Market Review & Outlook
September 2025
(as at 31 August 2025)

Overview

The month of August 2025 began with a weaker-than-expected jobs report, as Non-Farm Payrolls ("NFP") rose by just 73,000 for the month of July 2025, well below forecasts of 106,000. Revisions to the May and June 2025 job figures pushed the average 3-month job gain (including July 2025) down to only 35,000, the slowest pace since 2020. This weakness in job numbers fuelled strong bids in the United States ("US") bond market with market participants increasingly pricing in an almost certain September 2025 Federal Funds Rate ("FFR") rate cut.

That expectation was challenged mid-month, as the US Producer Price Index ("PPI") surprised to the upside, rising 0.9% month-over-month versus a forecast of 0.2%. At more than triple the initial expectations, the data complicated the US Federal Reserve's ("Fed") path to a September 2025 rate cut as the US Fed looks to balance its dual-mandate of full-employment and price stability. The tampering of rate-cut expectations continued towards the third week of August 2025 as economic numbers on US Manufacturing Purchasing Managers Index ("PMI") and US Services PMI both exceeded expectations – US Manufacturing PMI: 53.3 vs forecast of 49.7; US Services PMI 55.4 vs forecast of 54.2 – suggesting that the US economy is on a stronger footing that what the employment numbers advocate.

The month's narrative concluded with the Jackson Hole Symposium where US Fed chairman, Jerome Powell emphasized that the current policy is in restrictive territory and that the balance of risk and outlook warrants an adjustment in their policy stance, suggesting that the easing cycle may resume in the September 2025 US Fed meeting.

Malaysia

Malaysia's economy grew by 4.4% Year-on-Year ("YoY") in 2Q2025, based on final data released by Department of Statistics Malaysia. This was unchanged from growth in the first quarter 2025 ("1Q2025") and slightly below advance estimates of 4.5%. On the supply side, the services sector remained the main driver of economic growth this quarter, while all other sectors recording growth except for the mining and quarrying sector. On the demand side, the growth was supported by private final consumption expenditure and gross fixed capital formation. On a seasonally adjusted basis, Gross Domestic Product ("GDP") rose 2.1% Quarter-on-Quarter ("QoQ") compared to 0.7% in 1Q, signalling stronger underlying momentum after a softer start of the year.

Inflation remained benign, with headline Consumer Price Index ("CPI") at 1.2% YoY in July 2025 up from 1.1% in June 2025. Price pressures were contained by softer food and transport costs. At the producer level, costs continued to ease, with the PPI down 3.8% YoY in July 2025, driven by mining and manufacturing sectors.

Labour market conditions remained resilient, with the unemployment rate in June 2025 at 3.0%. Employment rose 0.3% Month-on-Month ("MoM") to 16.85 million persons supported by continued hiring in services and manufacturing, while labour force participation rate maintained at 70.8%.

Malaysia's external position improved in July 2025, with exports rebounding by 6.8% YoY to RM140.4 billion. The increase in exports was led by electrical and electronic ("E&E") products, while imports rose only 0.6% YoY to RM125.5 billion. This lifted monthly trade surplus to RM15.0 billion, the highest monthly level in 2025.

Ringgit traded steadily in August 2025 averaging around RM4.23/United States Dollar ("USD"), supported by softer USD and expectations of Fed easing. Foreign investors registered bond outflows of RM5.5 billion in July 2025, marking the second consecutive month of selling. Nevertheless, foreign flows into Malaysia bond market Year-to-Date ("YTD") remained positive at RM15.9 billion.

Fixed Income

US Treasury Market Overview

The US Treasury ("UST") curve bullishly steepened in August 2025 as market positioned for imminent easing from US Fed. Front-end yields fell sharply, with the 2-year yield down by 34 basis points ("bps") to 3.62% and 10-year yield eased 15 bps to 4.23%. In contrast, the 30-year yield edging 3bps higher to 4.93%, reflecting supply concerns and sticky inflation in the long term.

The rally at the front end of the curve was triggered by weaker-than-expected NFP number early in the month, with job gains barely above 100,000 and unemployment rate edging higher. Furthermore, a dovish tone from the Fed

Chair Powell at Jackson Hole Symposium further reinforced the bullish sentiment, as he acknowledged that policy was already restrictive and the softer labour market "may warrant" rate cuts. Despite this, the long end of the curve underperformed as inflation remains sticky and demand was weak on the 30-year auction.

