

Global Outlook¹

In September 2025, global equity markets rallied for the fifth month. The largest gainers were Korea, H-share, and Taiwan at 7.5%, 6.8% and 6.6% respectively. There were no losers for the month. Bond indices performances rose 0.7% to 1.2%.

The Fed cut the Fed Fund rate by 0.25% to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead. The ECB maintained the interest rate at 2.00% during September 2025 meeting.

We prefer Equity over Cash in Asia. Stable GDP growth in Asia, coupled with a rate-cut cycle and a weaker USD, should be supportive of Asian markets. Valuation is reasonable, with earnings growth of 14.9% in 2026. Prefer diversified companies with strong free cash flows, improving business prospects, and high dividend yields in sectors such as technology, financials, consumer discretionary, industrials, and communication services.

Global Outlook of the two capital markets: Fixed Income & Equities

Region: Developed economies

Fixed Income	Equities
<ul style="list-style-type: none"> Our view: Positive. The Fed cut the Fed Fund rate to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead.⁴ We will take some profit on some corporate bonds with rich valuation post the rally, but maintain an overweight position. Maintain a tactical position in government bonds, with a bias towards higher weight, in light of the rising expectation of a rate cut at the September FOMC meeting.⁵ 	<ul style="list-style-type: none"> Our view: Positive. The Fed cut the Fed Fund rate to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead.⁴ Slight Overweight for the US, Neutral on Japan and marginal Underweight for the EU. Higher off-benchmark exposure including Asian stocks. The US will be supported by earnings growth and expectations of rate cuts. Valuation is becoming richer and will need to be supported by continued earnings growth into 2026.

Region: Regional (Asia-Pacific ex-Japan)

Fixed Income	Equities
<ul style="list-style-type: none"> Our view: Positive. Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.⁶ We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.⁶ 	<ul style="list-style-type: none"> Our view: Positive. We prefer Equity in Asia. Stable GDP growth coupled with a rate-cut cycle and a weaker USD should be supportive for Asia. Valuation is attractive, with earnings growth of 14.9% in 2026. Prefer companies with strong cashflows, high dividend yielders in sectors such as technology, financials, consumer, industrials, and communication services.³

Region: China

Fixed Income	Equities
<ul style="list-style-type: none"> Our view: Neutral. Net credit bond supply in July 2025 rose to RMB778bn from RMB418bn previously. This came from issuances from financials and SoEs. LGFVs saw net redemption of RMB42bn.⁸ Default rate for July 2025 remained at 0.10% as per June 2025. 	<ul style="list-style-type: none"> Our view: Neutral. China is supported by continued capital inflows and ambitions in AI and Technology self-sufficiency. The possibility of a deal between China & US should President Xi and President Trump meet, perhaps this year. Manufacturing PMI for Aug 2025 rose to 49.8 from 49.4 previously. Services PMI dropped to 50 from 50.3 over the same period.⁹

Region: Domestic (Malaysia)

Fixed Income	Equities
<ul style="list-style-type: none"> Our view: Positive. BNM cut the OPR to 2.75% during the July 2025 MPC meeting. The reduction in the OPR was a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects.¹⁰ To take profit on government bonds while maintaining tactical positions in anticipation of the upcoming maturities. With widening credit spreads, we prefer the corporate segment for better total return.³ 	<ul style="list-style-type: none"> Our view: Positive. The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.³ Pairing high-dividend, big-cap, defensive stocks with exposure to growth companies, either with domestic focused demand or exposed to structural growth of technology. Pockets of opportunities in Construction, Utilities and selective Banks.

