Market Review & Outlook
August 2025
(as at 31 July 2025)

Overview

At its 30 July 2025 meeting, the Federal Reserve ("Fed") kept the federal funds rate unchanged at 4.25% to 4.50% level, maintaining the target range unchanged since December 2024. For the first time since 1993, there were two board members dissenting the monetary policy decision. While the monetary policy statement was dovish, the Fed Chairman Jerome Powell struck a hawkish note at the press conference saying that "almost the whole committee" believes the economy "is not performing as if restrictive policy is holding it back inappropriately."

The United States ("US") saw a disappointing labour market report with Non-Farm Payrolls adding only 73,000 jobs in July 2025 missing consensus estimate of 105,000; while numbers for the previous two months were also significantly revised down to 14,000 for June 2025 (previous estimate: 147,000) and to 19,000 for May 2025 (previous estimate: 139,000) versus 157,000 in April 2025. However, the lower Non-Farm Payrolls, have not translated to wider unemployment that remains low at 4.25% for July 2025 (June 2025: 4.12%).

Following the downside surprise in Non-Farm Payrolls; US President Donald Trump announced that he had ordered the removal of the Commissioner of the Bureau of Labor Statistics. The move has raised criticism from the capital markets on the independence of statistics bodies and the future credibility of government data.

Advance estimate of Quarter 2 2025 ("2Q2025") Gross Domestic Product ("GDP") saw upside surprise at 3.00% quarter-on-quarter ("QoQ") annualised beating consensus expectation of 2.60% QoQ annualised and a turnaround from -0.50% year-on-year ("YoY") QoQ annualised in Quarter 1 2025 ("1Q2025"). However, the underlying data showed weaker domestic momentum as final sales to private domestic purchasers cooled to 1.10% QoQ annualised (1Q2025: 1.50% QoQ annualised). The strong 2Q2025 estimate has been largely attributed to a steep drop in goods imports, after businesses frontloaded purchases earlier in the year ahead of tariff deadlines.

Latest US Consumer Price Index ("CPI") inflation in June 2025 picked up to 2.70% YoY (May 2025: 2.40% YoY) marginally beating consensus expectation of 2.60% YoY, mainly due to base effects. Core-CPI inflation also ticked-up marginally at 2.90% YoY in June 2025 from 2.80% YoY in May 2025. Tariff costs pass-through has risen with Bloomberg calculating the pass-through coefficient at 0.28 for June 2025 (every 1% of tariff shock translates to 0.28% increase in CPI) from 0.20 for May 2025. In June 2025, prices of tariffed items; men's apparel, appliances, audio equipment and furniture saw some acceleration in price increases.

In the Eurozone, the European Central Bank ("ECB") kept policy rates unchanged at its 24 July 2025 meeting, with the ECB Deposit Rate at 2.00%, ECB Main Refinancing Rate at 2.15% and ECB Marginal Lending Rate at 2.40%. The decision was in-line with market consensus and ECB guidance that the cut at its previous meeting on 5 June 2025 marked the end of its easing cycle. However, in its press release the ECB Governing Council left open the possibility of additional cuts, without committing to them. The tariff levels from the latest "deal" with the US are expected to weigh on Europe ("EU") growth with an additional 0.30% drag on GDP particularly from the unchanged 25% US import tariffs on pharmaceutical goods. Given the slower growth, inflation is now likely to drop below EU baseline estimates of inflation just under 2.00%. The futures market is pricing another 25 basis points ("bps") cut from the ECB this year, but without firm conviction as to when the cut will occur.

Malaysia

Malaysia's economy showed signs of moderation in 2Q2025, with GDP growth estimated at 3.70% YoY, down from 4.20% in 1Q2025, reflecting softer external demand and a slowdown in private consumption. Manufacturing output was mixed, with resilience in electrical and electronics ("E&E") exports partially offset by weakness in commodity-related sectors. Services and construction remained key growth drivers, supported by tourism recovery and ongoing infrastructure projects.

Headline CPI moderated further to 2.10% YoY in June 2025 (from 2.30% in May 2025), driven by lower food and transport inflation. Core inflation stayed benign at 1.80%, reflecting contained domestic demand pressures despite subsidy rationalisation in selected sectors.

Bank Negara Malaysia ("BNM") cut the Overnight Policy Rate ("OPR") by 25 bps to 2.75% in July 2025, citing downside risks to growth and the need to preserve domestic demand momentum. Forward guidance remains data-dependent, but a prolonged easing cycle is unlikely unless external conditions deteriorate significantly.