US Treasury Yields

US Treasury Tenor	29-Aug-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.83	-25.8	-30.9
2Y	3.62	-34.0	-62.5
5Y	3.70	-27.7	-68.6
7Y	3.93	-22.9	-55.2
10Y	4.23	-14.6	-34.1
20Y	4.87	-2.4	+1.3
30Y	4.93	+2.7	+14.6

Source: Bloomberg, 2 September 2025

Looking ahead, the 10Y UST yield is expected to trade in the range of 4.10%-4.30% in the near term.

Asian Bond Indices Performance

Markit Asian USD Index	29-Aug-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	147.3	1.25%	6.07%
Asian Dollar IG Index	148.7	1.23%	5.90%
Asian Dollar HY Index	138.8	1.46%	6.79%
Asian Dollar Corp Index (ex-banks)	149.8	1.30%	6.06%

Source: Bloomberg, 2 September 2025

Asian dollar indices posted gains in August 2025 amid growing rate-cut optimism following weak NFP numbers and Fed Chair Powell dovish remarks at Jackson Hole symposium. Investor sentiment was also lifted following positive news on US-China 90-day trade truce to avoid tariff hike.

The rally was led by the Asian Dollar High Yield Index which jumped 1.46% MoM, followed by the Asian Dollar Corporates (ex-banks) Index with a 1.30% MoM gain and Asian Dollar Index with a 1.25% MoM gain.

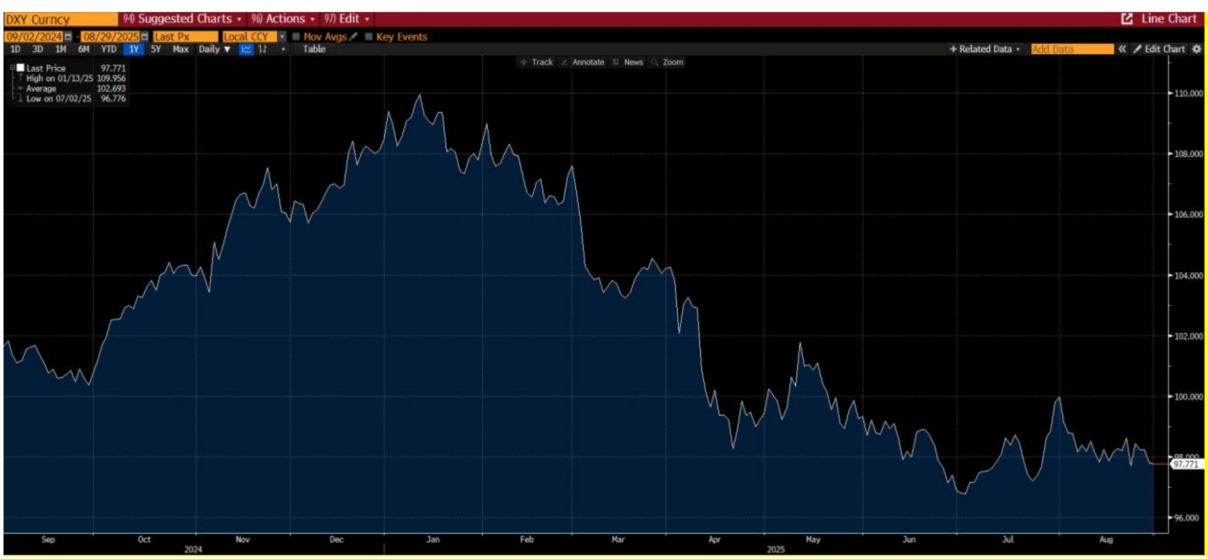
By country, all Asian dollar bonds ended the month in positive territory. The top three gainers by sequence were Thailand (+2.00% MoM), Hong Kong (+1.53% MoM), and India (+1.51% MoM).

The United States Dollar Index

The United States Dollar Index ("DXY") declined 2.0% MoM, closing below 98.0 in August 2025 as the rebound in July proved short-lived. The decline was driven by weak NFP numbers, dovish remarks from Fed Chair Powell at Jackson Hole symposium, and broader softness in US factory orders, ISM services and consumer sentiment. Adding to the pressure were renewed concerns over Fed independence, as political voices called for deeper cuts and the contested firing of Fed Governor Lisa Cook.

Overall, we expect the DXY movement in September to hinge on the upcoming NFP release and Fed's 18 September 2025 FOMC meeting. While markets are fully pricing in a 25bps cut, further weakness in labour market suggests a deeper and more sustained easing cycle may be required if economic weakness continues to build.

