Market Review & Outlook

June 2025

(as at 31 May 2025)

Overview

The global financial markets in May 2025 were heavily influenced by ongoing trade tensions, with the tariff war narrative continuing to dominate headlines. It began with the United States ("US") and China agreeing to a 90-day pause in reciprocal tariffs, reversing the initial tit-for-tat measures between the two countries. The European Union ("EU") also saw a reprieve, as negotiations with the US led to a de-escalation of the initially threatened 50% tariff on EU imports. Implementation of this proposed tariff was deferred to July 9, providing additional time for trade negotiations.

This wave of positive news triggered a rotation back into risk assets, with the Standard and Poor ("S&P") 500 rising 6.20% in May. Meanwhile, US Treasury 10-year (10Y) bond yields spiked from 4.12% to 4.41% by the end of the month.

However, the overall outlook remained clouded by the unresolved and shifting nature of tariff negotiations. By late May, US President Donald Trump accused China of violating the Geneva tariff truce—though details of the alleged violation remained vague. China responded by accusing the US of "seriously violating" the terms of negotiation. To further complicate matters, on May 28, 2025, the US Court of International Trade ruled that President Trump had exceeded his authority by imposing certain tariffs without congressional approval, injecting further uncertainty and volatility into the markets.

On the macroeconomic front, data from May remained lacklustre with the US Institute for Supply Management ("ISM") Manufacturing Purchasing Managers' Index ("PMI") still hovering under the 50 mark at 48.7 while the preliminary Gross Domestic Products ("GDP") reading showed a -0.20% Quarter-on-Quarter ("QoQ") contraction, among other indicators. The weak growth outlook in the EU also prompted the European Central Bank ("ECB") to cut rates by 25 basis points ("bps") from 4.50% to 4.25%. Additionally, Organisation for Economic Cooperation ("OECD") forecasts the US GDP growth of only 1.60% this year and 1.50% next year as the impact of the US tariffs becomes fully absorbed. The OECD also anticipates a global economic slowdown from 3.30% last year to 2.90% this year and next year.

Malaysia

Malaysia's GDP growth for the first quarter 2025 ("1Q2025") was confirmed at 4.40%, in line with the advance estimate, though marking the slowest pace of expansion in a year. Manufacturing, construction and services saw softer output growth while the agricultural sector rebounded. On the expenditure side, growth moderated in private consumption and fixed investments while government spending picked up. Net trade contributed positively to GDP, with exports rising at 4.10% and imports growing at slower at 3.10%.

Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00% during Monetary Policy Committee (MPC) meeting in May. However, BNM reduced the Statutory Reserve Requirement (SRR) ratio by 100 bps to the historical low of 1.00%, a level last seen during the Global Financial Crisis of 2008-09. BNM emphasized that the Statutory Reserve Requirement (”SRR”) cut should not be viewed as a shift in its monetary policy stance, but rather as a measure to ensure sufficient liquidity in the domestic financial system.

The domestic labor market remained healthy, with the number of unemployed persons continuing to decrease during the month to 529,600 (February: 532,800) while the unemployment rate in March remained unchanged at 3.10%. Domestic jobs growth was mainly contributed by the services sector, supported by accommodation and food & beverage services, information & communication and professional scientific & technical activities. An improvement in the employment was also seen in the manufacturing, construction, agriculture, and mining & quarrying sectors.

Malaysia’s Consumer Price Index (“CPI”) headline inflation remain steady at 1.40% YoY in April 2025 driven by increase in Personal Care, Social Protection & Miscellaneous Goods & Services, Education and Housing, Water, Electricity, Gas & Other Fuels. Meanwhile, Food & Beverages, Recreation, Sport & Culture, Health and Furnishings, Household Equipment & Routine Household Maintenance recorded a slower increase compared to the previous month. The inflation outlook remains susceptible to both domestic and international factors such as implementation of Sales and Service Tax (“SST”), wage-related adjustments, domestic price controls, subsidy policies (RON95) and price fluctuations in global commodities.

Fixed Income

US Treasury Market Overview

US Treasury yields climbed in the month of May 2025 as the market reacted to stronger than expected growth in April’s Non-Farm Payroll (NFP) report (forecast: 130,000; actual: 177,000), the de-escalation of China-US tariff tension following a tariff-pause agreement and concerns over US President Donald Trump’s large tax bill. The President’s bill is expected to increase the US budget deficit by USD 2.4 trillion over 10 years while reducing tax by approximately USD 3.7 trillion.