On the external sector, Malaysia posted a narrower trade surplus in June 2025, as export growth slowed to 2.50% YoY, affected by softer global electronics demand. Import growth also eased, suggesting slowing domestic investment and inventory rebuilding. The current account remains in surplus, supported by resilient services exports and income from abroad.

The Malaysian Ringgit ("MYR") appreciated modestly in July 2025, trading around MYR4.55/USD, supported by weaker United States Dollar ("USD") sentiment and expectations of further Fed easing. Foreign inflows into the bond market picked up post-OPR cut, with non-resident holdings of Malaysian Government Securities ("MGS") and Government Investment Issue ("GII") increasing slightly.

Fixed Income

US Treasury Market Overview

The US Treasury ("UST") curve bear flattened in July 2025 with the 2-year yield went up by 23.8bps and 10-year yield and 20-year yield up by as longer fiscal concerns. In the first half of the month the UST yields rose, and bear steepened on concerns of US fiscal position (signing of the One Big Beautiful Bill) and better than expected June 2025 employment report. Treasuries sold off on inflation concerns after renewed tariff threats. The 10 years hit a high of 4.48% following the release of the June 2025 CPI at 0.30% (12-month inflation 2.70%) and core inflation at 0.20% (12-month inflation 2.90%).

Yields recovered in the second half of the month as US Producer Price Index ("PPI") for June 2025 remained unchanged (expected: 0.20% increase), indicating limited tariff impact on wholesale prices, and safe-haven demand nearing the 1 August 2025 deadline. However, the recovery eased near the end of the month with the unwinding of safe-haven trades as tariff fears eased, the resilience in the 2Q2025 US real GDP growth of 3.00% and the Federal Open Market Committee ("FOMC") maintaining the interest rate at 4.25% - 4.50%. Fed chair Jeremy Powell's hawkish statement that it is too soon to say if the Fed will cut the overnight policy rate in the next meeting given the still-strong US job market and the higher-than-targeted inflation led to a larger jump in short-end of the curve just before the month ended. The 10-year to 2-year spread fell from 50.8bps 41.7bps in the month.

US Treasury Yields

US Treasury Tenor	31-Jul-25 (%)	Net Change Month-on-month ("MoM") (bps)	Net Change Year-to-date ("YTD") (bps)
1-year	4.09	+12.50	-5.10
2-years	3.96	+23.80	-28.50
5-years	3.97	+17.50	-41.00
7-years	4.16	+16.60	-32.30
10-years	4.37	+14.60	-19.50
20-years	4.90	+12.10	3.70
30-years	4.90	+12.60	11.90

Source: Bloomberg, 1 August 2025.

The 10-years UST yield is expected to remain in the range of 4.30% – 4.40% and expectations are for two rate cuts in the Fed Funds Rate in 2025.

Asian Bond Indices Performance

Markit Asian USD Index	31-Jul-25 (%)	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	145.50	0.48%	4.75%
Asian Dollar IG Index	146.80	0.40%	4.61%
Asian Dollar HY Index	136.80	1.20%	5.25%
Asian Dollar Corp Index (ex-banks)	147.80	0.46%	4.70%

Source: Bloomberg, 1 August 2025.

Asian dollar indices posted gains in July 2025 despite a bearish flattening of the UST curve, driven by concerns over the US fiscal deficit and potential tariff impact on US inflation. Strong demand was supported by improved sentiment after Japan, the Philippines, Indonesia, and South Korea reached or announced trade frameworks with the US, easing tariff concerns.

The rally was led by the Asian Dollar High Yield ("HY") Index which jumped 1.20% MoM, followed by the Asian Dollar Index with a 0.48% MoM gain and Asian Dollar Corporate (ex-banks) Index with a 0.46% MoM gain.

The Asian dollar bonds performance by country all ended the month in positive territory. The top three gainers by sequence were Indonesia (0.80% MoM), Thailand (0.74% MoM), and India (0.69% MoM).

