

Market Review & Outlook

July 2025

(as at 30 June 2025)

Overview

In June 2025, 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%. The United States’ (“US”) labour market remains resilient but shows signs of softening, with job growth slowing and unemployment rate steady near 4.2%. US consumer spending decelerated following earlier front-loaded purchases ahead of tariffs and business investment remains cautious amid trade uncertainties. Meanwhile, the U.S. 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”) lowered its three key interest rates by 25 basis points (“bps”) on June 5, 2025, 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 June 2025, with moderating growth, persistent inflation pressures, and significant trade uncertainties. Central banks are adopting 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.



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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 be 6%-8% as the SST will now cover previously untaxed services such as financial services and private healthcare. The changes will take effect on 1 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.

Fixed Income

US Treasury Market Overview

US Treasury (“UST”) yields jumped in early June 2025 as the May’s Non-Farm Payroll (“NFP”) reported stronger than expected growth of 139,000 (forecast: 126,000). Better NFP number had the market react with a 9-13 bps jump in yield across the curve with the 10-year (“10Y”) UST rising to a high of 4.52%. By mid-June, the UST bullish-steepened on the back of lower-than-expected Consumer Price Index (“CPI”) of 2.4% (core CPI) in May 2025 (Expected: 2.5%). A strong 30-year UST auction also pushed down the long-end yields subsequently. The Market is pricing in 2 cuts in 2025 as compared to less than 2 cuts in the month prior.

The second half of the month was dominated by on-and-off geopolitical tensions in the Middle East, resulting in mixed performance in the UST market. However, the UST rallied towards the end of the month with dovish comments on probable rate cuts by Christopher Waller and Michelle Bowman, both members of the Board of Governors of the Federal Reserve, saying that the Fed could cut rate as early as July 2025 (Bowman) and September 2025 (Waller). They were joined by Fed Chairman Jerome Powell, who hinted at a possibility of an early cut.

The dovish comments and the 5.4-point dive in the Conference Board's Consumer Confidence Index to 93 in June (Expected: 99.8) helped pushed the UST yield curve down by 13-19bps in the month.

US Market Outlook

- The 10Y UST yield is expected to remain in the range of 4.30%–4.40%.
- We anticipate two rate cuts in the Fed Funds Rate in 2025.

US Treasury Yields Summary

US Treasury Tenor	30-Jun-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.97	-13.2	-17.6
2Y	3.72	-17.8	-52.2
5Y	3.80	-16.5	-58.5
7Y	3.99	-18.2	-48.9
10Y	4.23	-17.2	-34.1
20Y	4.77	-15.9	-8.4
30Y	4.77	-15.6	-0.7

Source: Bloomberg, 1 July 2025

Asian Bond Indices Performance

Markit Asian USD Index	30-Jun-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	144.8	4.26%	1.37%
Asian Dollar IG Index	146.3	4.20%	1.37%
Asian Dollar HY Index	135.2	4.01%	1.27%
Asian Dollar Corp Index (ex-banks)	147.2	4.22%	1.24%

Source: Bloomberg, 1 July 2025

Asian dollar indices saw positive performance in June, driven by the bull steepening of the UST curve following below-consensus prints for US CPI and Producer Price Index ("PPI"), as well as a further deterioration in jobless claims which suggested that laid-off workers are facing difficulty finding new jobs. The rally was led by the Asian Dollar Corp Index which jumped 4.22% MoM followed by the Asian Investment Grade ("IG") Index with a 4.20% MoM gain and Asian High Yield ("HY") Index with 4.01% MoM gain.

The Asian dollar bonds performance by country all ended the month in positive territory. The top three gainers by sequence were Malaysia (2.06% MoM), Indonesia (1.88% MoM), and Thailand (1.49% MoM).