In the same month, credit rating agency, Moody’s downgraded the US sovereign credit rating from Aaa to Aa1, citing debt US government’s high debt level and contributing to upward pressure on US Treasury yields.

The US 10Y yield rose to 4.50% during the month, following the US Federal Reserve (“Fed”)’s expected decision to maintain the Fed Fund rate at 4.25-4.50%. This postponed market’s expectations for the first rate cut from June 2025 to July 2025. At one point, the 10Y yield touched 4.60% on concerns of the widening US fiscal deficit before settling at 4.40% by month-end.

US Market Outlook

- The 10Y US Treasury 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-May-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	4.10	24.8	-4.4
2Y	3.90	29.5	-34.4
5Y	3.96	23.5	-42.0
7Y	4.17	23.6	-30.7
10Y	4.40	23.9	-16.9
20Y	4.93	24.0	7.5
30Y	4.93	25.3	14.9

Source: Bloomberg, 1 June 2025

Asian Bond Indices Performance

Markit Asian USD Index	30-May-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	142.8	0.20%	2.85%
Asian Dollar IG Index	144.3	0.13%	2.79%
Asian Dollar HY Index	133.5	0.95%	2.70%
Asian Dollar Corp Index (ex-banks)	145.4	0.23%	2.95%

Source: Bloomberg, 30 May 2025

Asian dollar indices generally performed better in May 2025. The overall Asian Dollar Bond Index recorded a modest MoM gain of 0.20% to 142.8. Market sentiment at the beginning of the month was subdued, primarily due to the US Fed's decision to maintain interest rates for a third consecutive meeting. Additional pressure came from uncertainties surrounding the potential expiry of tax cuts, ongoing tariff issues, and weaker-than-expected economic data.

Despite these challenges, Asian dollar indices strengthened toward the end of the month. This improvement was supported by a rebound in US Treasuries, driven by the following factors:

- An upward revision in US first quarter ("Q1") GDP, reflecting stronger consumer spending.
- An increase in initial jobless claims, reaching the highest level since November 2021.

The Asian Dollar bond performance by country was mixed. The top three gainers by sequence were India (0.76% MoM), Thailand (0.56% MoM) and Indonesia (0.38% MoM) while the top three losers by sequence were Singapore (-0.35% MoM), Malaysia (-0.27% MoM) and the Philippines (-0.07% MoM).

The Asian Dollar Bond Index may continue to show mixed performance depending on country-specific fundamentals and global market conditions.

The US Dollar Index

The US Dollar Index ("DXY") marginally declined by 0.13% MoM, ending at 99.329 in May. The DXY initially strengthened after the Federal Open Market Committee ("FOMC") left policy rates unchanged for a third consecutive meeting on 7 May 2025, as the committee continued to assess risks to growth and inflation. However, the gains were later reversed on renewed concerns over the US fiscal situation as the planned extension of the tax cuts is set to expire this year. Sentiment was further dampened following:-

- A sharp drop in the University of Michigan's consumer confidence index to its second lowest level on record although the preliminary May US PMI Q1 surprised to the upside.
- A US federal court ruling that blocked Trump's tariffs from taking effect, though the ruling was later suspended by an appeals court.
- A downward revision in Q1 consumer spending, which added to the pressure, although signs of an easing US-China trade tensions helped support sentiment.

Overall, we expect the DXY to be volatile in the short term with key factors influencing the movement including Federal Reserve's policy stance, upcoming economic data releases and the outcome of the President Trump's Tariff Pause, which could introduce uncertainty and affect market sentiment.

Chart 1: The US Dollar Index

Source: Bloomberg, 3 June 2025

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-May-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.17	-8	-36
5Y	3.20	-20	-46
7Y	3.38	-17	-40
10Y	3.56	-13	-28
15Y	3.70	-14	-27
20Y	3.81	-11	-27
30Y	4.08	-2	-11

Source: Bond Pricing Agency Malaysia, 30 May 2025.

For the month of May, Malaysian Government Securities ("MGS") rallied across all tenures, with the yields in shorter tenures of 5Y and 7Y tenures falling in the high teens (by -20bps MoM and -17bps MoM respectively) versus the yields in longer tenures of 10Y, 15Y and 20Y that fell in the low teens (by -13bps MoM, -14bps MoM and -11bps MoM respectively), resulting in bull-flattening of the MGS yield curve from the previous month. The bullishness in the domestic bond market was a continuation of the rally from the previous month as the market increasingly priced in a potential 25bps rate cut in 2025 particularly as BNM's MPC statement on 8 May was interpreted as dovish, as well as a continuation of some diversification away from USD assets by global investors. However, the ringgit bond market was mixed in the last week of May, given the volatility in US tariff policy announcements in that week which saw some investor interest return to USD assets.

