

September 2025

Monthly Market Outlook

Legality of Trump's Tariffs Being Challenged

Summary

- **Global manufacturing rebounded in Aug-25.** The JPM Global Manufacturing PMI rose to 50.9 in Aug-25 (Jul-25: 49.7), marking the strongest improvement in operating conditions since Jun-24, with global output, new orders, and employment all returning to growth. Expansion was broad-based across consumer, intermediate and investment goods sectors, though international trade remained weak with export orders falling for the fifth straight month. Price pressures intensified, especially in the US, where selling prices rose the most, and while optimism edged higher, overall business sentiment stayed below its long-run average for the 17th consecutive month. Meanwhile, overall economic expansion accelerated for the fourth month in a row with the JPM Global Composite PMI posted 52.9 in Aug-25 (Jul-25: 52.5), where the service sector outperformed manufacturing for the sixth successive month.
- **APAC market review – Global equities continued their upward trajectory in Aug-25, with the MSCI Asia-Pacific Index rising 3%, reflecting healthy momentum across the region.** Among individual markets, Singapore and Japan led the gains, both surging 7% and seeing their local indices reach historical highs. China also performed strongly, with the Shanghai Composite Index trading at a 10-year high, accompanied by record-high trading volumes, highlighting renewed investor interest. In contrast, India was the laggard, pressured by a 50% tariff imposed by the US.
- **Local equity review – The FBM KLCI advanced 4% in Aug-25, its strongest monthly performance thus far in 2025, outperforming most ASEAN and Asia Pacific peers.** The rally was underpinned by the finalisation of US tariffs at 19% on 1 August, lower than the earlier 24-25% proposals and broadly in line with other ASEAN economies. This clarity removed a significant overhang that had weighed on sentiment and provided the market with a firmer footing. The banking sector contributed the most to the KLCI's gain, while the construction and technology sectors also registered strong returns. With this rebound, the KLCI index halved its year-to-date decline to -4%, continuing its 2025 trend of alternating between weaker and stronger months. Domestic institutional investors remained net buyers.
- **Bond market review – For Aug-25, the US Treasuries yield curve bull steepened which was largely due to dovish sentiments** fueled by the Fed Chair Powell's call for a potential Sep-25 rate cut at the Jackson Hole meeting – citing that the weak jobs market would limit upside to tariffs-infused inflationary pressures. This was also echoed by other Fed officials. Locally, MGS yield curve followed UST yield trend while BNM held the OPR at 2.75% - as widely expected during Sep-25 policy meeting. The neutral policy statement does not signal further cuts ahead.
- **Macro – Government sustainability in doubt; tariff impacts are muted so far.** The US economy performed well in 1H25, but the outlook for 2H25 is increasingly unclear amid policy shifts. Should growth deteriorate, ripple effects could be felt across major trading partners, including Malaysia. Besides, markets concern over the potential tariff refund by the US government following the US appeals court ruled that most of Donald Trump's tariffs are illegal. Now pending the final decision from the Supreme Court. The fiscal sustainability concern has negatively impacted long-end govvy yield curve. Separately, August PMIs show Asia's manufacturing industry remains resilient where the exemption of electronics, smart phones and pharmaceuticals from high tariffs offer meaningful relief to India and a number of ASEAN economies. Meanwhile, plenty of anecdotes suggest that Asian exporters are finding alternative shipping routes and methods to divert trade.

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- **Local equity outlook – With the overall tariff rate now finalised, investor focus is shifting to the forthcoming announcement of sector-specific tariffs**, especially on semiconductors, which remain a key driver of Malaysia's exports to the US. Globally, the US Fed is expected to resume interest rate cuts this month, with markets already pricing in several rounds of easing. If this monetary easing cycle materialises, it could provide renewed impetus for fund flows into emerging markets, including Malaysia. Domestically, the 2Q results season has just concluded. While earnings growth was soft, corporate guidance has generally turned more positive, reflecting reduced policy uncertainty following the tariff announcement. Looking ahead, market attention will turn to Budget 2026, to be tabled next month, as well as the implementation of the petrol subsidy reform, both of which carry important implications for fiscal policy and consumer spending.
- **APAC equity outlook – While the US has finalised tariffs for most countries, its trade policy remains a potential wild card.** Sector-specific tariffs, particularly on semiconductors, have yet to be determined, and given Asia's central role in the global supply chain, developments here will be closely monitored. Beyond US monetary policy, effective domestic policy execution will be key to sustaining market outperformance. China's recent strong rally contrasts with its subdued corporate earnings growth, though supply-side reforms under its "anti-involution" policy to curb overcapacity may gradually lift earnings. At the same time, potential geopolitical shifts bear watching, particularly if China expands ties with Russia, which is under US sanctions, or with India, which faces US penalties for its Russian energy purchases.
- **Fixed Income outlook – In early Sep-25, global bond market rallies after a slew of jobs data pointing to a softer labour market in the US. Locally, supply dynamics will be favourable** as there will be a large maturity of 10Y MGS of RM26.8bn. We see continued volatility amid global uncertainties that would still cause yields to edge up towards year-end though in a smaller quantum due to impending Fed rate cuts. Locally, we foresee inflationary pressures to be minimal arising from RON95 subsidy rationalization and higher utility tariffs. As such, we foresee the 10Y MGS yield to trend marginally higher by year-end.

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