The US Dollar Index

The US Dollar Index (“DXY”) declined by 2.47% MoM, ending at 96.875 in June, pressured by weak economic data, heightened uncertainties over US trade policy ahead of President Trump’s 9 July tariff pause deadline and a projected USD 3.3 trillion US fiscal deficit. Additionally, market sentiment was rattled by news that President Trump was considering nominating a new Federal Reserve chair—raising concerns over the central bank’s independence, undermining market confidence and putting further pressure on the USD. The decline was exacerbated by the June MNI Chicago PMI unexpectedly contracting to 40.4—the weakest reading in five months—even as tentative progress in trade talks with the EU, China and Canada, and visits by Indian and Japanese negotiators, offered some support.

Notably, DXY has had its worst performance since 2020, as policy uncertainties triggered a reallocation away from US assets in the second quarter of 2025. We expect the DXY to remain volatile in the short term, with key factors influencing market sentiment including Federal Reserve’s policy stance, upcoming economic data releases, and the outcome of the President Trump’s Tariff policy negotiations—which could introduce further uncertainty and affect market sentiment.

Chart 1: The US Dollar Index



Source: Bloomberg, 1 July 2025

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-Jun-25 (%)	Net Change MoM (bps)	Net Change
			YTD (bps)
3Y	3.16	-0.9	-37.2
5Y	3.20	0.5	-45.2
7Y	3.41	2.9	-36.9
10Y	3.47	-8.2	-36.5
15Y	3.70	0.2	-28.4
20Y	3.81	-0.1	-26.9
30Y	4.07	-1.5	-12.5

Source: Bond Pricing Agency Malaysia, 30 June 2025.

Ringgit bonds demonstrated resilience throughout June, despite volatility in U.S. Treasuries and continued weakness in the US dollar. Malaysian Government Securities (“MGS”) experienced some profit-taking in medium-term tenures during the month. However, sentiment recovered in the final week, resulting in only marginal movements in benchmark yields. Notably, the 10-year MGS, which was auctioned at the end of the month, rallied with its yield falling by 8.2bps MoM.

There were three sovereign bond/sukuk auctions in June, totalling RM14.0 billion. These were:

- The reopening of the 15-year MGS (RM4.0 billion) on 9 June 2025
- The reopening of the 30-year Malaysian Government Investment Issue (MGII) (RM5.0 billion) on 13 June 2025
- A new issuance of the 10-year MGS (RM5.0 billion) on 26 June 2025

The three sovereign bond/sukuk auctions attracted healthy demand with bid-to-cover (“BTC”) ratios of around 3x.

In the corporate bond market, trading volume (including quasi-sovereign bonds) declined by 3.32% MoM to RM19.9 billion (May: RM20.6 billion).

May 2025 recorded a resurgence in net foreign inflows, totalling RM13.4 billion (April 2025: RM10.2 billion)—the largest monthly inflow in 11 years, since May 2014 (RM13.5 billion). This surge was driven by improved external growth sentiment following the easing of US-China trade tensions, the announcement of a UK-US trade agreement, and a global rotation out of the US dollar amid growing concerns over US fiscal sustainability.

Notable domestic corporate issuances in June were:

- RM400 million of Hong Leong Bank Bhd subordinated callable bonds (AA1),
- RM900 million of RHB Bank Bhd Senior IMTN (AA1),
- RM500 million of RHB Bank Bhd Tier-2 subordinated callable bonds (AA2),
- RM500 million of YTL Power IMTN (AA1),
- RM1.75 billion of Saracap Ventures Sdn. Bhd. MTN (AAA).

Generic AAA corporate yields for 3-year, 5-year, 7-year and 10-year tenures ended the month largely unchanged.

Strategy

Market Outlook

Malaysia's slowing inflation and export-led weakness, as highlighted in recent economic data, are reinforcing expectations of a potential Overnight Policy Rate ("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 meeting on 9 July 2025 for further guidance on Bank Negara Malaysia's policy direction.

Duration and Curve Positioning

- 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.

Tactical Asset Allocation

- In credit, we continue to prefer high-quality corporate bonds over government bonds, given their attractive carry despite tight credit spreads.
- 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

EQUITIES

Global Equities

Global Equity Index Performance

Indices	30-Jun-25	MoM	YTD
S&P 500 Index	6,204.95	4.96%	5.50%
Nasdaq Index	20,369.73	6.57%	5.48%
MSCI Europe Index	180.84	-1.40%	6.51%

Source: Bloomberg, 30 June 2025.

