December 2025

Monthly Market Outlook

Not Without Headwinds Going Into 2026

Summary

- **Global economic growth continued to expand at a solid pace in Nov-25.** The JPM Global Composite PMI registered 52.7, slightly lower than Oct-25's 17-month high of 53.0. In the services sector, the strongest increase in activity was recorded in the financial services category. Meanwhile, global manufacturing output and new business rose for the fourth consecutive month, although the pace of growth moderated. The JPM Global Manufacturing PMI eased to 50.5 in Nov-25 from 50.9 in Oct-25. Across major economies, the US and India continued to record solid output expansion, whereas China and the remaining G-4 economies showed comparatively subdued performance.
- **APAC market review – The MSCI Asia Pacific index ended Nov-25 down 2%,** snapping its seven-month consecutive gains. The key headwinds were near-term uncertainty around the US rate-cut timeline and a renewed global concern over high valuations in the technology sector. As a result, tech-heavy markets underperformed despite strong earnings from major players. Among regional markets, Korea and Taiwan bore the brunt of foreign outflows and were the main laggards.
- **Local equity review – The FBM KLCI held firm in Nov-25, easing just 0.3% while staying above the crucial 1,600 level. Large-cap resilience contrasted sharply with broader market softness**. The divergence partly reflects the outperformance of the heavyweight banking sector relative to the mid- and small-cap technology stocks. Macro conditions remain constructive. The Ringgit is among the best-performing regional currencies this year. While foreign investors were net sellers of Malaysian equities in Nov-25, the magnitude of outflows was sharply lower than in Oct-25, suggesting easing selling pressure.
- **Bond market review – US Treasury yields rose MoM in Nov-25 on the reversal of Fed rate cut bets** following hawkish statements from Fed officials, concerns on inflation and extended government shutdown. Notably, the 2Y UST yield closed at a high of 3.62% in mid-Nov before whittling down towards month-end as markets fully priced-in a Dec-25 rate cut arising from dovish statements from the Fed Williams (a permanent voter and vice-chair). For Malaysia, govvy yields were lower MoM despite the reported commendable 3Q25 GDP growth data release while the Oct-25 CPI print remained rather benign.
- **Macro – As we transition into 2026, economic and political uncertainty remains elevated.** This uncertainty, so far, seems to have little impact on financial-market performance in 2025 as many markets posted their best returns in 10 years, but be prepared to price for the tail risk especially on the reversal of excess liquidity in 2026. Separately, in the near term, Nomura's leading index for Asian exports has risen strongly for second consecutive months in Dec-25, signalling that Asian export growth is likely to edge higher into year-end.

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- **Local equity outlook – December is traditionally a positive month for Malaysian equities, delivering an average monthly return of 2% over the past decade.** As Malaysia remains a laggard among the regional markets, there is room for catch-up as domestic macro conditions improve. Visit Malaysia Year 2026, together with the second round of SARA cash assistance in Feb-26, should provide additional support to consumption growth.
- **APAC equity outlook – Despite Nov-25's pullback, the MSCI APAC index remains up 26% YTD and continues to outperform many global peers.** The expected continuation of the US monetary easing cycle well into 2026 should benefit regional equities. Following the recent pullback, valuations have eased from their earlier highs while underlying fundamentals remain intact. Fiscal easing is also gaining momentum in several economies, with Japan announcing plans for a fiscal stimulus package equivalent to 2-3% of GDP.
- **Fixed Income outlook – For Dec-25, the potential cancellation of the RM4.5bn 10y MGS auction will likely cause local yields to decline from Nov-25.** The favourable supply dynamics, fiscal consolidation path, sustained growth and stable inflation going towards 2026 will continue support local yields. On global yields, the direction of the Fed at Dec's FOMC will be pivotal. Markets are looking at potentially hawkish cut by the Fed especially if Hassett is on-board as the chair. We opine that the Fed will likely do 1 cut in 1Q26 on expectations of weaker labour data and consumption arising from the government shutdown.

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