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Market Review & Outlook
September 2025
(as of 30 September 2025)

Overview

3Q2025 presented a complex macroeconomic landscape for the United States, marked by diverging signals across labour markets, inflation, and economic activity. The Federal Reserve ("Fed") held its policy rate steady at 4.25%–4.50% through July 2025 and August 2025, before initiating a 25 basis point ("bps") cut in September 2025 to 4.00%–4.25%. This marked the first rate reduction since December 2024 and was described by Fed Chairman Jerome Powell as a "risk management" step, acknowledging the restrictive stance of current policy while responding to emerging risks.

Labour market data signalled a clear deceleration with Non-Farm Payrolls ("NFP") adding only 73,000 jobs in July 2025 and a mere 22,000 in August 2025, both significantly below expectations. The three-month average job gain fell to just 35,000, the slowest pace since 2020, while the unemployment rate rose to 4.3% in August 2025, its highest level in nearly four years. These indicators pointed to a softening employment landscape, reinforcing the Fed's decision to ease policy.

However, inflation remained persistent. Consumer Price Index ("CPI") inflation accelerated to 2.9% YoY in August 2025, the highest since January 2025, while the Fed's preferred Personal Consumption Expenditures ("PCE") Price Index rose to 2.7%. Earlier in the quarter, June 2025 CPI came in at 2.7% YoY and Core CPI at 2.9% YoY, with tariff pass-through effects intensifying. July 2025's Producer Price Index ("PPI") surprised to the upside at 0.9% MoM, more than triple expectations, complicating the Fed's path to easing and highlighting the challenge of balancing its dual mandate.

Economic activity showed resilience but signs of moderation. The US Manufacturing Purchasing Managers' Index ("PMI") eased from 53.3 in August 2025 to 52.0 in September 2025, while the Services PMI softened from 55.4 to 53.9. Despite remaining in expansion territory, the slower pace suggested cautious business sentiment. Meanwhile, the final estimate for 2Q2025 GDP was revised up to a robust 3.8% QoQ annualised, driven largely by a drop in goods imports ahead of tariff deadlines. However, underlying domestic momentum appeared to be cooling.

In contrast to the US, the Eurozone experienced modest and volatile growth with relatively stable inflation, prompting the European Central Bank ("ECB") to maintain its cautious, data-dependent policy stance. Throughout 3Q2025, the ECB kept its key interest rates unchanged—Deposit Rate at 2.00%, Main Refinancing Rate at 2.15%, and Marginal Lending Rate at 2.40%, signalling the end of its easing cycle while leaving room for future adjustments.

Inflation in the Eurozone edged up slightly, with headline CPI rising from 2.0% YoY in August 2025 to 2.2% YoY in September 2025, driven by services and a slower decline in energy costs. Core inflation held steady, keeping overall price pressures near the ECB's target and allowing the central bank to avoid immediate policy action.

Growth, however, slowed considerably. 2Q2025 GDP expanded by just 0.1% QoQ, down from a stronger first quarter, largely due to trade volatility stemming from US tariffs. Despite these

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challenges, the Eurozone labour market remained resilient, providing a stable foundation for consumer spending and supporting the ECB's cautious approach.

Malaysia

Bank Negara Malaysia ("BNM") maintained the Overnight Policy Rate ("OPR") at 2.75% in September 2025, following a 25bps cut in July 2025. The Monetary Policy Committee ("MPC") adopted a more neutral tone, shifting from its earlier cautious stance, citing easing uncertainties in global trade and continued support from domestic demand. The current policy rate is viewed as appropriate and supportive of economic conditions, with future decisions remaining data dependent.

Inflation remained benign throughout Q3, although it showed a gradual uptick. Headline Consumer Price Index ("CPI") rose from 1.1% year-on-year ("YoY") in June 2025 to 1.3% YoY in August 2025, driven mainly by higher food prices and increased costs in services such as education, insurance, accommodation, and personal care. Despite this, core inflation remained contained, suggesting limited demand-side pressures. At the producer level, the Producer Price Index ("PPI") declined by 3.8% YoY in July 2025, reflecting easing input costs in the mining and manufacturing sectors.