There were three sovereign bond/ sukuk auctions with a total size of RM10.0 billion in May, namely the new issue of the 5Y MGS with the issue size of RM5 billion on 15 May, followed by the new issue of the 15Y Malaysian Government Investment Issue ("MGII") with the issue size of RM5.0 billion on 30 May. The 5Y MGS attracted healthy demand with a bid-to-cover ratio ("BTC") of 2.13x though lower than the government bond auctions of c. 3.0x seen in the previous month; largely due to the yield being less compelling with the market having already priced-in expectations a 25bps rate cut this year. The 20Y MGII auction saw better-than-expected BTC of 3.32x as interest in the government bond primary market picked-up, with investors continuing their gradual extension of duration in the ringgit bond market.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increase by 8.11% MoM to RM20 billion (April: RM18.5 billion). April 2025 saw net foreign inflow of RM10.2 billion into ringgit bonds, the largest monthly foreign inflow since July 2023. The large foreign inflow was attributed mainly to investors positioning for a 25bps cut this year by BNM and some of the inflow could have come from diversification away from US assets.

Some notable domestic corporate issuances in May included RM400 million of AEON Credit Senior Sukuk (AA3), RM750 million of Maybank Subordinated Sukuk (AA1), RM1 billon of Maybank Islamic Perpetual Sukuk (AA1), RM300 million of Malayan Cement IMTN (AA1) and RM575 million of PKNS IMTN (AA1). The 3Y, 5Y, 7Y and 10Y generic AAA corporate yield ended the month at 3.59% (-7bps MoM), 3.63% (-8bps MoM), 3.68% (-10bps MoM) and 3.75% (-11bps MoM) respectively.

Strategy

Market Outlook

Malaysia's fixed income market remains resilient amid expectations of an Overnight Policy Rate (OPR) cut in July 2025. Despite rate cut expectations already being priced in, bond yields remain stable with sustained demand and no signs of selling pressure. Corporate bond markets continue to attract strong interest, with tight spreads reflecting confidence in domestic credit quality. The Ringgit outlook is constructive, providing support for capital inflows with a weakening US dollar. The MYR is supported by improving fundamentals and global appetite for emerging market ("EM") currency exposure. Domestically, liquidity conditions are healthy, and bond auctions have been well-bid.

Market expectations are also supported by easing inflation and the broader global trend toward monetary easing. Core inflation has softened toward the lower end of BNM's target range, providing room for policy adjustment. Meanwhile, domestic growth remains solid, underpinned by a rebound in tourism, stable employment, and proactive fiscal measures.

Duration and Curve Positioning

- Maintain moderately long duration posture. Most of the near-term easing is already priced in, so further gains will come from carry and roll-down.
- Monitor the curve for flattening opportunities, particularly if BNM signals a more aggressive dovish stance with potential of a second rate cut later in the year.

Tactical Asset Allocation

- Maintain overweight positioning in high-grade corporate bonds.
- Exercise caution in government bonds; current tight spreads vs OPR leave little room for further yield compression. Risk if BNM surprises with a hold in July – could lead to temporary bond weakness.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	30-May-25	MoM	YTD
S&P 500 Index	5,911.69	6.15%	0.51%
Nasdaq Index	19,113.77	9.56%	-1.02%
MSCI Europe Index	183.40	3.92%	7.96%

Source: Bloomberg, 30 May 2025.

The S&P 500 Index rose by 6.15% MoM in May rebounding from a weak April as investors shook off trade war fears. The month's rally was bolstered in part by an early May trade deal between the US and the UK, which raised hopes for similar agreements with other nations currently facing tariffs. Stocks had received a boost at the end of the month after the Court of International Trade blocked most of President Trump's tariffs on legal grounds, but that rally lost steam as traders bet the White House would aggressively appeal and pursue another strategy.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 3.92% MoM in May as investors capitalised on President Trump's decision to postpone tariffs on the EU, opening the door for a trade deal with the US and recent US fiscal concerns that sent investors flocking to assets outside of the US. Europe's aerospace and defence index was the top sector for the month, up about 14%, as dimming hopes of a truce between Russia and Ukraine persuaded investors to buy aerospace and defence stocks.

