

Global Outlook¹

In July 2025, global equity markets rallied for the third month. Largest gainers were Thailand, Indonesia, and Taiwan at 14%, 8%, and 5.8%, respectively. India and Malaysia dropped 2.9% and 1.3% respectively. Bond indices performances ranged from -1.5% to +0.8%.¹

The Fed maintained the Fed Fund rate at 4.50% during the July 2025 FOMC meeting. The Fed stated that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments. The ECB maintained the interest rate at 2.00% during the July 2025 meeting.

We prefer Equity over Cash in Asia. While the tariffs ended up higher than 10% after negotiation, markets are instead focusing on easing financial conditions with more fiscal spending, easier monetary policy, stable/falling inflation and healthy risk appetite. Prefer to diversify across companies with strong free cash flows, improving business prospects and high dividend yielders, especially in sectors such as technology, financials, industrials and communication services.

Global Outlook of the two capital markets: Fixed Income & Equities

Region: Developed economies

Fixed Income

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate at 4.50% during the June 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.⁴
- While the market has priced in 2 Fed rate cuts in 2025, worries over inflation and fiscal deficit in the US will likely keep yields high. Prefer corporate bonds over govies for yield pickup. Continue to have some tactical position in govies.⁵

Equities

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate at 4.50% during the July 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.⁴
- Marginal Overweight for the US, while Neutral on the EU and Japan. Increased off-benchmark exposure, including Asian stocks. With weaker-than-expected July payroll data and downward revisions to prior months, expectations for a September rate cut have increased.

Region: Regional (Asia-Pacific ex-Japan)

Fixed Income

- Our view: **Positive**.
- Pockets of opportunity in local currency Asian and Chinese credits, as yields remained relatively attractive.⁶
- We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.⁶

Equities

- Our view: **Positive**.
- We prefer Equity in Asia. While tariffs are higher than 10% after negotiation, markets are focused on easing financial conditions with more fiscal spending, easier monetary policy and stable/falling inflation.
- Prefer to diversify across companies with strong cashflows, improving business prospects and high dividend yielders especially in sectors such as technology, financials, industrials and communication services.³

Region: China

Fixed Income

- Our view: **Neutral**.
- Net credit bond supply in May 2025 decreased to RMB327bn from RMB434bn previously. This came from redemptions for LGFVs, non-LGFVs and SoEs. PoE saw redemption, too.⁸
- The default rate for May 2025 remained at 0.10% as per April 2025.

Equities

- Our view: **Neutral**.
- Prefer domestic-oriented companies with growth and strong cash flow, like selected names in technology, domestic consumption, infrastructure, communications and financials.
- Manufacturing PMI for July 2025 dropped to 49.3 from 49.7 previously. The Services PMI slid to 50.1 from 50.5 over the same period.⁹

Region: Domestic (Malaysia)

Fixed Income

- Our view: **Positive**.
- BNM cut the OPR to 2.75% during the July 2025 MPC meeting. The reduction in the OPR is a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects.¹⁰
- Aim to take profit on the shorter end govies after the recent rally, as market prices are anticipating a rate cut. We will continue to hold a tactical position in government bonds, as local markets are expected to remain supported with a lesser supply. Prefer corporates for the yield pick-up and the carry it offers. With the local PDS pipeline expected to be heavy, we will take profit on tighter names and switch into new issuances.³

Equities

- Our view: **Positive**.
- The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalise domestic investment and buoy consumption.³
- Adopt a barbell strategy by pairing high-dividend, big-cap, defensive stocks with selective exposure to undervalued laggards and domestic demand names and looking for opportunities in sectors such as Construction, Property, Utilities and selective Banks.

