

Global Outlook¹

In September 2025, global equity markets rallied for the fifth month. The largest gainers were Korea, H-share, and Taiwan at 7.5%, 6.8% and 6.6% respectively. There were no losers for the month. Bond indices performances rose 0.7% to 1.2%.¹

The Fed cut the Fed Fund rate by 0.25% to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead. The ECB maintained the interest rate at 2.00% during September 2025 meeting.

We prefer Equity over Cash in Asia. Stable GDP growth in Asia, coupled with a rate-cut cycle and a weaker USD, should be supportive of Asian markets. Valuation is reasonable, with earnings growth of 14.9% in 2026. Prefer diversified companies with strong free cash flows, improving business prospects, and high dividend yields in sectors such as technology, financials, consumer discretionary, industrials, and communication services.

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

Region: Developed economies

Fixed Income

- Our view: **Positive**.
- The Fed cut the Fed Fund rate to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead.⁴
- We will take some profit on some corporate bonds with rich valuation post the rally, but maintain an overweight position. Maintain a tactical position in government bonds, with a bias towards higher weight, in light of the rising expectation of a rate cut at the September FOMC meeting.⁵

Equities

- Our view: **Positive**.
- The Fed cut the Fed Fund rate to 4.25% during the September 2025 FOMC meeting. The Fed guided that more rate cuts are possible further ahead.⁴
- Slight Overweight for the US, Neutral on Japan and marginal Underweight for the EU. Higher off-benchmark exposure including Asian stocks. The US will be supported by earnings growth and expectations of rate cuts. Valuation is becoming richer and will need to be supported by continued earnings growth into 2026.

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. Stable GDP growth coupled with a rate-cut cycle and a weaker USD should be supportive for Asia. Valuation is attractive, with earnings growth of 14.9% in 2026.
- Prefer companies with strong cashflows, high dividend yielders in sectors such as technology, financials, consumer, industrials, and communication services.³

Region: China

Fixed Income

- Our view: **Neutral**.
- Net credit bond supply in July 2025 rose to RMB778bn from RMB418bn previously. This came from issuances from financials and SoEs. LGFVs saw net redemption of RMB42bn.⁸
- Default rate for July 2025 remained at 0.10% as per June 2025.

Equities

- Our view: **Neutral**.
- China is supported by continued capital inflows and ambitions in AI and Technology self-sufficiency. The possibility of a deal between China & US should President Xi and President Trump meet, perhaps this year.
- Manufacturing PMI for Aug 2025 rose to 49.8 from 49.4 previously. Services PMI dropped to 50 from 50.3 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 was a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects.¹⁰
- To take profit on government bonds while maintaining tactical positions in anticipation of the upcoming maturities. With widening credit spreads, we prefer the corporate segment for better total return.³

Equities

- Our view: **Positive**.
- The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.³
- Pairing high-dividend, big-cap, defensive stocks with exposure to growth companies, either with domestic focused demand or exposed to structural growth of technology. Pockets of opportunities in Construction, Utilities and selective Banks.