Asia Pacific Equity Index Performance

Index	Index level	May-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	753.75	5.00%	7.05%
FTSE ASEAN	852.69	2.65%	-0.80%
CSI 300 INDEX	3,840.23	1.85%	-2.41%
KOSPI INDEX	2,697.67	5.52%	12.43%
HANG SENG INDEX	23,289.77	5.29%	16.10%
S&P BSE SENSEX INDEX	81,451.01	1.51%	4.24%
TAIWAN TAIEX INDEX	21,347.30	5.50%	-7.33%

Source: Bloomberg, 30 May 2025.

Chinese onshore equities rose 1.90% MoM amid abundant domestic liquidity with The People's Bank of China ("PBoC") cutting policy rates and Reserve Requirement Ratio ("RRR") on 8 May, and eased concerns over geopolitical tensions following the better-than-expected US-China Economic and Trade Meeting in Geneva over 10-11 May. Industrial production moderated to 6.1% YoY in April from 7.7% in March. Retail sales rose 5.1% YoY in April or down 0.9% MoM vs. +2.6% MoM in March) with ongoing support from a trade-in policy. Hang Seng Index rose 5.3% MoM amid Initial Public Offering in Hong Kong ("HK IPO") revival, a sharp fall in the Hong Kong Interbank Offered Rate ("HIBOR") and Macau gaming shares rallying on improving Gross Gaming Revenue ("GGR") and attractive valuation. A lower HIBOR helps to cut households' mortgage payments and enterprises' financing costs. Southbound recorded HKD46 billion net inflows in May (vs. HKD167 billion net inflows in April).

The South Korea's Korea Composite Stock Price Index ("KOSPI") rose 5.50% MoM amid moderation in tariff concerns and resultant US recession risks, as well as renewed optimism around Artificial Intelligence ("AI") capex. Late in the month, Korean market also started to price in the implications of a potential unified government following Presidential elections this week. In particular, the likelihood of a Commercial Code revision led to a narrowing of Holdco discounts. Industrial production decreased by 0.9% MoM in April following a 2.9% increase MoM in March which suggests a technical correction. The Taiwan Stock Exchange Corporation ("TWSE") index rose 5.50% MoM amid Taiwan Dollar ("TWD") appreciation and easing tariff concerns. Taiwan's manufacturing PMI fell rather notably by 2.0-pt to 47.8 in April (from 49.8 in March), the first monthly decline in 2 years. It reflects the immediate drag from the US reciprocal tariffs announced in early April (despite the 90-day pause) and weakening external demand.

Taiwan's April industrial production beat expectations notably, rising 22.30% YoY (consensus expectations: 13.90%). The sharp jump in April tech production likely reflects front-loading of exports and production (especially considering the temporary tariff exemption on semiconductors and electronics products), in addition to ongoing underlying strength in AI and High-Performance Computing related tech demand.

India equities rose 1.50% MoM driven by de-escalation between India and Pakistan, a pickup in economic momentum, relentless foreign institutional investors buying, India-UK Free Trade Agreement ("FTA"), record Reserve Bank of India (RBI) dividends and easing inflation. RBI approved the transfer of INR2.7 trillion (0.70% of GDP) as annual dividends (versus last year's dividend of INR2.1 trillion, 0.6% of GDP). April CPI came in at 3.20% YoY (consensus 3.20%), softening a tad from 3.30% YoY in March.

ASEAN Equity Index Performance

Index	Index level	May-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,894.61	1.62%	2.83%
JAKARTA COMPOSITE INDEX	7,175.82	6.04%	1.35%
STOCK EXCH OF THAI INDEX	1,149.18	-4.02%	-17.93%
PSEi - PHILIPPINE SE IDX	6,341.53	-0.21%	-2.87%
HO CHI MINH STOCK INDEX	1,332.60	8.67%	5.20%
FTSE Bursa Malaysia KLCI	1,508.35	-2.07%	-8.16%

Source: Bloomberg, 30 May 2025.

The Straits Times rose in May 2025, driven by strong export growth and moderated inflation. Singapore's Non-Oil Domestic Exports ("NODX") surged 12.40% YoY in April, with electronics exports leading the gains, while core inflation rose slightly to 0.70% YoY. The 1Q2025 earnings season was mixed, with transport and consumer sectors outperforming, and institutional investors showing interest in industrials and telcos. Several privatisation offers and property divestments also marked notable corporate activity during the month.

