

Market Review and Outlook

December 2025

Market Review

Global equity markets largely ended the year on positive notes in the closing month of 2025. The MSCI World Index continued edging upwards +0.73% mom. In the US, while the Dow Jones Index rose +0.73% mom, its technology heavy NASDAQ Index instead eased 0.53% mom as investors of the Artificial Intelligence (AI) narrative diverged on concerns of earnings delivery as well as monetization. In December 2025, the Federal Open Market Committee (FOMC) moved to cut rates by 0.25 ppt to 3.75% premised on deliberations about the need of balancing inflationary risks against that of buttressing any weakness in its labour market. Its November Core Consumer Price Index (CPI) reported was +2.6% yoy which was better than consensus expectations of +3.0% yoy but still not yet at the Fed's +2% yoy target for inflation. On the other hand, the November unemployment rate was 4.6% which was slightly worse than consensus' expectations of 4.5%.

Over in Europe, the Stoxx 50 Index was up +2.17% mom as the region closed the year with HCOB Composite PMI reading of 51.5 marking its 12 straight months of expansion since December 2024. Its growth was anchored by its services contributions as its HCOB Manufacturing PMI had a contractionary reading of 48.8 during the month under review. However, its November CPI preliminary estimate came in at +2.2% yoy which was slightly ahead of consensus.

In China, the Shanghai Composite Index also shot up +2.06% mom amongst lukewarm macroeconomic activities and a near default from Vanke, once China's largest homebuilder by sales, as the country's property industry recovery continued to plod on. The nation's December 2025 Composite PMI managed to eke out an expansionary reading of 50.7, a rebound from its prior month's contractionary reading of 49.7. Apart from that, the People's Bank of China kept its 1 – year and 5 – year Loan Prime Rate (LPR) unchanged at 3.00% and 3.50% respectively, signifying the central bank's steady stance on monetary policy.

Unlike equity markets, selected commodities instead eased towards the year's end. Brent crude oil price fell 3.7% mom to close 2025 at USD60.85/ bbl. Despite brewing geopolitical tensions and China's strategic stockpiling, oil price was hampered by the oversupply situation in the global market which was further worsened by OPEC+ raising production targets in 2H25. In fact, the US Energy Information Administration (EIA) projected that Brent price would average USD55.08/ bbl in 2026. Similarly, crude palm oil (CPO) price also declined 2.5% mom to RM3998/ MT on surging inventory in November (announced on 10 December 2025) due to weaker exports whilst production was still relatively strong. In addition, the reduction in CPO price was also in part due to the strengthening of the RM which appreciated to RM4.0580: USD1.00 as at end December 2025 from RM4.1340: USD1.00 a month ago.

The ASEAN equity markets also enjoyed year end uplifts along with their developed market peers. Malaysia's FBMKLCI surged +4.71% mom spurred by domestic buying as the foreign investors' exodus continued with a December 2025 net foreign equity outflow of RM2.0b, bringing the 2025 total net foreign equity outflow to RM22.3b. From an economic standpoint, October 2025 industrial production and manufacturing sales were +6.0% yoy and +6.3% yoy which were better than the previous month's readings of +5.7% yoy and +4.3% yoy respectively.

Singapore's Straits Times Index soared +2.70% mom amidst the aforementioned US Fed rate cut and decent macroeconomic data. Its November 2025 Non – oil Domestic Exports (NODX) expanded at +11.6% yoy, ahead on consensus' expectation of +6.8% yoy, being driven by pharmaceuticals, pumps, non – electric engines and motors. Meanwhile, its November 2025 electronic exports grew by +13.1% yoy, albeit somewhat lower than the previous month's +33.2% yoy.

The Indonesian Jakarta Composite Index increased +1.62% mom as investors looked toward greater economic growth in the new year with President Prabowo's 2026 target of +5.4% yoy via fast – tracking infrastructure spending whilst Bank of Indonesia maintained its 2025 GDP growth forecast around the midpoint of 4.6 – 5.4% yoy. The higher economic growth could augur well for corporate earnings in 2026. On its monetary policy, Bank Indonesia decided to keep its policy rate at 4.75% for its third consecutive meeting. Central bank Governor Warjiyo stated that the move was to maintain the stability of the rupiah as global market uncertainties remained high. He added the central bank had room for further policy easing given the low inflation outlook in 2026 and the need to boost economic growth.

Lastly, the Stock Exchange of Thailand edged up +0.24% mom as the Bank of Thailand (BOT) moved to cut its benchmark interest rate by 0.25 ppt to 1.25% in response to a slowing economy and heightened external risks. The central bank's committee noted that the cut should ensure financial conditions would support a fragile recovery and alleviate vulnerable households' debt burden. According to the committee, the move was also to mitigate potential headwinds which would include the waning in private consumption as household incomes softened and the risks from potential new US trade tariffs.

