Market Review and Outlook

June 2025

Market Review

MSCI World Index continued its upward momentum into June 2025, having gained +4.22% mom. Geopolitical tensions in the Middle East briefly disrupted market stability during the middle of the month but this eased following a ceasefire announcement. US' Dow Jones and its broader S&P500 indices rose by +4.32% and +4.96% mom, respectively. This upward momentum can be attributed in part to investor optimism surrounding anticipated Federal Reserve rate cuts. Additionally, positive developments in the US-China trade negotiations contributed to market confidence, particularly following the signing of a framework agreement that includes key provisions related to automotive and rare earth exports. In May 2025, US' Consumer Price Index (CPI) came in less than expected at +2.4% yoy. However, the Bureau of Labor Statistics reported that President Donald Trump's tariffs had yet to show a significant impact on inflation levels. Meanwhile, the S&P Global US Composite Purchasing Managers Index (PMI) dipped slightly to 52.9 in June 2025 from 53.0 in May 2025.

Over in Europe, the Stoxx 50 Index declined -1.18% mom as investors weighed uncertainties over US trade deals with the July tariff pause deadline approaching. While still contractionary, the HCOB Eurozone Manufacturing PMI ticked up slightly to 49.5 in June (May: 49.4), reaching a 34-month high. As of the latest reading, European Union's (EU) May unemployment rate was at 5.90%, stable compared to April 2025 (5.90%).

On the other hand, China's Shanghai Composite Index rose by 2.90% mom, again, partly attributable to positive developments in the US-China trade negotiations. China's CPI for May 2025 came in at -0.10% yoy, stable compared to April's -0.10% yoy. Meanwhile, China's retail sales exceeded expectations, having jumped 6.40% yoy in May 2025, a faster pace compared to April's 5.10% yoy. Elsewhere, China's industrial production rose by 5.80% yoy, having eased from April's 6.10% growth.

During the month under review, Brent oil price was up 6.31% mom to USD66.74/bbl. It surged mid-month to USD77-78/bbl due to concerns about supply chain disruptions stemming from the Middle East conflict before settling lower at the end of the month. Meanwhile, crude palm oil (CPO) price was up 1.50% mom to RM3912/MT in June 2025, in line with broader trend of higher commodity prices observed in June.

Turning to the ASEAN region, the Stock Exchange of Thailand fell 5.2% mom to close at 1,089 pts at end-June 2025 as investors expressed concern over political uncertainties. Foreign investors and local institutions were net sellers of equities to the tune of THB8bn and THB12bn in June 2025, respectively. The best performing sector was the banking sector (down 2.1% mom in June 2025). On the home front, the FBMKLCI rose 1.60% mom. The three best performing sectors on a mom basis were Utilities (+4.30%), Energy (+3.80%) and Technology (+3.40%). In terms of fund flows, foreign investors returned to net selling with net sell flows of RM1.3bn. In the month, the Malaysia government announced that it would revise its sales tax rate and widen the scope of its services tax from 1 Jul 2025. Meanwhile, Indonesia's Jakarta Composite Index slid 3.50% mom in June 2025. During the month, foreign investors were net sellers with outflows of USD514mn in equities. Elsewhere, Indonesia's CPI print came in at 1.60% yoy, a decrease from the previous month's 1.95%. Lastly, Singapore's Straits Times Index edged up +1.78% mom. The sector outperformers were Real Estate, Services and Utilities, while Transport, Retail and Staples underperformed. Singapore's Non – Oil Domestic Exports (NODX) for May 2025 fell 3.5% yoy (Apr: +12.4% yoy), below Bloomberg consensus' forecast of +7.80% yoy. Electronics NODX grew +1.70% yoy while non-electronics exports declined 5.30% yoy dragged by non-monetary gold (-25.9% yoy), Petrochemicals (-17.8% yoy), and Specialised Machinery (-11.7% yoy).

In June, US Treasury (UST) yields rallied by 16 – 18 bps mom across the curve. This rally was fueled by a combination of factors: weaker – than – anticipated inflation data, rising jobless claims data, and market speculation that President Trump might appoint a more dovish Federal Reserve (Fed) Chair to replace Jerome Powell before his term concludes in May 2026. These developments bolstered investor bets that the Fed could initiate interest rate cuts earlier than previously anticipated. US inflation increased by +0.1% mom (Survey and April: +0.2% mom) in May while US private businesses job growth slowed sharply with only +37k workers mom (Survey: +114k mom, April revised: +60k mom) added in May, marking the weakest employment gain in two years. Fed fund futures as of end – June now indicate an implied rate cut of 67 bps by year – end compared to 55 bps as of end – May. At June's Federal Open Market Committee (FOMC) meeting, policymakers unanimously voted to maintain the federal funds rate at 4.5%, unchanged since the start of the year. However, the "dot plot" projections revealed a divergence in outlooks, with 10 officials forecasting at least two rate cuts by the end-2025 and 7 officials anticipating no rate cuts this year.

In contrast to the UST, Malaysian Government Securities (MGS) yields remained broadly unchanged mom although UST yields shifted lower. Malaysia's inflation for May moderated to 1.2% yoy (Survey and April: 1.4% yoy), marking the slowest pace in 51 months. Meanwhile, the Industrial Production Index (IPI) for April was lower – than – expected at 2.7% yoy (Survey: 4.0% yoy, March: 3.2% yoy) as manufacturing activity picked up while mining and electricity output declined.

Foreign funds turned net sellers in June with net outflows of RM5.4bn (May: +RM13.4bn inflows). The foreign share of both MGS and MGS+MGII reduced to 34.4% (May: 35.6%) and 21.8% (May: 22.5%) respectively. Despite the outflows, Malaysia's foreign reserves climbed by USD1.0bn to USD120.6bn as of end – June (May: USD119.6bn).

Market Outlook

On the trade policy front, while developments in the US – China trade deal started off promising, it remains to be seen how most of these trade negotiations will pan out. Thus, we opine that policy uncertainty remains somewhat raised and investors would keep a watchful vigil over any new developments that could have impacts on global economic activity. On the local front, we believe that investors would continue to monitor the implementation of vital policies such as RON95 fuel subsidy rationalisation whilst eagerly awaiting the outcome of our nation's trade tariff negotiation with US.

Amidst the volatility currently permeating markets, we remain cautious and adhere to our dogma of investing in fundamentally good investments over long – term investment horizons. As always, we will seek opportunities to engage in trading activities to capitalize on any prevailing market volatility. Nevertheless, we will keep constant watch over any potential geopolitical and other risks that may necessitate the gravitation towards new strategies to adjust to the ever-volatile market conditions.

The quantum and timing of expected rate cuts in the US seems to have eased compared to the earlier part of the year. Fed Chair Powell's overall tone remains consistent with the policy being well positioned to wait and see. He highlighted the importance of keeping longer – run inflation expectations anchored and not letting a one – time price level shift from tariffs become a more persistent threat to price stability. Given the inflation outlook, he also said that once the labor market weakens, the FOMC could react to that. On local monetary policy, Bank Negara Malaysia (BNM) statement clearly sees the balance of risks to growth as tilted to the downside on trade policy – related uncertainties. Meanwhile, the Monetary Policy Committee (MPC) expects the impact of domestic policy reforms on inflation to be "contained". Demand for Ringgit government bonds has gained traction and the market priced in a 25 bps overnight policy rate (OPR) cut. All said, bond volatility will remain as markets remain wary of the economic conditions amid the trade uncertainty and geopolitical tensions. We would selectively accumulate bonds at reasonable valuations while prioritizing good quality names.