The United States Dollar Index

The United States Dollar Index ("DXY") gained 3.19% MoM to close at 100.06 in July 2025. The DXY advanced steadily in the first half of the month, reaching 98.62 level on 15 July 2025, as stronger-than-expected Non-farm Payrolls and US June CPI data further reinforced market expectations that Fed would delay a rate cut at the July 2025 meeting. The greenback then consolidated gains as investors reassessed US inflation outlook and policy trajectory. Toward the end of the month, the DXY strengthened further after the Fed maintained the Fed Funds rate as expected and reports emerged that the US and China were likely to extend their trade truce deadline beyond 12 August 2025, easing near term trade uncertainty and reinforcing support for the dollar.

Overall, we expect the DXY to trade rangebound in the short term, with key factors influencing market sentiment including Federal Reserve's policy stance, incoming economic data releases, and the outcome of the President Trump's Tariff policy negotiations, all of which could affect market sentiment and positioning.

Chart 1: The United States Dollar Index

Source: Bloomberg, 1 August 2025

Malaysian Bond Market

MGS Benchmark Tenors	31-Jul-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.08	-7.3	-44.5
5Y	3.17	-2.9	-48.1
7Y	3.35	-5.6	-42.5
10Y	3.38	-9.7	-46.2
15Y	3.65	-5.0	-33.4
20Y	3.77	-3.2	-30.1
30Y	3.91	-15.6	-28.1

Source: Bond Pricing Agency Malaysia, 31 July 2025.

On 9 July 2025, BNM delivered the widely expected 25bps cut to the OPR, lowering it to 2.75% level. The rate cut occurred after the central bank had held the OPR steady for 12 consecutive meetings since May 2023 and with the 100bps reduction in the statutory reserve requirement ("SRR") implemented in May 2025. The pre-emptive OPR decision reflected BNM's focus to preserve Malaysia's steady growth path amid continued challenges from global environment.

Malaysia's fixed income market generally traded firmer for the month, with the MGS yield curve forming a bull-flattened shape. Ultra-long government bonds rallied strongly since mid-July 2025, with yields declining by 16bps MoM, while short to medium tenure government bonds also rallied, albeit at a slower pace with yields falling between 3bps to 7bps MoM. The positive momentum in domestic fixed income market is generally the reflection of the easing monetary policy and cautious but stable investment sentiment amid a moderate economic growth outlook.

There were three sovereign bond /sukuk auctions with a total size of RM15.0 billion in July 2025, namely the (1) Re-opening of the 7-year Malaysia Government Investment Issuance ("MGII") with the size of RM5.0 billion, followed by (2) New issuance of the 30-year MGS with the size of RM5.0 billion, and (3) Re-opening of the 10-year MGII with the issue size of RM5.0 billion. Auctions demand remained healthy with bid-to-cover ("BTC") ratios recorded at 2.92x and 2.73x, respectively, for both 7-year MGII and 10-Year MGII re-openings, while the 30-year MGS new issuance garnered a moderate BTC of 2.00x, due to the rich valuation.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increased by 14.60% MoM to RM22.8 billion in July 2025 (June 2025: RM19.9 billion). Meanwhile, local bond market saw an outflow of foreign funds totalling RM5.4 billion, after a significant inflow of RM13.4 billion in the previous month. The outflow predominantly came from MGS and GII which recorded a net outflow of RM2.9 billion and RM2.4 billion, respectively.

Some notable domestic corporate issuances in July 2025 included RM750 million of United Overseas Bank (Malaysia) Berhad (AA1), RM250 million of Perbadanan Kemajuan Negeri Selangor (AA1), RM500 million of DRB-Hicom Berhad (AA3), RM250 million Gas Malaysia Distribution Sdn Berhad (AAA), RM1.0 billion of Bank Islam Malaysia Berhad (AA3), and RM260 million of Kimanis Power Sdn Berhad (AAA). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.54% (-6bps MoM), 3.59% (-5bps MoM), 3.64% (-4bps MoM) and 3.70% (-4bps MoM) respectively.

Strategy

The macro environment is expected to remain supportive of bonds, especially as inflation stays contained and policy turns more accommodative. Downside risks include further global slowdown, geopolitical tensions, and unexpected volatility in commodity prices. Domestic demand will continue to anchor growth, supported by fiscal spending and targeted cash assistance measures under the 13th Malaysia Plan.

We maintain our overweight duration strategy for all portfolios to position for further yield compression as monetary policy eases. We favour positioning in the belly of the curve (5–7 years) to capture potential curve flattening and benefit from roll-down strategies.