Chart 1: The United States Dollar Index



Source: Bloomberg, 2 September 2025

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	29-August-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.02	-6.9	-51.4
5Y	3.11	-6.3	-54.4
7Y	3.31	-3.8	-46.3
10Y	3.40	2.4	-43.8
15Y	3.63	-2.1	-35.5
20Y	3.75	-2.2	-32.3
30Y	3.88	-3.7	-31.8

Source: Bond Pricing Agency Malaysia, 29 August 2025.

Malaysian Government Securities ("MGS") ended the month with gains, except for the 10Y tenure which saw yield marginally higher at 2.4bps MoM. In August 2025, the MGS yield curve marginally bull-steepened as the market further priced-in a 25bps rate cut from Bank Negara Malaysia this year. However, the ringgit bond rally saw some moderation towards the end of the month as investors turned more cautious amid the lower bond yields; and the domestic market decoupled somewhat from US Treasuries which continued to rally following US Fed Chair's dovish tilt in his speech on 22 August 2025 at the Jackson Hole Symposium.

There were four sovereign bond/ sukuk auctions with a total size of RM22.0 billion in August 2025, namely the reopening of 20Y MGS with issue size of RM5.5 billion on 7 August 2025, followed by reopening of 15Y Malaysian Government Investment Issue ("MGII") with the issue size of RM5.0 billion on 14 August 2025, the reopening of the 5Y MGS with issue size of RM5.5 billion on 21 August 2025 and reopening of the 20Y MGII with the issue size of RM6.0 billion on 28 August 2025. The first two auctions of the month drew healthy demand with bid-to-cover ("BTC") of 2.725x for the 20Y MGS and 2.848x for the 15Y MGII, while the later two auctions saw weaker BTC at 1.867x for the 5Y MGS and 1.841x for the 20Y MGII.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) in August 2025 increase marginally by 1.07% MoM to RM23.1 billion (June: RM22.8 billion). July 2025 saw a second consecutive month of net foreign funds outflow totalling RM5.5 billion, led by combined outflow of RM5.3 billion from MGS and MGII (June: RM5.3 billion), mainly due to uncertainties over a trade deal with the US as the 1 August 2025 deadline for higher "reciprocal" tariffs approached.

Some notable domestic corporate issuances in August 2025 included RM2.2 billion DanaInfra Nasional Bhd (unrated) of tranches no. 159 to no. 163 of the RM82.2 billion GG ICP/IMTN Programme, RM600 million of AmBank (M) Bhd MTN (AA2), RM2.5 billion of CIMB Bank Bhd Tier-2 Sukuk Wakalah (AA2), RM1.8 billion of Malayan Banking Bhd Subordinated Sukuk (AA1), RM2 billion of Petroleum Sarawak Exploration & Production Sdn Bhd IMTN (AAA) and RM500 million of Pelabuhan Tanjung Pelepas Sdn Bhd IMTN (AA). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.46% (-8bps MoM), 3.53% (-6bps MoM), 3.58% (-6bps MoM) and 3.65% (-5bps MoM) respectively.

Strategy

Malaysia's 2Q2025 GDP growth held steady at 4.4% YoY, supported by front loading activity, due to pause on higher tariff rates. As the US reciprocal tariff of 19% has been announced on imports from Malaysia, domestic growth could be slower ahead as external demands weaken.

We maintain overweight on duration, given the supportive background. Yield curve positioning strategy is deployed at the belly of the curve (5–7 years) to capture potential curve flattening and benefit from bonds "rolling down" to lower yields.

We prefer corporate bonds for higher yield pick-up, compared to government bonds. Credit spreads are likely to stay tight, with strong demands from local investors. We are selective on credit names, with a focus on defensive sectors and issuers with strong credit metrics, particularly in utilities, infrastructure, and banks.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	29-Aug-25	MoM	YTD
S&P 500 Index	6,460.26	1.91%	9.84%
Nasdaq Index	21,455.55	1.58%	11.11%
MSCI Europe Index	183.78	0.96%	8.18%

Source: Bloomberg, 2 September 2025.

