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THE first half of 2025 (1H25) was anything but uneventful.

US President Donald Trump's sweeping tariffs sent shock waves across global markets, and Malaysia was no exception. The FBM KLCI index fell 6.5% in the first six months of the year, reflecting investors' anxiety amid escalating trade tensions.

Looking ahead, we expect continued volatility in the equity market over the next three months. Tariff uncertainties, rising geopolitical risks and domestic developments – such as the rollout of an expanded and higher sales and service tax (SST) – are likely to weigh on sentiment.

Additionally, the potential restriction of artificial intelligence chip exports from the United States to Malaysia adds another layer of uncertainty.

Despite these near-term headwinds, we remain constructive on Malaysian equities over the short to medium term. This period of volatility may present a valuable opportunity for investors to accumulate quality growth stocks on the downside.

Furthermore, downside risks appear limited, supported by several structural buffers: local institutional funds are mandated to invest significantly in domestic markets, foreign ownership is at historical low, and fund managers are holding elevated levels of cash.

We are now well into the 2H25. Malaysian businesses are grappling with more than just tariffs.

The expanded SST, effective July 1, introduced a sales tax of 5% to 10% on selected non-essential goods and a service tax of % to 8% on a broader range of services – including rental and leasing, construction, finance, private healthcare, and education.

This policy shift is expected to raise the cost of doing business and could dampen corporate earnings.

That said, domestic-oriented sectors like construction, property, utilities, telecommunications and selected Malaysia Real Estate Investment Trusts (M-REITs) may prove to be more resilient in this environment.

The tale of Trump's tariffs continues into the 2H25. On July 7, the United States announced new import tariffs for 14 countries, effective Aug 1, targeting those that have yet to finalise trade agreements.

Malaysia will now face a 19% tariff on exports to the United States, reduced from the previous 25%, under an executive order signed by Trump.

Particularly concerning is the inclusion of electrical and elec-

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tronics goods, suggesting that semiconductor-related exports may not be spared.

Additional sector-specific tariffs may follow.

Export-oriented sectors such as gloves and semiconductors are expected to bear the brunt of this latest tariff escalation and also the weaker US dollar.

In response to these challenges, Bank Negara cut the overnight policy rate (OPR) by 25 basis points (bps) to 2.75% in July – the first rate cut since 2020.

While this move is largely pre-emptive, it reflects growing concerns over Malaysia's growth outlook amid global trade uncertainty.

Inflation remains subdued, with headline inflation at a 51-month low of 1.2% year-on-year in May.

However, future inflation trends will hinge on the timing of fuel subsidy removals, which

remain under review.

The OPR cut will have a modest impact on the banking sector, with earnings expected to contract by 2% to 3% for every 25-bps reduction due to the repricing lag between loans and fixed deposits.

From a fixed income perspective, we believe Malaysian bonds remain attractive and should be part of a diversified portfolio to mitigate risk.

Meanwhile, global interest rate cuts and the ongoing de-dollarisation trend could benefit emerging markets like Malaysia.

A weaker US dollar may strengthen the ringgit, potentially attracting fund inflows into both equity and fixed income markets.

In this context, we are cautious on exporters but positive on companies with US dollar-denominated debt and high import content.

In summary, while the road

ahead is fraught with uncertainty, it is also paved with opportunity. Investors who stay focused on fundamentals and take a long-term view may find that this period of disruption offers a rare chance to reposition for growth.

In navigating the complexities of tariffs, taxes and shifting global dynamics, Malaysia stands at a pivotal juncture.

While external pressures may test the resilience of our markets, they also present a moment to re-calibrate and re-focus on long-term fundamentals.

With prudent policy responses, strategic sector positioning, and a growing appetite for quality investments, Malaysia has the tools to weather short-term volatility and emerge stronger.

The 2H25 may be turbulent, but it also holds the promise of transformation for investors who are prepared to act with clarity and conviction.

There's **promise** amid the despair