We prefer high-grade bonds i.e. AAA and AA names, for the yield pickup with potential for further spread tightening. Credit selection remains critical, with a focus on defensive sectors and issuers with robust balance sheets and recurring cash flows, particularly in utilities, infrastructure, and select financials.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	31-Jul-25	MoM (%)	YTD (%)
S&P 500 Index	6,339.39	2.17	7.78
Nasdaq Index	21,122.45	3.70	9.38
MSCI Europe Index	182.04	0.66	7.16

Source: Bloomberg, 1 August 2025.

The Standard & Poor's ("S&P") 500 Index rose by 2.17% MoM in July 2025 on solid earnings from Microsoft and Meta Platforms. Shares of Microsoft soared 4.40% after it posted better than expected results. Meta Platforms stock climbed 12.10% to an all-time high due to forecasting third quarter revenue well above Wall Street estimates. A Commerce Department report showed US inflation increased in June 2025 as tariffs on imports started raising the cost of some goods, supporting economists' expectations that price pressures would pick up in the second half of the year. US Federal Reserve Chairman ("Fed Chair") Jerome Powell also diluted investor expectations for an interest rate cut in September 2025 after the Central Bank kept rates unchanged.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 0.66% MoM in July 2025 primarily due to positive developments in trade relations, particularly the US-EU trade deal announced on 28 July 2025, which alleviated tariff uncertainty and boosted investor sentiment. This was complemented by strength in domestically oriented sectors such as industrials and financials, which benefited from Europe's fiscal stimulus programs such as Germany's infrastructure spending and lower exposure to U.S. tariffs. The eurozone hitting the ECB's 2.00% inflation target and improving Purchasing Managers' Index ("PMI") readings also underpinned investor confidence.

Asia Pacific Equity Index Performance

Index	Index level	31-Jul-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	814.74	2.27%	15.72%
FTSE ASEAN	891.17	3.99%	3.68%
CSI 300 INDEX	4,443.53	3.02%	6.12%
KOSPI INDEX	3,245.44	5.66%	35.26%
HANG SENG INDEX	24,773.33	2.91%	23.50%
S&P BSE SENSEX INDEX	81,185.58	-2.90%	3.90%
TAIWAN TAIEX INDEX	23,542.52	5.78%	2.20%

Source: Bloomberg, 31 July 2025.

Chinese onshore equities rose 3.00% MoM with continuously improving liquidity, solid 2Q25 real GDP growth at 5.20% YoY and expanded policy support, both on the supply side (anti-involution) and the demand side (launch of the Yarlung Tsangpo hydropower project and an annual subsidy of RMB3,600 per child aged 0-3). Hang Seng Index rose 2.90% MoM amid continued US-China trade talks, solid southbound inflows, biotech's out-licensing deals and the anti-involution policy lifting value stocks in Energy and Materials for potential pricing and profit turnarounds. Southbound recorded HKD136 billion net inflows in July 2025 (versus HKD80 billion net inflows in June 2025).

South Korea's KOSPI rose 5.70% MoM in July 2025 due to continued rerating after the Commercial Code Amendment passed smoothly earlier in the month and that trade negotiations with the US also progressed through the month, resulting in Korea tariffs settling at 15.00% by the 1 August 2025 deadline, similar to levels applied on Japan. The Bank of Korea maintained the base policy rate at 2.50% signalling a cautious approach to further rate cuts. With 100bps already cut, the Bank of Korea is focusing on financial stability particularly in the housing market, while balancing GDP growth concerns. Taiwan's TWSE index rose 5.80% MoM due to the ongoing Artificial Intelligence ("AI") enthusiasm globally as Taiwan Semiconductor Manufacturing Company ("TSMC") lifted its outlook. Taiwan's June 2025 industrial production fell 3.10% MoM led by an 8.40% drop in tech industrial production, particularly electronics while non-tech industrial production rose. This decline reflects manufacturers' caution and US tariff negotiation uncertainties.

India equities corrected 2.90% MoM driven by a sluggish start to the ongoing earnings season, notably capital market activity, uncertainty around tariffs throughout the month before a 25.00% tariff plus penalty announcement on 30 July 2025, negative foreign institutional investor flows, International Normalized Ratio ("INR") depreciation and oil price spike. CPI for June 2025 came in at 2.10% YoY, easing from 2.80% in May 2025. June industrial production was in line with expectations, growing at 1.50% YoY on the back of an upwardly revised 1.90% in May 2025 (previously 1.20%). Composite PMI in July 2025 fell to 60.7 from a 14-month high of 61 in June 2025.

