July 2025

Monthly Market Outlook

A Bleak Trade Outlook Ahead

Summary

- **Modest global growth expansion in Jun-25 with manufacturing stabilising.** The global manufacturing sector stabilise in Jun-25 as the levels of both output and new orders returned to growth and employment registered its weakest decrease since Aug-24. The JPM Global Manufacturing PMI posted 50.3 in Jun-25, up from 49.5 in May-25, rising above the 50.0 neutral mark for the first time in three months. The rebound in worldwide production volumes was underpinned by returns to growth in China, the US and Japan. With tariffs drag ongoing, it remains to be seen how long this resilience will last. Meanwhile, the JPM Global Composite PMI rose to 51.7 in Jun-25, from 51.2 in May-25, where services expansion rate continued to outpace manufacturing. However, business optimism weakened to one of its lowest levels since mid-2020.
- **APAC market review – The MSCI APAC Index rose another 5% in Jun-25, extending its rebound from the sharp April correction sparked by US tariff concerns.** Easing US-China trade tensions and the swift resolution of the Israel-Iran conflict helped lift equity markets. North Asia and India attracted net foreign inflows, while ASEAN markets saw continued outflows. Sector-wise, technology (+11%) continued to outperform, in line with the global trend. For 1H25, the MSCI APAC Index posted a 14% gain, making it one of the better-performing equity markets globally. Within the region, Korea led with a 40% return, followed by Hong Kong (21%) and Singapore (21%).
- **Local equity review – The FBM KLCI index rose 2% in Jun-25 but still closed the first half of 2025 with a 7% decline, making Malaysia a laggard in the region.** Global equity markets rallied during the month, supported by the swift de-escalation of the Iran-Israel conflict that erupted in mid-June. Domestically, sentiment improved modestly. Nine out of Bursa Malaysia's 13 sector indices posted gains in June - the broadest monthly recovery seen this year. Stocks related to the data center theme stood out, lifted by renewed optimism following the Trump administration's reversal of a proposed Biden-era rule that would have restricted exports of advanced chips. The move was seen as a positive signal for the technology and artificial intelligence ecosystem. Meanwhile, foreign investors turned net sellers of Malaysian equities in Jun-25, after briefly turning net buyers in May-25.
- **Bond market review – Bond markets rallied in June.** The US Fed held policy rates steady in June where the Fed Chair Powell thinks tariffs remain a threat against decelerating inflation. He added that if not for tariffs, the Fed would already be cutting rates were deemed a dovish signal. The Fed maintained 2 rate cuts for 2025, 1 cut for 2026 and 2027, respectively. Locally, yields were lower in light of expectations of the OPR cut post-SRR cut in May-25 MPC meeting alongside subdued inflation print in April and May.
- **Macro – Another Trump tariff "delay".** Given the Trump administration's new tariff rates applicable to a number of countries effective Aug. 1, we deem this as another extension for tariff implementation date, pending further negotiations. So far, Jun-25's PMIs suggest a mixed manufacturing activity in Asian economies. China and India expanded in June, while ASEAN economies were generally weak except for the Philippines and Thailand. For Malaysia, we are cognisant of downside risks to our exports but we should not take this tariff rate too negatively as excluding the exemption list for semiconductors for now, the estimated Malaysia's share of US exports to its GDP drops from circa 12-13% in 2024 to 6-7% range.

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- **Local equity outlook – Near-term market direction will continue to hinge on external policy developments** - particularly the US' evolving tariff policy and its regulations on advanced chip exports. On 7 July, the US announced a new 25% tariff (similar to the reciprocal tariff proposed in April 2025) on Malaysian exports, set to take effect from 1 August. The tariff rate may still be revised depending on negotiations. In addition, the US has proposed to restrict shipments of advanced chips to Malaysia and Thailand. While these measures are not yet final and could still evolve, they may weigh on market sentiment in the near term. Despite ongoing headwinds, market volatility can present attractive entry points. Domestically, liquidity remains supportive - EPF's member contributions continue to post double-digit growth and local unit trust funds are still holding elevated levels of cash.
- **APAC equity outlook – Volatility is likely to rise in the near term as the 90-day pause on US reciprocal tariffs expires on 9 July.** The US has already announced new tariff rates on several Asia Pacific countries where these new tariffs are scheduled to take effect from 1 August, there remains some scope for last-minute trade negotiations. While uncertainty still lingers with multiple possible outcomes, any eventual clarity - even if the tariffs proceed - would likely be viewed constructively by the market. Reduced policy overhang allows investors to refocus on longer-term structural drivers and company fundamentals.
- **Fixed Income outlook – In Jul-25 BNM MPC meeting, BNM cut the OPR by 25bps to 2.75% after a 26-month pause – a pre-emptive move.** However, yields did not budge much as the tone from MPC was not overly dovish. While BNM sees continued investment activities, high frequency indicators suggest front-loading activity on production and exports to dissipate in 2H25. Considering that the risk of an imminent recession is limited, we do not see another OPR cut over the remainder of 2025. On the other hand, SST expansion in July is expected to have a minimal impact to inflation as it only affects 3% of CPI basket. Inflation is still expected to range between 1.5% to 2.5%.