Investment Implication:³

- **Global:** Slight Overweight US, Slight Underweight Europe, and Neutral on Japan. Underweight Cash. Increased off-benchmark exposure, including Copper ETF, Gold ETF, and selective Asian Stocks. US equities will be supported by solid earnings growth and expectations of Fed rate cuts. That said, valuation is becoming stretched and will need to be supported by continued earnings growth into next year. We maintain a Slight Overweight on the US while staying mindful of valuation risks. In Europe, political uncertainty in France has intensified after PM Lecornu's resignation less than a month after taking office. President Macron now faces the choice of appointing a new PM or dissolving parliament to call snap elections. With parliament in deadlock and growing calls for early elections, political uncertainty and fiscal policy execution risk are likely to weigh on market sentiment. We remain Neutral on Japan, with attention turning to PM Takaichi's cabinet formation, potential coalition negotiations, and the upcoming extraordinary Diet session to draft a supplementary budget addressing rising living costs. These developments should provide more clarity on the future policy direction.
- **Malaysian Equity:** Continue to advocate a barbell strategy, given the current uncertain global environment, where near-term volatility is expected to continue, especially due to the US administration's unpredictability. Concerns over a tariff-driven global slowdown and the constantly changing Trump administration's trade policies could weigh on market confidence and pressure Malaysia's growth and earnings outlook. That said, downside risks may be partially cushioned by the recent supportive domestic driven initiatives by the government. The barbell strategy is pairing high-dividend, big-cap, defensive stocks with selective exposure to growth companies with domestic-focused demand. We believe there are still pockets of opportunity to invest, especially in sectors such as Construction, Property, Utilities and selective Banks. Key risks include a further escalation of global trade tensions affecting business and investment conditions.
- **Malaysia Fixed Income:** With inflation contained and growth steady, we expect BNM to keep the OPR unchanged at 2.75% through the remainder of 2025. Corporate spreads are expected to widen once MGS yields stabilize due to a lag in repricing. We will take profit on existing corporate bond holdings when the opportunity arises. Stay overweight corporates for yield pick-up by redeploying into primary issuances where we see more attractive valuations considering the robust pipeline of quality corporates, prioritizing issuers with strong balance sheets and limited trade exposure. Maintain tactical positioning in government bonds amid the recent selloff, which offers a cheaper entry point.
- Markets are entering the fourth quarter of 2025 with uncertainty. The US government has shut down after the final vote on a stopgap spending bill failed to pass the Senate. US President Donald Trump has added new tariffs on imported timber and lumber, while the Wall Street Journal reported that the administration is considering a tariff scheme to incentivize chipmakers to invest in domestic manufacturing.
- Market volatility may be expected in the coming days and weeks. But the macroeconomic effects of shutdowns have historically been minimal and quickly reversed. With the Fed now resuming rate cuts and cash returns are set to fall further, we believe it remains a good time to put cash to work. We maintain that the rational for investing in both Equity and Fixed Income remains strong, and we still foresee additional growth in the coming years. Our base case remains that rate cuts have typically been supportive for stock markets during non-recession periods, as well as further benefits for fixed income.
- **Investors are advised to keep sight of longer-term investing principles** that can boost risk-adjusted rates of return through portfolio diversification and a phased-in strategy. This can help to manage the risk of poor timing, reduce the influence of emotion, and provide more opportunities to benefit from market dips and rebounds. Our strategy emphasized companies that demonstrate the attributes of quality growth, with earnings more domestically focused. Additionally, quality bonds have historically offered portfolio stability, especially in times of uncertainty.

Special Topic ³

Seasonal Analysis – 4Q and 1Q are typically the best for Equity

Six-month returns						
Holding Period	Average returns (%)	Rank (out of 12 months) (Best = 1; Worst = 12)	No. of yrs with positive returns	Total no. of years	% of years with positive returns	Rank (out of 12 months) (Best = 1; Worst = 12)
January-June	5.1%	5	26	45	57.8%	5
February-July	4.9%	6	29	46	63.0%	6
March-August	1.0%	9	27	46	58.7%	9
April-September	0.8%	10	23	45	51.1%	10
May-October	-0.2%	11	22	45	48.9%	11
June-November	-1.3%	12	20	45	44.4%	12
July-December	2.0%	8	25	45	55.6%	8
August-January	2.2%	7	23	45	51.1%	7
September-February	6.8%	3	29	45	64.4%	3
October-March	6.8%	4	29	45	64.4%	4
November-April	7.7%	2	32	45	71.1%	2
December-May	8.4%	1	30	45	66.7%	1

Source: CLSA as at 25 August 2025

This document is intended for **Principia** clients and is for one-on-one client use only. You may not reproduce or circulate this document to any other parties without prior consent from Principia Malaysia.

The chart above highlights a clear seasonal pattern in equity returns, with returns from the end of the calendar year through early next year generally better than those from mid-year periods.