Labour market conditions remained stable during the quarter. The unemployment rate held steady at 3.0% in both June 2025 and July 2025, while employment rose to 17.47 million persons, supported by hiring in wholesale and retail trade, accommodation and food services, and information and communication sectors. The labour force participation rate remained unchanged at 70.8%, indicating a steady labour supply.

Malaysia's external position improved despite some volatility in trade performance. Exports rebounded by 6.8% YoY in July 2025, led by electrical and electronics ("E&E") products, but slowed to 1.9% YoY in August 2025 due to weaker demand for E&E and crude oil. Imports contracted sharply by 5.9% YoY in August 2025, the largest drop since 2023, reflecting softer domestic investment and inventory rebuilding. This contraction lifted the trade surplus to RM16.1 billion in August 2025, the highest monthly level recorded in 2025.

Bond Market Review

Ringgit bonds continued to record a positive performance in 3Q2025, although at a more moderate pace after a strong rally in the first half of the year, while Malaysia's OPR was cut by 25 bps to 2.75% in July and held steady in September to support growth amid global uncertainties.

The MGS 3-Year yield was down 1bps Quarter-on Quarter ("QoQ") to 3.15% and the MGS 30-Year yield fell 15bps QoQ to 3.92%. Other tenures were also buoyed, with the MGS 5-Year yield down 5bps QoQ to 3.25%, MGS 7-Year yield down 2bps QoQ to 3.43% and the MGS 20-Year yield down 6bps QoQ to 3.87%.

Equities Market Review

The FTSE Bursa Malaysia KLCI ("FBMKLCI") posted a 5.2% gain in the third quarter of 2025, while the broader FBM100 rose 4.4%. The rally was primarily driven by the technology sector, which rose 12.8% quarter-on-quarter followed by utilities which increased 11.7%. Conversely, healthcare extended its previous quarter's decline, falling 7.9%. Global and regional markets remained resilient, with the MSCI Asia ex-Japan and MSCI Emerging Markets indices posting strong quarterly gains of 10.2% and 10.0%, respectively.

Strategy

Market Outlook

In the near term, consolidation is expected in the local fixed income market as it adjusts to recent moves and digest supply from government auctions. However, the medium-term outlook remains constructive, underpinned by supportive policy, steady demand, and favourable relative valuations. Compared to regional peers, Malaysian bonds remain compelling, offering investors a balance of yield, carry and currency stability. While external shocks could temporarily weigh on sentiment, Malaysia's structural demand from domestic institutions provides a stabilising anchor for the market.

We believe the recent correction presents an attractive re-entry opportunity rather than an exit signal. Fundamentals remain intact, inflation is well contained, and yields have turned more attractive following recent corrections. Positioning now allows investors to capture carry and potential capital gains as the market stabilises and prepares for its next leg higher. We will be active in rebalancing our portfolios and will participate when there are opportunities for yield pickup across the curve. The intermediate tenors, the belly of the curve provides the best opportunities with an efficient balance between yield and duration as well as strong carry-and-roll potential.

Emerging equity markets are expected to be beneficiaries of the inflow of foreign funds with expectations of further cuts in US interest rates. We expect the Malaysian equity market to play catch up given its underperformance compared to regional peers and plan to increase equity weights leading into the year end as tariff concerns are behind us. Whilst we are well invested into domestic centric and dividend yielding stocks, we are looking to add into export related names like technology stocks.

We remain cautiously optimistic on the US equity market due to elevated valuations. However, we continue to favour the US technology sector, as we believe the development of artificial intelligence represents a multi-year growth cycle. Meanwhile, we maintain our positive outlook on Asia equities, supported by stable inflation, a robust technology sector, and the return of foreign inflows. India, having underperformed in the first half of 2025, presents an attractive opportunity to increase exposure and capitalize on its structural long-term growth potential. Economies such as Korea and Taiwan are benefiting from strong global demand for semiconductors and AI-related technologies. We also favour sectors driven by domestic demand and high-yielding stocks, which offer resilience amid concerns over a potential slowdown in global trade.

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