Although the widely expected 25 bps cut in Fed Fund Rate did materialise in December, UST yields rose 5 – 19 bps mom across the curve. The weakened bond market sentiments were driven by lower – than – estimated jobless claims data and rising government bond yields in Europe and Japan during the month. Jobless claims for the week ended 29th November which amounted to 191k (Survey: 220k) was the lowest in 3 years, indicating that employers were now retaining their workforce after a recent surge in layoffs. The 10th December rate cut saw two policymakers dissenting in favor of no action and one advocating for a larger reduction, indicating differing views on the necessity of further near – term cuts. Minutes of the meeting which was released on 31st December highlighted the challenges policymakers encountered in their latest decision which modestly reinforced expectations that the Fed may hold rates unchanged when they meet again in January. Fed fund futures as of end – December indicated lower implied rate cuts of 55 bps in 2026, down from 71 bps as of end – November.

Locally the movements of the Malaysian Government Securities (MGS) yields were mixed with the 3yr, 7yr, 20yr and 30yr yields down by 1 – 8 bps mom whilst the 5yr, 10yr and 15yr yields up by 1 – 5 bps mom. Malaysia's CPI for November 2025 increased by 1.4% yoy (Survey: 1.5% yoy, October: 1.3% yoy), driven by higher costs in alcoholic beverages, tobacco, and education. The auction calendar for 2026 was released during the month. The number of auctions will rise to 37 from 36. The 3y tenure will see 2 additional auctions while the 20y tenure will have 1 fewer auction. Issuance mix is roughly balanced between MGS and Government Investment Issues (GII) and well distributed across the curve.

Foreign funds net bought Ringgit bond holdings in December with net inflows of RM3.0b (November: net inflows of RM6.1b). This brought the total inflows for 2025 to RM25.6b, marking an increase from RM4.8b in 2024. The foreign share of MGS lowered slightly to 33.7% (November: 33.9%) while the foreign share of MGS+MGII expanded to 21.6% (November: 21.4%). Malaysia's foreign reserves expanded by USD1.4b to USD125.5b as of end – December (November: USD124.1b).

Market Outlook

2025 was largely positive for investors, with investment sentiments initially spooked by US tariff tensions in 1H25 but was subsequently shrugged off and reinvigorated with fiscal and monetary easing policies. Going into 2026, global investors would likely be reevaluating the AI dominant theme which had been leading the US market for years on concerns of valuations and actual product monetisations. Furthermore, they would also have to grapple with rising inflation risks owing to the global US tariffs coming into play and other geopolitical flare ups such as the ongoing Ukraine – Russia conflict or a possible gambit on Greenland.

On the local front, 2025 market concerns such as the uncertainties surrounding the US Liberation Day tariff which threatened Malaysian trade, and the Framework for AI Diffusion which undermined Malaysia's access to advanced AI chips thereby potentially curtailing our government's AI/ Data Centre aspirations had all been buried in 2H25. Thus, investors could now venture into 2026 on a firm economic footing for continued growth underpinned by resilient domestic demand. It would also be a year of further actualisation for several key government reforms and initiatives such as the National Energy Transition Roadmap (NETR), New Industrial Master Plan 2030 (NIMP), Johor Singapore – Special Economic Zone (JSSEZ) and the Government – linked Enterprises Activation and Reform Programme (Gear – UP). However, even with a fairly benign market backdrop, ongoing geopolitical and other exogeneous risks would demand that we should exercise a degree of caution whilst abiding by our tenet of investing in fundamentally good investments over long – term investment horizons. Having said that, prudence would necessitate that we should keep constant vigil for potential threats that might require a realignment of our strategies.

In the US, indicators suggest that economic activity has been expanding at a moderate pace, but job gains have slowed in 2025. However, there are risks to inflation moving higher which could introduce caution into the Fed's monetary policy where potential rate cuts would be weighted against stubborn inflation. In any case, the FOMC remains attentive to the risks to both sides of its dual mandate and is strongly committed to supporting maximum employment and returning inflation to its 2% objective. Currently, markets expect the FOMC to stay put at the next meeting as policymakers weigh incoming data after the government shutdown.

Bank Negara Malaysia (BNM) noted that Malaysia's 3Q25 economic growth enjoyed sustained domestic demand, resilient electrical and electronics (E&E) exports, and a recovery in commodity production. It further highlighted that resilient domestic demand would continue to support growth in 2026. BNM also stated that they would continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation. We would selectively accumulate bonds at reasonable valuations while prioritizing good quality names.

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