- The data shows average returns, rankings, and frequency of positive returns for various six-month holding periods throughout the year.
- The highest average returns are observed in the periods December-May (8.4%) and November-April (7.7%), which correspond roughly to the 1st quarter of the calendar year.
- Similarly, September-February (6.8%) and October-March (6.8%) also show strong returns, highlighting the strength of the 4th quarter and early part of the year.
- These periods also have a high percentage of years with positive returns (above 60%), indicating consistent performance.

- Conversely, mid-year periods like June–November (-1.3%) and May–October (-0.2%) tend to have the lowest average returns and rank poorly, suggesting these months are typically weaker for equities.

The seasonal trend implies that investors may benefit from focusing on the equity market in the 4th quarter and 1st quarter periods to potentially maximize returns.

Our Fund Options

Principal PRS Plus and Principal Islamic PRS Plus are investment schemes designed to help you build and grow your savings for retirement. The schemes comprise of a range of conventional and Islamic retirement funds, which you may choose to invest based on your retirement needs, risk appetite and age profile. **Conventional – Principal PRS Plus** The scheme consists of the following funds:

Funds (Core Funds)	Fund Category
Principal RetireEasy 2060	Core - Mixed asset (TDF)
Principal RetireEasy 2050	Core - Mixed asset (TDF)
Principal RetireEasy 2040	Core - Mixed asset (TDF)
Principal RetireEasy 2030	Core - Mixed asset (TDF)
Principal RetireEasy Income	Core - Mixed asset

Funds (Non-Core Funds)	Fund Category
Principal PRS Plus Conservative	Fixed income
Principal PRS Plus Moderate	Balanced
Principal PRS Plus Growth	Mixed asset
Principal PRS Plus Equity	Equity
Principal PRS Plus Asia Pacific Ex Japan Equity	Feeder Fund - Equity

Islamic Funds The scheme consists of the following funds:

Funds (Core Funds)	Fund Category
Principal Islamic RetireEasy 2060	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2050	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2040	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy 2030	Core - Mixed asset (Islamic TDF)
Principal Islamic RetireEasy Income	Core - Mixed Asset (Shariah-compliant)

Funds (Non-Core Funds)	Fund Category
Principal Islamic PRS Plus Conservative	Sukuk
Principal Islamic PRS Plus Moderate	Balanced (Shariah-compliant)
Principal Islamic PRS Plus Growth	Mixed asset (Shariah-compliant)
Principal Islamic PRS Plus Equity	Feeder Fund - Equity (Shariah-compliant)
Principal Islamic PRS Plus Asia Pacific Ex Japan Equity	Feeder Fund - Equity (Shariah-compliant)

Disclaimer

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment. We recommend that investors read and understand the contents of the funds' prospectus and product highlights sheet available on the Principal website, which have been duly registered with the Securities Commission Malaysia (SC). Registration of these documents does not amount to nor indicate that the SC has recommended or endorsed the product or service. There are risks, fees and charges involved in investing in the funds. You should understand the risks involved, compare, and consider the fees, charges and costs involved, make your own risk assessment and seek professional advice, where necessary. Past performance does not guarantee future results. Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested. This article has not been reviewed by the SC.

Sources:

Footnotes:

- 1 Bloomberg, 30 September 2025
 2 Federal Reserve Board, 30 September 2025
 3 Principal, 30 September 2025
 4 European Central Bank, 30 September 2025
 5 Federal Open Market Committee (FOMC), 30 September 2025

- 6 JP Morgan Research, 30 September 2025
 7 Bloomberg, 30 September 2025
 8 BofA Securities, 30 September 2025
 9 National Bureau of Statistics of China, 30 September 2025
 10 Bank Negara Malaysia, 30 September 2025

Glossary of Terms:

- UW: Underweight
 OW: Overweight
 MoM: Month-over-Month
 YoY: Year-over-Year
 FOMC: Federal Open Market Committee
 ECB: European Central Bank

- UST: United States Treasury
 PMI: Purchasing Managers Index
 SoE: State-Owned Enterprise
 SEZ: Special Economic Zone
 BNM: Bank Negara Malaysia
 MPC: Monetary Policy Committee

Past performance does not guarantee future results. Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.