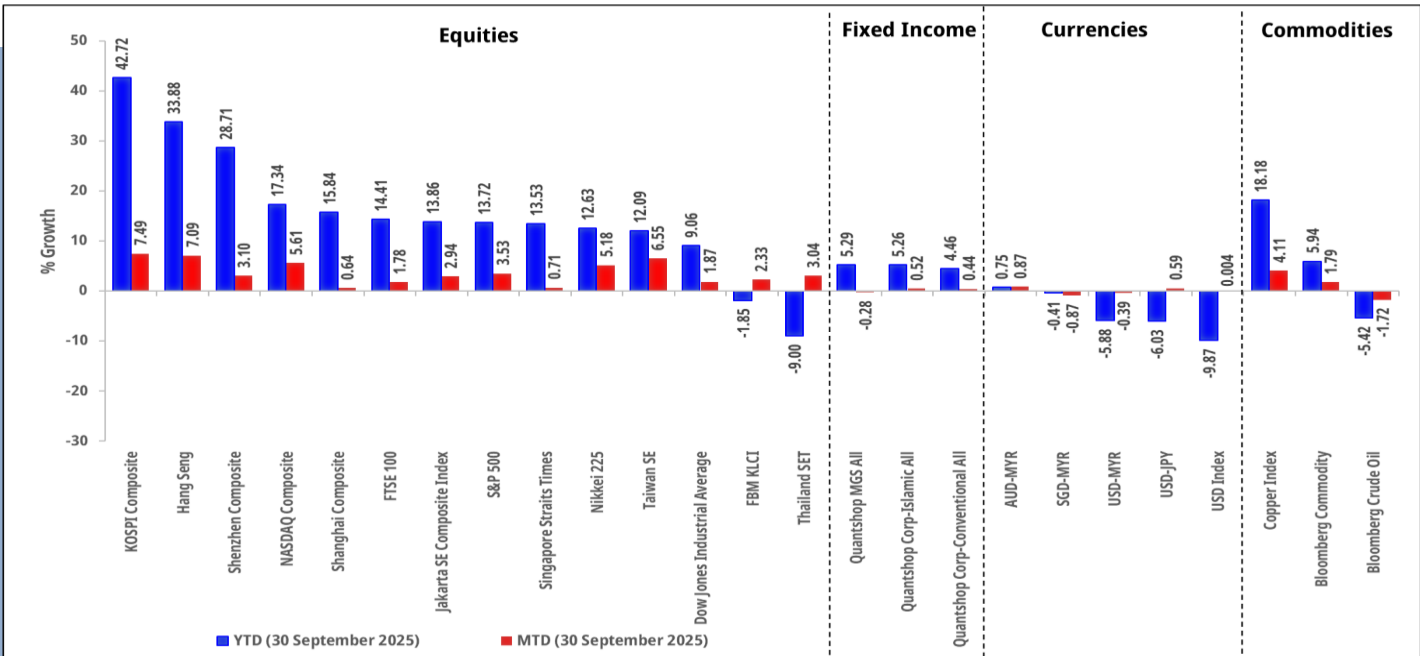
- Asian markets finished the month in positive territory.
- Despite initial fears of capital outflows, the region was bolstered by the Fed's rate cut and the sustained strength of the technology sector, particularly in Taiwan and South Korea, which continued to benefit from the Artificial Intelligence (AI) demand cycle.
- Targeted policy support in mainland China also contributed to regional resilience, overriding external anxieties about the impending United States (US)-China trade truce expiry.

Malaysia

- Bursa Malaysia’s FBM KLCI ended September with a positive gain, bouncing back from the previous month.
- The primary drivers were renewed foreign investor inflows, attracted by the supportive global monetary environment and robust performance in key domestic sectors like utilities and infrastructure.
- The market showed resilience, supported by stable domestic economic growth and positive anticipation ahead of the upcoming National Budget.

Fixed Income

- The US bond market started the month bullish as investors expect imminent rate cut on back-to-back disappointments in non-farm payroll which suggest a cooling labour market. August inflation data was also largely in line with market expectation. However, US Treasury (UST) reversed some of its gains post-Federal Open Market Committee (FOMC) after a 11-1 majority vote for a 25 basis points (bps) cut in Fed Funds Rate (FFR) as market was expecting a greater number of dissents favouring a larger 50 bps cut. Sentiment remained muted for the rest of the month with subsequent strong US macroeconomic data releases, hawkish speeches from some FOMC members and poorly subscribed UST auctions. Overall, 2Y UST yields rose 1 bp month-on-month (MoM) to 3.61% while 10Y fell 8 bps MoM to 4.15%.
- Back home, domestic bond market was positive initially on strong global sentiment even as Bank Negara Malaysia (BNM) kept Overnight Policy Rate (OPR) unchanged and struck a more neutral policy tone in the second last Monetary Policy Committee (MPC) meeting of the year. However, market turned bearish in the second half of the month due to absence of catalyst and strong pipelines of high-grade corporate bonds which weighed on government bond auctions. Market sentiment failed to recover despite muted inflation data and fiscal consolidation news on BUDI95 targeted fuel subsidy. Overall, Malaysian Government Securities (MGS) curve bear flattened, with 3Y, 5Y and 10Y MGS yields ending the month at 3.10% (+10 bps), 3.22% (+13 bps) and 3.45% (+5 bps) respectively.



Sources: Lipper and Quant Shop, as at 30 September 2025

Equities : Outlook & Strategy

Global

- The global equity outlook for October is defined by the risk of a technical pullback following three consecutive positive quarters.
- The primary risk remains the Fed's policy communication, as the market seeks clarity on the trajectory of future rate cuts amid the Fed's acknowledged policy confusion.
- Investors must prepare for continued volatility driven by the conflict between disinflationary forces and persistent core inflation.

Asia Pacific

- Asian equities are poised for continued strength, provided the US Dollar (USD) remains stable or weakens slightly.
- The region's prospects are tied to the sustainability of the tech demand cycle and the outcome of the US-China trade negotiations, which present the largest immediate geopolitical risk.
- We favour markets with strong structural growth stories and clear domestic policy support.

Malaysia

- Malaysia's equity market is expected to remain firm, supported by domestic catalysts, notably the National Budget announcement, which is anticipated to drive Capital Expenditure (CapEx) in infrastructure and high-tech sectors.
- While external volatility from global capital flows remains a risk, a selective approach focused on fundamentally sound companies with strong dividend policies and exposure to government-linked projects is advisable.

Fixed Income : Outlook & Strategy

Malaysia

- We expect US Fed to cut rates by another 25-50 bps by year end given signs of cooling job market.
- While there may be volatility in UST in the short term, the longer-term yield direction should trend down as effects of tariffs start to accumulate and manifest.
- Domestically, bond market sentiment may stay soft in the near term on year-end effect and heavy upcoming corporate bond supply.
- However, we expect market to remain supported given expectations of global growth slowdown and muted inflation outlook in Malaysia.
- A mild market correction would provide investment opportunities in the primary and secondary market.
- We continue to overweight high credit quality corporate bonds over government and government guaranteed papers for yield pickup.

Note: Y = Year