Investment Implication:³

- **Global:** Slight Overweight US, Slight Underweight Europe, and Neutral on Japan. Underweight Cash. Increased off-benchmark exposure, including Copper ETF, Gold ETF, and selective Asian Stocks. US equities will be supported by solid earnings growth and expectations of Fed rate cuts. That said, valuation is becoming stretched and will need to be supported by continued earnings growth into next year. We maintain a Slight Overweight on the US while staying mindful of valuation risks. In Europe, political uncertainty in France has intensified after PM Lecornu's resignation less than a month after taking office. President Macron now faces the choice of appointing a new PM or dissolving parliament to call snap elections. With parliament in deadlock and growing calls for early elections, political uncertainty and fiscal policy execution risk are likely to weigh on market sentiment. We remain Neutral on Japan, with attention turning to PM Takaichi's cabinet formation, potential coalition negotiations, and the upcoming extraordinary Diet session to draft a supplementary budget addressing rising living costs. These developments should provide more clarity on the future policy direction.
- **Malaysian Equity:** Continue to advocate a barbell strategy, given the current uncertain global environment, where near-term volatility is expected to continue, especially due to the US administration's unpredictability. Concerns over a tariff-driven global slowdown and the constantly changing Trump administration'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 domestic-focused demand. We believe there are still pockets of opportunity 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:** With inflation contained and growth steady, we expect BNM to keep the OPR unchanged at 2.75% through the remainder of 2025. Corporate spreads are expected to widen once MGS yields stabilize due to a lag in repricing. We will take profit on existing corporate bond holdings when the opportunity arises. Stay overweight corporates for yield pick-up by redeploying into primary issuances where we see more attractive valuations considering the robust pipeline of quality corporates, prioritizing Issuers with strong balance sheets and limited trade exposure. Maintain tactical positioning in government bonds amid the recent selloff, which offers a cheaper entry point.
- Markets are entering the fourth quarter of 2025 with uncertainty. The US government has shut down after the final vote on a stopgap spending bill failed to pass the Senate. US President Donald Trump has added new tariffs on imported timber and lumber, while the Wall Street Journal reported that the administration is considering a tariff scheme to incentivize chipmakers to invest in domestic manufacturing.
- Market volatility may be expected in the coming days and weeks. But the macroeconomic effects of shutdowns have historically been minimal and quickly reversed. With the Fed now resuming rate cuts and cash returns are set to fall further, we believe it remains a good time to put cash to work. 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. Our base case remains that rate cuts have typically been supportive for stock markets during non-recession periods, as well as further benefits for fixed income.
- **Investors are advised to keep sight of longer-term investing principles** that can boost risk-adjusted rates of return through portfolio diversification and a phased-in strategy. This can help to manage the risk of poor timing, reduce the influence of emotion, and provide more opportunities to benefit from market dips and rebounds. Our strategy emphasized companies that demonstrate the attributes of quality growth, with earnings more domestically focused. Additionally, quality bonds have historically offered portfolio stability, especially in times of uncertainty.

Seasonal Analysis – 4Q and 1Q are typically the best for Equity

Holding Period	Average returns (%)	Rank (out of 12 months) (Best =1; Worst =12)	No. of yrs with positive returns	Total no. of years	% of years with positive returns	Rank (out of 12 months) (Best =1; Worst =12)
January-June	5.1%	5	26	45	57.8%	5
February-July	4.9%	6	29	46	63.0%	6
March-August	1.0%	9	27	46	58.7%	9
April-September	0.8%	10	23	45	51.1%	10
May-October	-0.2%	11	22	45	48.9%	11
June-November	-1.3%	12	20	45	44.4%	12
July-December	2.0%	8	25	45	55.6%	8
August-January	2.2%	7	23	45	51.1%	7
September-February	6.8%	3	29	45	64.4%	3
October-March	6.8%	4	29	45	64.4%	4
November-April	7.7%	2	32	45	71.1%	2
December-May	8.4%	1	30	45	66.7%	1

Source: CLSA as at 25 August 2025

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The chart above highlights a clear seasonal pattern in equity returns, with returns from the end of the calendar year through early next year generally better than those from mid-year periods.

- The data shows average returns, rankings, and frequency of positive returns for various six-month holding periods throughout the year.
- The highest average returns are observed in the periods December–May (8.4%) and November–April (7.7%), which correspond roughly to the 1st quarter of the calendar year.
- Similarly, September–February (6.8%) and October–March (6.8%) also show strong returns, highlighting the strength of the 4th quarter and early part of the year.
- These periods also have a high percentage of years with positive returns (above 60%), indicating consistent performance.
- Conversely, mid-year periods like June–November (-1.3%) and May–October (-0.2%) tend to have the lowest average returns and rank poorly, suggesting these months are typically weaker for equities.

The seasonal trend implies that investors may benefit from focusing on the equity market in the 4th quarter and 1st quarter periods to potentially maximize returns.

Sources:

- 1 Bloomberg, 30 September 2025
- 2 Federal Reserve Board, 30 September 2025
- 3 Principal, 30 September 2025
- 4 European Central Bank, 30 September 2025
- 5 Federal Open Market Committee (FOMC), 30 September 2025
- 6 JP Morgan Research, 30 September 2025
- 7 Bloomberg, 30 September 2025
- 8 BofA Securities, 30 September 2025
- 9 National Bureau of Statistics of China, 30 September 2025
- 10 Bank Negara Malaysia, 30 September 2025

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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