

# Market Review and Outlook

July 2025

## Market Review

The MSCI World Index maintained its upward trajectory in July 2025, increasing by +1.2% mom. In the US, the Dow Jones index remained flattish mom, while the broader S&P 500 index saw a rise of +2.2% mom. The S&P 500 and Nasdaq Composite index reached new highs, driven by strong company earnings, high demand for tech, and optimism about US trade policies. Tech stocks, particularly chipmakers, continued to lead due to the ongoing boom in artificial intelligence (AI) and cloud computing. The US and China paused tariff escalation and posturing, whilst new agreements with the European Union resulted in 15% tariff rates for most European exports to the US. US CPI for the month of June came in at +2.7% yoy (Survey: +2.6% yoy, May: +2.4% yoy), primarily contributed by greater food and energy prices. June's retail sales surged by +0.6% mom, surpassing forecasts of +0.1% mom as well as prior month's contraction of 0.9% mom, mainly contributed by stronger motor vehicle sales. Meanwhile, the S&P Global US Composite Purchasing Managers Index (PMI) rose slightly to 55.1 in July 2025 from 54.6 in June 2025.

Over in Europe, the Stoxx 50 Index inched up +0.31% mom as the US-EU tariff agreement, which lowered the previously scheduled steep 30% tariff rate on European exports set for August 1, has reduced uncertainty and averted the threat of a full-blown trade war. The HCOB Eurozone Manufacturing PMI remained unchanged at 49.8 in July compared to the prior month. While still contractionary, it is edging closer to stabilization in July, with factory activity contracting at its slowest pace in three years.

On the other hand, China's Shanghai Composite Index rose by +3.74% mom. Renewed optimism in China markets has been evident, with technology stocks performing strongly. This positive sentiment was driven by the US easing export controls on AI chips to China. China's CPI for June 2025 rose by +0.10% yoy, up from May's -0.10% yoy. Retail sales grew by +4.80% yoy in June, softer compared to May's +6.40% yoy. On the other hand, industrial production increased by +6.80% yoy, outpacing April's +5.80% growth.

During the month under review, Brent crude oil price was up +7.28% mom to USD72.53/bbl. The surge was largely due to lingering concerns about supply chain disruptions stemming from the Middle East conflict, seasonal upticks in global refining demand, cautious OPEC+ supply increase as well as improved trade sentiment. Meanwhile, crude palm oil (CPO) price was up +5.48% mom to RM4175/MT in July 2025, on the back of improved export momentum to India due to the palm oil-soybean oil price differential and low inventory, along with concerns over reduced FFB output from forest and land fires in Indonesia's Sumatra region amid prolonged dry weather.

Turning to the ASEAN region, the Stock Exchange of Thailand rallied +14.0% mom. Thailand's Fiscal Policy Office revised its 2025 GDP growth forecast upward from +2.1% to +2.2%. This optimism was based on strong private consumption, public investment, and a robust tourism sector, with visitor arrivals projected at 34.5m. Export growth forecasts were also significantly upgraded to 5.5% from 2.3% previously, driven by accelerated shipments in the 1H25. Thailand saw foreign net buying on 14 out of 21 trading days, with total net buying reaching THB16.12bn. Meanwhile, Indonesia's Jakarta Composite Index rallied 8.0% mom in July 2025. Bank Indonesia's 25bps rate cut boosted domestic growth and market optimism. Additionally, the new I-EU CEPA agreement will allow 80% of Indonesian goods tariff-free access to the EU. Separately, Singapore's Straits Times Index increased by +5.3% mom as the Monetary Authority of Singapore's (MAS) Equity Market Development Programme (EQDP) boosted market confidence by allocating SGD1.1bn to fund managers for investments in small-cap stocks. Singapore's Non – Oil Domestic Exports (NODX) surged by +13.0% yoy in June, significantly outperforming Bloomberg's consensus estimate of +5.0% growth and rebounding from a 3.5% contraction in May. On the home front, the FBMKLCI was down 1.29% mom. Investors were concerned regarding the upcoming subsidy rationalization, ongoing Malaysia-US trade negotiations, and the planned expansion of the Sales and Service Tax (SST). These measures raised concerns about potential impacts on consumer confidence and corporate profits.