Investment Implication:³

- **Global:** Slight Overweight U.S., Neutral Europe & Japan and Underweight Cash. While the Trump administration's policy remained a primary driver, there is less uncertainty compared to three months ago. The U.S. economy is likely to slow down, and the risk of recession appears low. Policy shifts could promote growth with promises of U.S. deregulation, and tax policy may provide a boost to the U.S. economic outlook. With the Trump tax bill approved on July 4th, the market will turn its attention to economic data and observe the strength of the labour market for further direction. U.S. valuations are elevated, but resilient earnings and low recession risk support a gradual re-risking. Europe's fundamentals remain weak despite recent policy reform. Germany's fiscal overhaul is expected to be supportive for long-term growth; however, recent market price action appears to have moved ahead of fundamentals, and in the near term, we see limited positive catalysts to sustain the momentum.
- **Malaysian Equity:** Continue to advocate a barbell strategy, given the current uncertain global environment, where near-term volatility is expected to continue, mainly due to the US administration's unpredictability. Concerns over a tariff-driven worldwide slowdown and the constant changes to Trump's trade policies could weigh on market confidence and pressure Malaysia's growth and earnings outlook. That said, downside risks may be partially cushioned by the recent supportive domestic-driven initiatives by the government. The barbell strategy is pairing high-dividend, big-cap, defensive stocks with selective exposure to growth companies with domestically focused demand. We believe there are still pockets of opportunities to invest, especially in sectors such as Construction, Property, Utilities and selective Banks. Key risks include a further escalation of global trade tensions affecting business and investment conditions.
- **Malaysia Fixed Income:** After the recent rally on the back of the OPR cut, the local bond market has stabilised with profit takers emerging, looking to lock in gains given a resilient growth target and some stability on the trade tariff front. We look to take profit on government bonds while maintaining tactical positions in anticipation of the upcoming maturities. With widening credit spreads, our preference remains in the corporate segment for better total return. We continue to take profit on the overvalued credits and rotate to primary issuances.
- Trade headlines are likely to stay top of mind for investors. One reason markets have appeared to be taking Trump's tariff threats in stride is the recognition of a still resilient U.S. economy and expectation that the Federal Reserve will resume policy easing next month. We maintain that the rationale for investing in both Equity and Fixed Income remains strong, and we still foresee additional growth in the coming years.
- We reiterate the importance of keeping sight of longer-term investing principles that can boost risk-adjusted rates of return through portfolio diversification and an emphasis on quality growth and income to navigate the volatility ahead. Our strategy has also emphasised focusing on companies that demonstrate the attributes of large-cap defensiveness, with earnings that are more domestically focused. Additionally, quality bonds have historically offered portfolio stability, especially in times of uncertainty.
- We remain a slight preference for equities over fixed income. Key themes for 2025 include: i) the U.S. economic outlook and the narrative surrounding potential rate cut by the U.S. Federal Reserve; ii) capital movements towards Asia; and iii) the impact of tariffs and geopolitical risks on asset valuations.

Special Topic ³

Consider adding exposure to potential market dips

Several reasons:

1. USD has peaked and has dropped 9.1% YTD – **POSITIVE**
 - *A cheapened dollar fattens corporate profits and helps exporters, both of which are stimulative for the economy*
 - *Good for Emerging Markets from fund flows perspective*
2. Oil prices are lower, which acts like a tax cut for U.S. consumers – **POSITIVE**
 - *A savings of USD200bil or 0.9% of disposal income for U.S. alone.*
 - *The rest of world that do not provide energy subsidies will be benefit as well.*
3. Trump's One Big Beautiful Bill Act – **POSITIVE**
 - *Will add fiscal stimulus of about 0.7% of GDP this year*
 - *The rest of the world also embarked on fiscal stimulus – ie. Germany, China.*
4. On **interest rates**, ex-Japan, most central bankers are on cutting mode – **POSITIVE**
 - *Peaked USD helps to accelerate the rates cuts*
 - *If Fed cuts, it will allow other central bankers to accelerate the rates cuts*

Footnotes:

- 1 Bloomberg, 31 July 2025
- 2 Federal Reserve Board, 31 July 2025
- 3 Principal, 31 July 2025
- 4 European Central Bank, 31 July 2025
- 5 Federal Open Market Committee (FOMC), 31 July 2025
- 6 JP Morgan Research, 31 July 2025
- 7 Bloomberg, 31 July 2025
- 8 BofA Securities, 31 July 2025
- 9 National Bureau of Statistics of China, 31 July 2025
- 10 Bank Negara Malaysia, 31 July 2025

Past performance does not guarantee future results. Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.

Glossary of Terms

UW: *Underweight*

OW: *Overweight*

MoM: *Month-over-Month*

YoY: *Year-over-Year*

FOMC: *Federal Open Market Committee*

ECB: *European Central Bank*

UST: *United States Treasury*

PMI: *Purchasing Managers Index*

SoE: *State-Owned Enterprise*

SEZ: *Special Economic Zone*

BNM: *Bank Negara Malaysia*

MPC: *Monetary Policy Committee*

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