Life Insurance

August 2025

Monthly Market Outlook

A Test On Real Economy With Tariff Set

Summary

- **Reversal in manufacturing gains amid acceleration in overall global growth.** The Jul-25 JPM Global Composite PMI rose to a seven-month high of 52.4 from 51.7 in Jun-25. However, data signalled a widening disparity between the performances of the manufacturing and service sectors. Global service sector output rose at the quickest pace since Dec-24 while worldwide manufacturing production fell for the second time in the past three months. Simultaneously, business optimism dipped to a three-month low leading to muted hiring activity in Jul-25. The JPM Global Manufacturing PMI posted 49.7 in Jul-25 (Jun-25: 50.4), showing signs of a fading impact from the recent front-running of US tariffs alongside ongoing concerns about the underlying strength of economic conditions in the months ahead.
- **APAC market review – The continued momentum in the MSCI Asia-Pacific Index, rising 1% in July, reflects a broad improvement in investor confidence across the region.** Market sentiment has been supported by multiple trade agreements with the US that delivered lower-than-feared tariff rates, thereby easing uncertainty. From being one of the worst-performing markets in previous months, Thailand staged a strong rebound and became the best-performing market in July, returning around 14%.
- **Local equity review – The FBM KLCI index declined 1% in July, just ahead of the 1 August deadline for the US tariff decision.** Malaysia continued to underperform as regional equity markets, particularly in ASEAN, posted gains on growing optimism around trade negotiations with the US. Notably, despite the KLCI's decline, 10 out of Bursa Malaysia's 13 sector indices ended the month higher. The benchmark index was dragged by the heavyweight financial sector, where bank share prices remained under pressure from foreign outflows amid high foreign shareholding and lingering macro uncertainties. In contrast, small-cap stocks outperformed, with the Small Cap Index rising 3% in July.
- **Bond market review – As widely expected, BNM cuts the OPR by 25bps to 2.75%. BNM has also revised GDP growth lower for 2025 to 4.0%-4.8%** (Prev: 4.5%-5.5%) on risks from shifting trade policies and uncertainties surrounding tariff developments, as well as geopolitical tensions. Headline inflation was also revised lower to 1.5%-2.3% (Prev: 2%-3.5%) in 2025. As such, local yields declined with the 3Y and 10Y MGS closing in at 3.08% and 3.38%, respectively.
- **Macro – Declining trend in US payroll growth and falling Chinese new export orders.** Softer-than-expected jobs added in the US in Jul-25 while more important was substantial downward revisions to job growth in the last two months. As such, the 3mth and 6mth moving average payroll growth declined sharply up to Jul-25. Signs of labor market slowing were cited by Governors Waller and Bowman as a key reason for dissenting from Jul-25 FOMC's decision and instead voting to lower rates. Separately, following a few months of tariff-driven front-running in exports, China's exports will face stronger headwinds in 2H25. Notably, ASEAN economies generally face 19-20% US tariff. None of the economies lose substantial competitiveness against other producers in the region, the tariffs are still a risk to trade volume.

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- **Local equity outlook – The US government has finalised a 19% tariff rate on Malaysian exports - lower than the earlier proposed 24-25% and broadly in line with other ASEAN peers. This clarity removes a key overhang for the Malaysian equity market.** Attention now turns to the upcoming announcement of sector-specific tariffs, especially on semiconductors - one of Malaysia's main exports to the US. While the broader market remains muted, several structural themes offer attractive opportunities. The recently tabled 13th Malaysia Plan (2026-2030), which involves total investment of RM 611bn, is expected to drive further growth in strategic sectors such as semiconductors and artificial intelligence. Domestic liquidity conditions also remain constructive. EPF member contributions continue to register double-digit growth, while local unit trust funds still hold elevated cash positions. These factors suggest a potential for the market to rebound as investor sentiment gradually improves.
- **APAC equity outlook – While the US has finalised tariffs for most countries, its trade policy remains a potential wild card, with sector-specific tariffs - particularly on semiconductors - yet to be confirmed.** This will be a key area to watch given Asia's central role in the global supply chain. Meanwhile, the US-China trade deal, currently in place for 90 days until 12 August, could be extended and potentially lifting sentiment. In contrast, the US has imposed additional tariffs on India in response to its purchase of Russian oil. Beyond trade tensions, effective domestic policy execution will be key to sustaining market outperformance. China is pressing ahead with supply-side reforms under its "anti-involution" policy to curb overcapacity. If global momentum for monetary easing continues to build, risk appetite is likely to sustain, attracting more capital into Asia Pacific.
- **Fixed Income outlook – Coming to early Aug-25, the weaker-than-expected US non-farm payroll has caused US Treasury yields to tumble as traders price-in for an imminent Fed rate cut in Sep-25 FOMC meeting.** Meanwhile, we expect the local govvy yields to edge up from current levels on profit-taking and possibly some foreign outflows due to expectations of no further OPR cuts. However, the rising yield risk will be capped by favourable supply dynamics with lower net supply of govvies expected in Aug-25.

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