The Standard & Poor's ("S&P") 500 Index rose by 4.96% MoM in June extending a rally that has pushed major indexes to record highs, as investors kept close tabs on developments related to trade talks and budget bill deliberations in Congress. Market sentiment had been boosted by a calmer geopolitical scenario following a cease-fire between Israel and Iran, hopes that the US will reach trade agreements that result in lower tariffs, and optimism that the Fed could cut interest rates in the coming months.

The Morgan Stanley Capital International ("MSCI") Europe Index fell by 1.40% MoM in June as investors monitored for signs of any progress on US trade talks as the July tariff deadline loomed large. The mood remained cautious following US President Donald Trump's remarks that he was not looking to extend the pause on tariffs on most countries beyond the previously announced July 9 deadline. Meanwhile, a new trade agreement between the US and the United Kingdom ("UK") that reduces US tariffs on British cars and aircraft parts officially came into effect.

Asia Pacific Equity Index Performance

Index	Index level	Jun-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	796.62	5.69%	13.14%
FTSE ASEAN	856.94	0.50%	-0.31%
CSI 300 INDEX	3,936.08	2.50%	0.03%
KOSPI INDEX	3,071.70	13.86%	28.01%
HANG SENG INDEX	24,072.28	3.36%	20.00%
S&P BSE SENSEX INDEX	83,606.46	2.65%	7.00%
TAIWAN TAIEX INDEX	22,256.02	4.26%	-3.38%

Source: Bloomberg, 30 Jun 2025.

Chinese onshore equities rose 2.50% MoM due to progress in US-China trade talks that lifted market sentiment. Industrial production registered 5.8% YoY growth in May led by sectors benefitting from supportive measures to promote innovations and equipment upgrades, as well as the new technology sectors. On the demand side, retail sales surprised on the upside in May, led by sectors benefitting from policy support (especially a trade-in subsidy policy) where household electronic appliances grew 53.0% YoY in May versus ("vs.") 38.8% YoY in April and communication products up 33.0% YoY in May vs. 19.9% YoY in April, reflecting the impact of the trade-in subsidy support measures. Hang Seng Index rose 3.4% MoM despite geopolitical tensions in the Middle East taking centre stage but receded on a fast de-

escalation. Low HIBOR and stablecoin legislation lent support to rally in Financial & Developer shares. Southbound recorded HKD80 billion net inflows in June (vs. HKD46 billion net inflows in May).

The Korean Composite Stock Price Indexes (“KOSPI”) rose 13.9% MoM in June amid optimism that with President Lee’s election win on 3 June 2025, there are strong indications that long awaited revisions to the Commercial Act could be passed soon. This stands to spur improvement in Korean corporate governance underway since 2024 and substantially re-rate the market over the coming years. Since late May, anticipation of this outcome has been driving Korean equities higher, with support from both foreign and domestic institutions. The Taiwan Stock Exchange (“TWSE”) index rose 4.3% MoM amid the Taiwan Dollar (“TWD”) appreciation and upward earnings revisions across all sectors, except for Industrials and Materials, which were also among the worst-performing sectors in June. Taiwan’s May industrial production grew 22.6% YoY driven by strong tech demand and tariff-related front loading. Non tech production declined.

India equities rose 2.7% MoM driven by the outsized rate cut and liquidity injection by the Reserve Bank of India (“RBI”), a de-escalation of tensions in the Middle East, a cooling of oil prices (following the initial spike in mid-June) and INR modestly appreciating. In June, RBI cut repo rate by 50 bps, bringing down the policy rate to 5.5%. CPI for May came in below expectations at 2.8% YoY, softening from April CPI at 3.2% YoY. May industrial production slowed to 1.2% vs. the revised growth of 2.6% in April. Composite PMI rose to a 14-month high of 61 in June (May 2025:59.3).

