June 2025

Monthly Market Outlook

What's Next?

Summary

- **Modest uplift in May-25's global PMI, although manufacturing deteriorated.** The JPM Global Composite PMI rose to 51.2 in May-25, from 50.8 in Apr-25. Output and new orders accelerated from near one-and-a-half year lows and business optimism picked up after sinking to its lowest level since May-20. However, the JPM Global Manufacturing PMI fell to 49.6 in May-25 from 49.8 in Apr-25, to indicate a worsening of overall business conditions for a second month. There were marked variations in performance amongst the major economies, notably in relation to the impact of tariffs. Canada and Mexico reported the steepest output declines, with production and exports also falling solidly in mainland China. In contrast, Eurozone producers reported a further increase in output.
- **APAC market review – The MSCI APAC Index rose 5% in May, extending its rebound from the sharp April correction sparked by US tariff fears.** This brought its YTD gain to 8%, positioning the region as one of the better-performing equity markets. Easing concerns over tariff escalation and renewed enthusiasm for AI-related capex were the main catalysts. AI optimism reaccelerated after Microsoft and Meta reaffirmed their capex plans in late April. This was further supported by the Trump administration's reversal of a proposed AI diffusion rule that would have curbed the export of advanced chips - removing a major overhang for the technology sector.
- **Local equity review – The FBM KLCI index fell 2% in May, bringing its YTD decline to 8%.** This made Malaysia a laggard in the region. Gains earlier in the month were more than wiped out in the second half, as corporate earnings came in softer than expected. Sentiment was further dampened by the MSCI index rebalancing on 30 May, which saw Malaysia's weight in the index reduced. Still, there were some bright spots. Companies linked to data centres were among the top gainers for the month. This was helped by the Trump administration's move to reverse a proposed rule by the Biden administration that would have restricted the export of advanced chips - a decision that boosted the prospect for selected construction, property, technology companies with data centre exposure. Meanwhile, Bank Negara Malaysia cut banks' statutory reserve requirement from 2% to 1%, releasing RM19bn of liquidity into the system. This is a positive step that will support lending activity despite market volatilities.
- **Bond market review – For May, the US Treasuries saw sharp sell-offs amid stronger-than-expected April non-farm payroll data, a hawkish Fed and tariff news.** Furthermore, fears of US debt resurfaced on Trump's proposed tax-cut which is expected to add some USD3.8trn on national debt over 10 years. Besides, Moody's downgrade of the US sovereign rating to Aa1 from AAA - 13 years after S&P also added salt to the wound. In contrast, local yields saw some rallies were driven by expectations of OPR cut post-SRR cut alongside subdued inflation print of 1.4% in April (Cons/Prev: 1.4%).
- **Macro – Concerns surrounding tariff, de-dollarisation and bond glut in developed markets.** The ongoing trade truce and the legality of tariff imposed by the Trump Administration is being challenged in the US courts, have deterred general business expansion, thus adding to extra economic headwinds as we approach 2H25. In response to these uncertainties, major central bankers globally have taken pre-emptive monetary policy measures, except for the Fed, to ease economic slowdown in the respective countries. Furthermore, ongoing policy uncertainty and fiscal concerns likely skew negative for flow towards the US assets, reflecting the US growth and inflation risks ahead.

June 2025

- **Local equity outlook – The ongoing uncertainty around US tariffs remains a key overhang for Malaysia's equity market.** More importantly, the 12 May agreement between the US and China to sharply reduce bilateral tariffs marks a welcome de-escalation. The rollback offers a signal that economic pragmatism could guide future policy decisions. On the domestic front, we continue to monitor key policy developments, particularly around the RON95 fuel subsidy rationalisation and electricity tariff revision. Although short-term headwinds persist, market volatility can offer good entry points. Anecdotal evidence suggests that local institutional investors are holding elevated levels of cash, signalling that a sentiment reversal could trigger a rapid recovery as the liquidity is deployed.
- **APAC equity outlook – While tariff policy uncertainty remains a global overhang, the temporary 90-day suspension of the US reciprocal tariff system has given markets breathing room.** During this period, the US maintains a 10% baseline tariff on imports. More importantly, the 12 May agreement between the US and China offer a signal that economic pragmatism could guide future policy decisions. Although short-term uncertainties persist, market volatility can offer good entry points for long-term investors.
- **Fixed Income outlook – The ultra-long yields among G4 nations have soared due to a host of domestic reasons.** As the BoJ "normalizes" interest rates, Japanese pension and insurance funds appear to be reassessing their duration, currency risk and appears to be retreating from overseas debt markets too, as soaring currency hedging costs due to rising yen volatility have turned effective yields on many foreign bond holdings negative. Labour data in the US has seen some slowing of-late while consumption and wages still looks stable. Hence, tariffs aren't fully biting and will not fully show up in May and June macroeconomic data due to the tariff pause. This means that the Fed would require more time and data to decide on policy action in 2H25. **Locally, we expect the MGS yields to be range-bound this month as the OPR cut probability in July will continue to support local yields**.

Etiqa Life Insurance Bhd (201701025113) Dataran Maybank, No.1 Jalan Maarof, 59000 Kuala Lumpur, Malaysia
T +603 2297 3800 | F +603 2297 3800 | E info@etiqa.com