The Standard & Poor's ("S&P") 500 Index rose by 1.91% MoM in August 2025 driven by strong earnings reports and optimism around Artificial Intelligence ("AI") leaders like Nvidia. Signs that the US economy is holding up pushed stock prices higher after second quarter GDP was revised higher than expected. However, analysts have cautioned that strong August 2025 performances have historically preceded September 2025 declines. The core Personal Consumption Expenditures ("PCE") Price Index, the Fed's preferred gauge of inflation, rose 0.3% on a monthly basis, putting the annual inflation rate at 2.9%, its highest level in five months. This was in line with expectations, suggesting that US President Donald Trump's sweeping tariffs were not filtering excessively into consumer prices, despite a recent upside surprise in producer inflation.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 0.96% MoM in August 2025 as investors monitored European and US inflation data and assessed the likelihood of the US Federal Reserve cutting interest rates at its next meeting in September 2025. The defence and healthcare sectors received a boost in August 2025 from corporate news. The U.K. government announced that Norway had placed a £10 billion order for British made warships for its Armed Forces. It will be the U.K.'s biggest ever warship export deal by value. Shares of Danish pharmaceutical giant Novo Nordisk, meanwhile, ticked 1.8% higher, after the company released trial data suggesting its drug Wegovy outperforms major rivals in heart disease risk reduction.

Asia Pacific Equity Index Performance

Index	Index level	Aug-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	823.65	1.09%	16.98%
FTSE ASEAN	927.31	4.06%	7.88%
CSI 300 INDEX	4,915.30	10.62%	17.38%
KOSPI INDEX	3,186.01	-1.83%	32.78%
HANG SENG INDEX	25,077.62	1.23%	25.01%
S&P BSE SENSEX INDEX	79,809.65	-1.69%	2.14%
TAIWAN TAIEX INDEX	24,233.10	2.93%	5.20%

Source: Bloomberg, 31 August 2025.

Chinese onshore equities rose 10.6% MoM with continuously improving liquidity driving A-shares' valuation multiple expansion, as evidenced by rising market turnover, velocity, margin buying as a percentage of total turnover, and mutual funds' new issuance. Hang Seng Index rose 1.2% MoM amid extended US-China tariff pause to 10 November 2025, rising expectations for Fed's rate cut, strong thematic tailwinds like AI capex and anti-involution, abundant onshore liquidity going into equities and solid southbound inflows, defied weak macro data and normal seasonal weakness in August 2025.

South Korea's Composite Stock Price Index ("KOSPI") retreated 1.8% MoM in August 2025, for the first time in 5 months. The month started with a rise in uncertainty about the governance reform momentum as the tax reform bill proposed by the Democratic Party ("DP") raised investor concerns about policy orientation. Over time, though, investors took some comfort in both the administration's willingness to revisit proposals in the tax reform package, as well as the second amendment to the Commercial Code (this time including mandatory cumulative voting and expansion of the audit committee selection process). The Bank of Korea maintained the base policy rate at 2.5% as they anticipate a cut cycle until 1H26 with two possible 25bps cuts. The Taiwan Stock Exchange ("TWSE") index rose 2.9% MoM as market remained optimistic of tariff exemption on technology supply chains. Taiwan's July 2025 industrial production rose 0.5% MoM after easing 3.1% MoM in June 2025. Taiwan's manufacturing PMI declined to a near two-year low, led by easing in output, new orders and new export orders. The headline manufacturing PMI has been on a softening trend this year, down another 0.9pt to 46.2 in July 2025 driven by weak external demand and hesitation in order placement amid tariff uncertainties.

India equities corrected 1.7% MoM driven by additional tariff implementation expected to hit growth, persistent foreign institutional investors' selling, surge in fund raising and a weaker INR. CPI for July 2025 was a 97-month low of 1.6% YoY, easing from 2.1% YoY in June 2025. July industrial production at 3.5% YoY was higher than consensus and higher than in June 2025 that rose 1.5% YoY. Composite PMI in August 2025 rose to a record high of 65.2 (vs. 61.1 in July 2025).

ASEAN Equity Index Performance

Index	**Index level**	**Aug-25 (Local currency)**	**YTD (Local currency)**
STRAITS TIMES INDEX STI	4,269.70	2.30%	12.73%
JAKARTA COMPOSITE INDEX	7,830.49	4.63%	10.60%
STOCK EXCH OF THAI INDEX	1,236.61	-0.46%	-11.68%
PSEi - PHILIPPINE SE IDX	6,155.57	-1.55%	-5.72%
HO CHI MINH STOCK INDEX	1,682.21	11.96%	32.79%
FTSE Bursa Malaysia KLCI	1,575.12	4.09%	-4.09%

Source: Bloomberg, 31 August 2025.

The Straits Times Index rose in August 2025 led by the S-REITs on expectation of September 2025 rates cuts. The property sector remained hot as according to data released by the Urban Redevelopment Authority ("URA"), new private home sales for July rose 63% YoY and 250% MoM, amidst competitive pricing by developers as new projects were launched. The Stock Exchange of Thailand ("SET") Index corrected in August 2025 as political uncertainty lingers with Prime Minister Paetongtarn Shinawatra removed by court for ethical misconduct. In the 2Q2025 results season, earning beats came from the banks, energy, agriculture & food and finance sectors. Key misses came from electronics and commerce sectors.