ASEAN Equity Index Performance

Index	Index level	Jun-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,964.29	1.79%	4.66%
JAKARTA COMPOSITE INDEX	6,927.68	-3.46%	-2.15%
STOCK EXCH OF THAI INDEX	1,089.56	-5.19%	-22.19%
PSEi - PHILIPPINE SE IDX	6,364.94	0.37%	-2.51%
HO CHI MINH STOCK INDEX	1,376.07	3.26%	8.63%
FTSE Bursa Malaysia KLCI	1,532.96	1.63%	-6.66%

Source: Bloomberg, 30 Jun 2025.

The Straits Times Index rose in June 2025 especially as sentiment improved after the risk of a full-blown Israel-Iran abated. Energy cost is coming down as electricity and gas prices get reduced from July to Sept due to lower energy and fuel costs. The Stock Exchange of Thailand (“SET”) Index dropped in June and is the underperformer in the region as political uncertainty rears its head again after the constitutional court suspend the duty of Prime Minister Paetongtarn Shinawatra until it rules on a petition seeking her permanent removal over alleged ethical misconduct. The Jakarta Composite Index declined in June due to concern on rising crude oil price impact on the country's fiscal deficit position. In addition, the weakness in government spending also raised concerns over weak GDP growth; while clarity over village cooperative programs that might involve State-Owned Enterprise (“SOE”) banks may impact the future profitability of the banks.

The Philippines Composite Index remained relatively flat in June 2025. The Bangko Sentral ng Pilipinas (“BSP”) cut its interest rate by 25bps to 5.25% from 5.50%. Inflation expectations remain well-anchored and below the 2%-4% for 2025 at 1.6%. The cuts in reserve ratio requirement (RRR) should help offset the downward pressure on NIMs from the expected policy rate cuts, which could boost economic activities

and lending in the near to medium term. The Vietnam stock market continued its rebound in June as concerns on the trade uncertainty eased. In fact, the US has announced the trade deal with Vietnam on 2 July 2025 where a 20% tariff will be imposed on Vietnam-origin goods exported to the US and 40% tariff on transshipment goods. The 20% tariff is quite similar to what the Vietnamese exports are currently facing, which is an effective average tariff of 18.7%, and much lower than the earlier feared 46% reciprocal tariff.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") gained 1.60% MoM in June, YTD -6.70%. The Ministry of Finance has announced that Malaysia's expanded Sales and Service Tax ("SST") will come into effect on 1 July 2025, as part of the broader Budget 2025 fiscal reform agenda. Under the revised framework, a sales tax of 5% to 10% will be applied to selected non-essential items. Concurrently, the service tax (6% or 8%) will be broadened to cover additional service categories. The government anticipates RM5 billion in additional revenue in 2025 (based on half-year implementation), with annual target of RM10 billion p.a.

Malaysia's FTSE Bursa Malaysia Mid 70 Index ("FBM70") and FTSE Bursa Malaysia Small Cap Index ("FBMSCAP") gained 1.20% and lost 0.90% MoM respectively. Utilities and Energy were the best performing sectors, gaining 4.30% and 3.80% MoM respectively. On the other hand, Healthcare and Finance were the worst performing sectors, with losses of -5.40% and -1.10% respectively. The top three best performers in FBM KLCI components stocks were YTL Corp (27.50%), YTL Power (24.40%) and Axiata (12.70%), while the worst performing stocks were PPB Group (-8.90%), Sime Darby (-2.90%) and AMMB (-2.70%).

Foreign institutional investors were net sellers of RM1.3 billion worth of equities in June 2025, YTD net outflow of RM12.1 billion. Local institution investors were net sellers of RM1.7 billion worth of equities in June 2025. Average daily value traded was at RM2.1 billion, down 14.00% MoM.

Strategy

The local market is expected to start July on a cautious footing as the impending deadline for the US 90-day pause on reciprocal tariffs has heightened investor unease. The pause has temporarily lowered tariffs on Malaysian goods to a baseline 10% from the proposed 24%, a move welcomed by many corporations that are in the process of recalibrating supply chains. Yet the uncertainty of whether this reprieve will be extended or replaced by more punitive tariffs continues to cast a shadow.

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 AI, while most Asian economies maintain fiscal flexibility due to controlled inflation. However, risks remain from potential



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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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