ASEAN Equity Index Performance

Index	Index level	31-Jul-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	4,173.77	5.28%	10.20%
JAKARTA COMPOSITE INDEX	7,484.34	8.04%	5.71%
STOCK EXCH OF THAI INDEX	1,242.35	14.02%	-11.27%
PSEi - PHILIPPINE SE IDX	6,252.73	-1.76%	-4.23%
HO CHI MINH STOCK INDEX	1,502.52	9.19%	18.61%
FTSE Bursa Malaysia KLCI	1,513.25	-1.29%	-7.86%

Source: Bloomberg, 31 July 2025.

The Straits Times Index rose in July 2025 with the tariff uncertainty removed with the US government finalizing a 10.00% tariff rate for Singapore. The Singapore government has also appointed the fund managers to receive the first tranche of SGD1.1 billion out of the USD5 billion equity market development program, aimed at reviving investors' interest especially in the small-to-mid-cap companies. The Thai SET Index saw a sharp rebound in July 2025 and was the outperformer in the region. The rally came on the back of a lower-than-feared tariff finalized by the US, return of foreign flows and central bank rate cut. The Vietnam stock market continued to strengthen in July 2025 driven by tariffs clarity as the country's 20.00% tariff imposed by the US is in line with the regional peers such Thailand and Malaysia.

The Jakarta Composite Index rose in July 2025 driven mainly by a few companies. Bank Indonesia ("BI") surprised the market by cutting the policy rates from 5.50% to 5.25%, while also lowering the deposit and lending facility rates to 4.5% and 6.0% respectively. BI hinted their pro-growth stance, anchored on the view that US tariffs are negative for global growth. Meanwhile, the Philippines Composite Index ended the month of July 2025 with a negative return, dragged by the banks, which reported strong loan growth and net interest margins ("NIMs") but higher provisions and operating expenses weighed down earnings.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") declined 1.40% MoM in July 2025, YTD -7.9%. FBM KLCI decline was likely driven by concerns over the impending increase in US tariffs on Malaysian goods.

Malaysia's mid and small cap index gained 1.30% and 2.80% MoM respectively. Construction and Real Estate Investment Trusts ("REITs") were the best performing sectors, both gaining 4.20% MoM. On the other hand, Healthcare and Finance were the worst performing sectors, with a loss of 3.30% and 2.80% respectively. The top three best performers in FBM KLCI components stocks were Axiata Group (16.90%), Nestle (14.80%) and Petronas Chemicals (11.00%), while the worst performing stocks were Tenaga Nasional Berhad (-9.50%), PPB Group Berhad (-8.30%) and QL Resources Berhad (-7.60%).

Foreign institutional investors were net sellers of RM940 million worth of equities in July 2025, YTD net outflow of RM13.1 billion. Local institution investors were net buyers of RM48 million equities. Average daily value traded was RM2.4 billion, up 11.0% MoM.

Strategy

The recently announced tariff of 19.00% for Malaysia, on par with most ASEAN peers coupled with measures proposed under the 13th Malaysia Plan are overall positive for the equity market in sustaining economic growth and domestic consumption, while adhering to a fiscal consolidation path. Strategy wise, we view the 13th Malaysia Plan as a significant driver to Malaysia's growth over the next 5 years. Whilst we are positive about the proposed initiatives, implementation is key with the beneficial impact stretched over the coming years

In addition, local market sentiment is likely to be affected by results season in August 2025 with company earnings that meet, beat or below market expectations dictating share price direction. Domestic portfolios continue to be positioned into dividend yielding stocks and domestic-driven sectors.

We expect continued volatility in global equity markets as US tariffs begin to impact consumer prices and corporate earnings in the second half of 2025. The resilient growth seen in the first half was largely driven by front-loading activities ahead of tariff implementation, which is likely to fade in the coming months. As such, we maintain a cautious stance on US equities, given elevated valuations and increasing macro headwinds.

Our preference remains with Asia equities, supported by stable inflation, a robust technology sector, and the return of foreign inflows. We expect Chinese equities market to remain supported by ongoing government stimulus and reforms. Meanwhile, economies such as Korea and Taiwan are benefiting from strong global demand for semiconductors and AI-related technologies. We continue to favour sectors driven by domestic demand and high-yielding markets, which offer resilience amid concerns over a potential slowdown in global trade.

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