The Jakarta Composite Index continued to rise in August 2025 but it was driven by just a few names. Bank Rakyat Indonesia ("BBRI") rallied as Indonesia saw the return of inflows with rate cuts narrative and value angle, while PT Telkom Indonesia (Persero) Tbk ("TLKM") is expected to improve its Average Revenue Per User ("ARPU") trajectory. Bank Indonesia ("BI") announced a surprise cut rates from 5.25% to 5.00% in August 2025, bringing the deposit facility rate and lending facility rate down to 4.25% and 5.75% respectively. This move came on the back of weaker trade-weighted USD, slowing global economic growth, and expectations of a Fed rate cut, all key factors for monetary easing.

The Philippines Composite Index continues to drop in August 2025. The Philippines' central bank ("BSP") anticipates continued low inflation and steady growth momentum. While acknowledging external risks, the central bank expects the output gap to close by late 2026 or early 2027. The Vietnam stock market surged in August 2025 driven by strong exports, regulatory reforms, and anticipation of an upgrade to emerging market status, which could attract more passive inflows. The government recently lifted the 2025 growth target to 8.3-8.5% and commenced a large amount of new construction projects. The central bank has announced a 50% reduction in reserve requirements for some large banks.

Malaysian Equities

The Kuala Lumpur Composite Index ("KLCI") gained 4.1% MoM in August 2025, YTD -4.1%. Malaysia's 2Q2025 results season was mildly positive, with the earnings beat ratio improving to 0.55x (from 0.24x in 1Q25). Following these revisions, analyst now project KLCI core net profit growth of 0.9% in Calendar Year 2025 Financial ("CY25F") (previously 3.4%) and 7.5% in Calendar Year 2026 Financial ("CY26F").

Malaysia's mid and small cap index lost 0.8% and gained 0.1% MoM respectively. Construction and Technology were the best performing sectors, both gaining 5.9% and 5.6% MoM respectively. On the other hand, Healthcare and Real Estate Investment Trusts ("REITs") were the worst performing sectors, with a loss of 5.3% and 2.5% respectively. The top three best performers in KLCI components stocks were Sime Darby (27.0%), CIMB (13.4%) and Petronas Chemicals (11.6%), while the worst performing stocks were Axiata (-10.4%), MRDIY (-10.3%) and CelcomDigi (-4.2%).

Foreign institutional investors were net sellers of RM3.4b worth of equities in August 2025, YTD net outflow of RM16.5b. Local institution investors were net buyers of RM3.4b equities. Average daily value traded was at RM2.8b, rose 17% MoM.

Strategy

August 2025 marked the second largest foreign net sell YTD amounting to RM3.4 billion, with foreign participation increasing to 42%. Despite the large foreign net sell, the KLCI recorded its largest month-on-month gain of +2.7% YTD. This could be partially attributable to the 2QFY25 earnings reporting season where we saw an improvement in the number of companies which reported earnings that met or above consensus expectations.

We believe investors are looking beyond the reported earnings of 2QFY25 and possibly positioning for a potential rate downcycle by the US Fed which should bode well for the Ringgit and emerging markets overall. Domestic portfolios continue to be positioned into dividend yielding stocks and domestic-driven sectors.

We maintain our cautious view on the US market. With the bulk of tariff negotiations over, investors will be monitoring the impact on the US economy and inflation. Valuation is not compelling at nearly +2SD to 10 year mean forward Price-to-Earnings ("P/E") ratio. While the proposed tax cuts may offer some relief to US corporates, higher costs and persistent business uncertainty continue to pose headwinds for the economy. That said, we still favour the US tech sector given its leading capabilities and we believe there's still a long runway for AI development.

Meanwhile, we maintain our positive outlook on Asia equities, supported by stable inflation, a robust technology sector, and the return of foreign inflows. We expect Chinese equities market to remain supported by ongoing government stimulus and targeted fiscal stimulus. India is a beneficiary of global supply chain relocation and favourable demographics over the longer horizon. The proposed reforms in Goods and Services Tax regime are positive for consumption. Economies such as Korea and Taiwan are benefiting from strong global demand for semiconductors and AI-related technologies. Investment in AI, software and related tech infrastructure is accelerating across Asia. We also favour sectors driven by domestic demand and high-yielding stocks, which offer resilience amid concerns over a potential slowdown in global trade.

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