Market Review and Outlook

August 2025

Market Review

The MSCI World Index continued its upward trajectory in August 2025, gaining +2.5% mom. In the US, the Dow Jones index rose +3.2% mom, while the broader S&P 500 index increased +1.9% mom. The Dow Jones index joined in to post its first and second new closing highs of the year (45,757.84 intraday high and 45,636.90 closing high) while the S&P 500 index continued its upward trend by posting five new closing highs for the month. Strong corporate earnings was major reason for the new highs as both earnings and sales were set to post new quarterly records, even as corporations absorbed the larger part of the tariff costs. July's retail sales rose by +0.5% mom, below the forecasts of +0.6% mom as well as prior month's revised gain of +0.9% mom. Meanwhile, the S&P Global US Composite Purchasing Managers Index (PMI) fell to 54.6 in August from 55.1 in July.

In Europe, the Stoxx 50 index inched up +0.6% mom as the HCOB Eurozone Manufacturing PMI increased to 50.7 in August compared to 49.8 in the previous month. The Eurozone unemployment rate was down from 6.3% in June to 6.2% in July while Eurozone Core CPI also was unchanged at 2.3% yoy in August.

Over in China, its Shanghai Composite index continued to surged by +8.0% mom, up for 4 months consecutively, fuelled in part by receding trade tensions with the U.S. This is despite retail sales YTD falling to +4.8% yoy in July, as compared to +5.0% yoy in June. Consumer prices index (CPI) was lower at 0.0% yoy in July, as compared to +0.1% yoy in the previous month. The RatingDog China PMI Manufacturing grew to 50.5 in August, higher than the 49.5 in July. The People's Bank of China maintained key lending rates unchanged in August, with the one – year loan prime rate (LPR) at 3.0% and the five-year LPR at 3.5%.

During the month under review, Brent crude oil price fell 6.1% mom to USD68.12/bbl as traders digested weaker demand in the US and an autumn supply boost from OPEC and its allies. Meanwhile, crude palm oil (CPO) price was up +3.2% mom to RM4308/MT in August due to tightening supply and strong demand from India and Pakistan. Malaysian stockpiles dropped 18% in July, while El Niño continued to pressure production across Indonesia, particularly in Sumatra and Kalimantan. India and Pakistan drove demand, increasing palm oil imports by 22% and 18% yoy as of July, respectively.

Turning to the ASEAN region, the Stock Exchange of Thailand fell 0.5% mom despite a higher S&P Global Manufacturing PMI reading of 52.7 in August, as compared to 51.9 in the previous month. Its Business Sentiment Index also rose to 47.5 in August, as compared to 45.8 in July. Meanwhile, Indonesia's Jakarta Composite Index surged +4.6% mom in August due to a higher S&P Global Manufacturing PMI reading of 51.5 in August, as compared to 49.2 in the previous month. However, export sales slowed to +9.9% yoy in July, as compared to +11.3% yoy in June. Bank Indonesia's also cut interest rate by 25 bps to 5.0% at its August 2025 meeting. In Singapore, it's Straits Times Index rose +2.3% mom, despite its non – oil domestic exports plunging by -4.6% yoy in July, as compared to a gain of +13.0% yoy in June. Its indusrial production was maintained in July at +7.1% yoy. On a yoy basis, retail sales surged 4.8% in July, as compared to a +2.4% yoy increase in June. On the home front, the FBMKLCI gained +4.1% mom due to a higher industrial production reading of +3.0% yoy in June, as compared to +0.3% yoy in the previous month. Its S&P Global Manufacturing PMI was also slightly higher at 49.9 in August, as compared to 49.7 in July.

US Treasury (UST) yields were lower by 3 – 32 bps mom except for the 30 years UST which went higher by 3bps mom. The rally came with rising expectations that the Fed will cut rates as soon as September premised on the weaker employment data, mild inflation and actions by the White House to appoint new central – bank policymakers who are more inclined towards an easing monetary policy. Payroll in July rose by +73k mom (Survey: +105k mom, June revised: +14k mom) following downward revisions of nearly 260k for the previous two months. Over the last three months, employment growth has averaged a mere 35k, marking the lowest level since the pandemic, indicating that the labor market is decelerating. Despite Trump's tariffs, CPI for the month of June stayed at +2.7% yoy (Survey: +2.8% yoy, June: +2.7% yoy), raising speculation for a potential September rate cut. In the Jackson Hole annual conference, Fed Chair Powell cautiously indicated the possibility of an interest rate cut in September as he highlighted growing risks to the labor market despite ongoing concerns about inflation. Fed fund futures as of end – Aug now indicate an implied rate cut of 56 bps by year – end compared to 33 bps as of end – July.

Malaysian Government Securities (MGS) yields were lower by 2 – 11 bps mom except for the 10 years MGS which went higher by 2 bps mom. Malaysia's GDP for 2Q 2025 grew by +4.4% yoy (Survey: +4.5% yoy, 1Q 2025: +4.4% yoy). Despite the slight miss against estimates, Bank Negara Malaysia (BNM) expressed confidence that the economy is robust enough to withstand the anticipated export slowdown caused by US tariffs. BNM Governor Abdul Rasheed Ghaffour stated that the economy “continues to be stable” and that the recent interest rate cut will offer “further support”. July CPI rose +1.2% yoy (Survey: +1.2% yoy, June: +1.1% yoy). The slight uptick was primarily to an increase in insurance premiums and higher costs for restaurant and accommodation cost.

Foreign funds turned net buyers in August with net inflows of RM3.0b (July: RM5.5b outflows). The foreign share of MGS lowered marginally to 33.4% (July: 33.5%) while the foreign share of MGS+MGII increased to 21.3% (July: 21.1%). Malaysia’s foreign reserves rose by USD1.4b to USD122.7b as of end – August (July: USD121.3b)

Market Outlook

On the global front, investors would keep an eye on any tariff developments as well as economic reports leading up to the Federal Reserve meeting in mid September. On the local front, we believe that investors would continue to monitor the effects of the 13th Malaysia Plan, as well as the recent government policy moves, such as the RM100 cash handout and the promise to lower fuel prices.

Amidst the current volatile markets, we remain cautious and will focus into 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.

In US, markets have priced in two rate cuts for the rest of 2025 with the first in September now almost fully priced in. Fed Chair Powell speech at Jackson Hole mentions that the shifting balance of risks may warrant adjusting the stance of monetary policy.

Locally, the 25 bps rate cut in July was viewed by markets as a one – off pre – emptive decision and that the Overnight Policy Rate (OPR) would be maintained for the rest of the year. Monetary Policy Committee (MPC) highlighted that resilient domestic demand and expansion of investment activities will continue to support Malaysia’s growth. Inflation is expected to remain moderate into 2026. Although BNM downgraded its growth forecast range slightly from "4.5% – 5.5%" to "4% – 4.8%", it still looked decent in this challenging external environment. The next signpost to watch is Budget 2026, which is set to be delivered on 10 October. All said, bond volatility will remain as markets remain wary of the economic conditions amid the trade uncertainties over future tariff rates or deadlines for additional tariffs, combined with rising geopolitical tensions and increased risk aversion. We would selectively accumulate bonds at reasonable valuations while prioritizing good quality names.