US Treasury (UST) yields rose by 13 – 21 bps mom across the curve amidst stronger – than – expected jobs report and Consumer Price Index (CPI) as well as retail sales. June's nonfarm payrolls (NFP) expanded by +147k mom, exceeding expectations of +106k mom (May revised: +19k mom), mainly driven by government employment, while the unemployment rate lowered to 4.1% (May: 4.2%). However, the revised June NFP released in early August disappointed markets when it was later reported to be much lower at +14k mom. In the Federal Open Market Committee (FOMC) meeting in July, majority of the policymakers

voted to hold the benchmark federal funds rate at 4.5%, with 2 policymakers voted against the decision in favour of a 25 bps cut. Fed fund futures as of end – July signaled an implied rate cut of 33 bps by year – end (end – June: 67 bps).

In contrast, Malaysian Government Securities (MGS) yields declined across the curve by 2 – 15 bps as Bank Negara Malaysia (BNM) delivered the first overnight policy rate (OPR) cut since July 2020 at the July Monetary Policy Committee (MPC) meeting by 25 bps to 2.75% from 3.00%. BNM stated that while Malaysia's domestic economy remains on a strong footing, uncertainties from external developments pose risks to its growth prospects. Therefore, the reduction in the OPR is a pre – emptive measure designed to safeguard Malaysia's steady growth trajectory amid moderate inflation expectations. The weaker May's industrial production data and June's CPI data contributed to the lower yields mom as well. Industrial production grew only +0.3% yoy in May (Survey: +2.1% yoy, April: +2.7% yoy) largely due to a deeper contraction in the mining sector coupled with a deceleration in manufacturing activities while Malaysia's CPI in June slowed to +1.1% yoy (Survey and April: +1.2% yoy), mainly attributed to a slowdown in the growth of transport prices.

Foreign funds net outflows increased to RM5.5bn (June: RM5.4bn outflows) in July. The foreign share of both MGS and MGS+MGII reduced to 33.5% (June: 34.4%) and 21.1% (June: 21.8%) respectively. Malaysia's foreign reserves climbed by USD0.7bn to USD121.3bn as of end — July (June: USD120.6bn).

## Market Outlook

On the global front, 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 rationalization, the recently tabled 13th Malaysia Plan and the impact of US' tariff imposed on Malaysia.

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.

In US, there was no indication by Fed Chair Powell during July FOMC that there would be a definite cut in September. Fed Chair Powell said that the monetary policy was modestly restrictive and argued that it "seems appropriate." He said the economy was not performing as if a restrictive policy is holding it back. All that said, there was also downside risk to the labor market. In coming months, he would receive a good amount of data that will help inform their assessment of the balance of risks and the appropriate setting of the federal funds rate. He would take all information into consideration, as a decision is to be made at the September FOMC meeting.

Locally, the MPC highlighted that resilient domestic demand and expansion of investment activities will continue to support Malaysia's growth. Inflation in 2025 is expected to remain moderate. However, the statement also cautions that the balance of risk to the growth outlook remains tilted to the downside stemming mainly from slower global trade and lower than expected commodity production. 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.

### Disclaimer:

This document is prepared by Allianz Life Insurance Malaysia Berhad ("Allianz") for information only. The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Allianz assumes no obligation to update any information contained herein. Its content is of a general nature and does not in any way constitute professional advice or the provision of professional services, and shall not be relied on as such. While Allianz endeavours to keep the content and information contained herein accurate, Allianz does not warrant or guarantee the completeness, adequacy or currency of information contained herein. Allianz reserves the right to modify the content and information herein at any time.