The Stock Exchange of Thailand ("SET") index dropped in May 2025, pressured by stalled US tariff talks and domestic political tensions. Despite a 3.1% YoY GDP growth in 1Q2025, driven by strong exports and public investment, market sentiment remained weak. Corporate earnings were flat YoY but rose 40% QoQ, with positive surprises in banks and electronics, though forward Earnings Per Share ("EPS") was slightly downgraded. Foreign investors continued to sell, while retail investors remained net buyers, and upcoming Environmental, Social and Governance ("ESG") fund flows may offer limited support in the near term. The Jakarta Composite Index rose in May 2025, supported by strong foreign inflows into both equities (US$337 million) and government bonds (US$1.3 billion). Sector-wise, metals, building materials, and coal led gains, while technology and toll roads lagged. Notable stock moves included INCO (+43% MoM) on ore sales optimism and GOTO (-25%) following merger denial by Grab. The Philippines Composite Index drifted lower in May 2025 as the 1Q2025 GDP growth picked up slightly to 5.40% YoY and Q1 corporate earnings were broadly below expectations. In the mid-term elections, the ruling administration lost its stronghold in Congress with only 6 senators (of 12) winning seats.

The Vietnam stock market rebounded strongly in May 2025 from the steep drop in previous month as the country plans to strengthen compliance with US concerns including tightening the issuance of certificate of origin and supply chain transparency. Vietnam is also accelerating public investment particularly in infrastructure to offset trade impacts and is diversifying its export markets.

Malaysian Equities

The FTSE Bursa Malaysia KLCI (“FBM KLCI”) declined 2.10% MoM in May, YTD -8.20%. Market sentiment was initially optimistic, following news that China and the US had agreed to roll back tariffs. However, persistent disappointments from 1Q2025 corporate earnings and a lack of forward earnings visibility amid tariff uncertainties dampened sentiment.

Malaysia’s FTSE Bursa Malaysia Mid 70 Index (“FBM70”) and FTSE Bursa Malaysia Small Cap Index (“FBMSCAP”) lost 1.10% and gained 1.60% MoM respectively. Construction and Property were the best performing sectors, gaining 9.00% and 3.80% MoM, respectively. On the other hand, Healthcare and Consumer were the worst performing sectors, with losses of -5.20% and -4.20% respectively. The top three best performers in FBM KLCI components stocks were Gamuda (12.80%), Petronas Gas (6.80%) and Sunway (5.60%), while the worst performing stocks were Sime Darby (-17.90%), Nestle (-6.70%) and QL Resources (-6.40%).

Foreign institutional investors were net buyers of RM1.0 billion worth of equities in May 2025, YTD net outflow of RM10.8 billion. Local institutional investors were net sellers of RM1.0 billion worth of equities in May 2025. Average Daily Value traded was RM2.5 billion, up 12.00% MoM.

Strategy

Despite President Trump’s 90 day pause on reciprocal tariff (to expire in July) and the May ruling by the Court of International Trade’s against President Trump’s tariffs, uncertainty over medium term tariff structure may continue to disrupt business planning and affect economic growth. Bank Negara Malaysia, following the release of 1Q2025 GDP, now expects 2025 GDP growth to come in slightly below the earlier forecast of 4.50-5.50%.

The May reporting season has been disappointing, with the ratio of earnings beat to earnings miss deteriorating from 1.1x (i.e more earnings beats than misses) to 0.4x. Sectors that missed expectations include automotive, oil and gas and property—i.e. cyclical sectors dependent on economic growth. Subsequently, market earnings and FBM KLCI targets have been cut.

We expect volatility to remain as investors navigate Trump 2.0, coupled with potential announcements (such as details of the electricity tariff hike scheduled for 1 July 2025) and political developments. Domestic portfolios continue to be positioned into dividend yielding stocks and domestic-driven sectors.
While the US tariff rhetoric has ratcheted down in recent weeks, we maintain our cautious view on US equities as the fading of US exceptionalism, triggered by President Trump’s erratic trade policies, will likely result in continued weakness in both the USD and equities. In Asia, we maintain our investment preference for sectors benefiting from domestic demand and high-yielding markets, given concerns about a global trade slowdown. We are cautiously optimistic on Hong Kong/China markets, as we expect continued stimulus from the Chinese government.

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