

Market commentary

Fixed income market review and outlook

September 2025



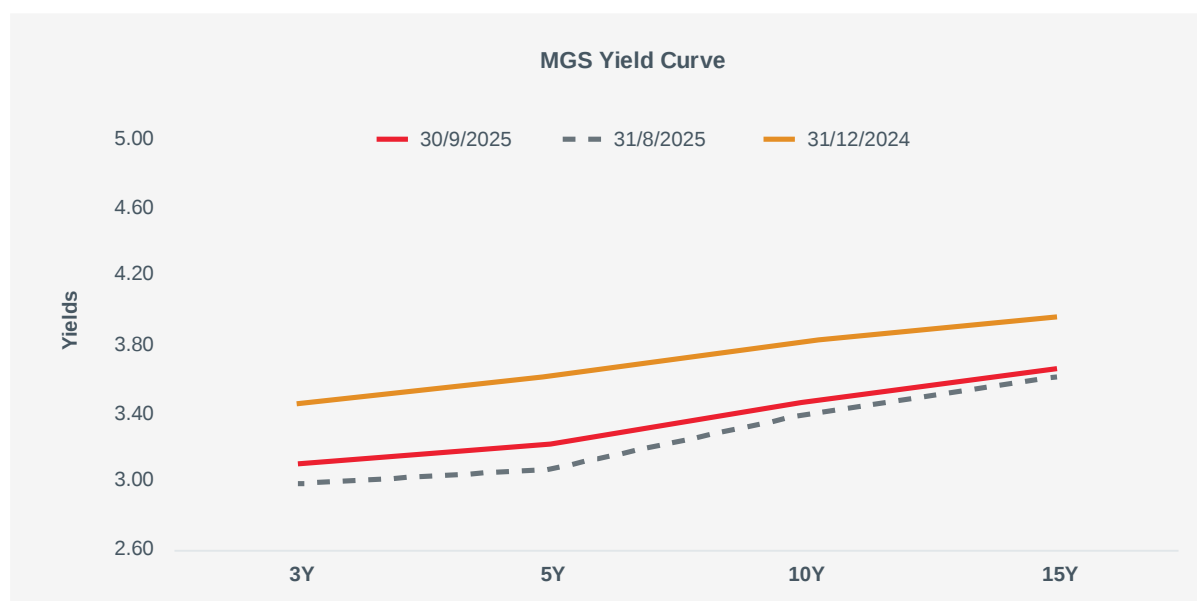
Review

- As widely expected, the Federal Reserve (Fed) cut interest rates by 25 basis points (bps) at its recent September meeting, bringing the funds rate to 4.0-4.25%, to support the U.S. economy amid signs of slowing growth in the labour market and easing inflation pressures. For September 2025, the Chicago Fed's real-time estimate for US employment rate was 4.34% (August: 4.32%). In August 2025, the headline PCE price index increased 2.7% y-o-y (Jul: 2.6%), while Core PCE price index held steady at 2.9% y-o-y (Jul: 2.9%), driven by accelerating good and energy prices. The University of Michigan Consumer Sentiment index fell to 55.4 in September 2025, from 58.2 in August 2025, marking the second consecutive monthly decline, driven by growing consumer worries about inflation, business conditions and the labour market. The Manufacturing PMI rose to 49.1 in September 2025 (Aug: 48.7), showing continued contraction due to high costs and persistent tariffs weighed on demand, although a rebound in production helped to offset declining new orders. The Service PMI fell to 50 (Aug: 52), driven by weaker business and new orders, a contraction in employment and intensified price pressures.
- The Bank of England kept its Bank Rate unchanged at 4.0% in September 2025, balancing the need to control persistent inflation with concerns over a weakening economy, a cooling jobs market and slowing wage growth. In August 2025, UK headline inflation held steady at 3.8% (Jul: 3.8%), as higher food and petrol prices were offset by lower airfare costs, while its core Inflation eased to 3.6% (Jul: 3.8%). Retail sales increased by 0.7% August 2025 (Jul: 1.1%), primarily driven by strong food sales. In July 2025, industrial production increased by 0.1% (Jun: 0.2%), and manufacturing production grew by 0.2% (Jun: 0.3%).
- The European Central Bank ("ECB") kept its key policy rates in September 2025, with the deposit facility rate at 2.00%, the main refinancing rate at 2.15%, and the marginal lending facility at 2.40%. Inflation remains close to the ECB's medium-term target of 2%, with the outlook is broadly unchanged. Headline inflation is projected to average 2.1% in 2025, ease to 1.7% in 2026 and rise slightly to 1.9% in 2027. GDP growth is projected at 1.2% in 2025, slowing to 1.0% in 2026 before recovering to 1.3% in 2027. In September 2025, the Eurozone's inflation rate rose to 2.2% (Aug: 2.1%), while core inflation rate was stable at 2.3%. In July 2025, the Eurozone's industrial production rose by 1.8% y-o-y (Jun: 0.2%), driven by a rebound in consumer goods production, particularly non-durable consumer goods, and strong growth in capital and durable consumer goods, which offset a decline in energy production.
- The Reserve Bank of Australia kept its cash rate unchanged at 3.60% at its September meeting, citing persistent inflation risks and ongoing uncertainties in both domestic and global economic outlooks. In Asia, Bank Indonesia unexpectedly cut its interest rate by 25 bps to 4.75% at its September meeting to boost economic growth, despite concerns over rupiah stability, fiscal discipline and recent political uncertainty. Meanwhile, Bank Negara Malaysia ("BNM") and the Bank of Japan maintained their interest rates at 2.75% and 0.5%, respectively. The central bank of Philippines, the Bank of Thailand and the Bank of South Korea did not hold any monetary policy committee meetings in September 2025.
- The People's Bank of China kept its key lending rates unchanged in September 2025 to maintain a cautious monetary stance amid mixed economic signals and easing trade tensions with the US. The 1-year and 5-year loan prime rates was at 3.0% and 3.5%, respectively. In August 2025, China's imports rose 1.3% YoY in USD terms (Jul: 4.1%), reflecting subdued domestic demand, sluggish industry activity and the lingering effects of US tariffs. Exports grew slowed to 4.4% YoY (Jul: 7.2%), due to a temporary easing of tariff pressures and weaker demand from major consumer market. In August 2025, retail sales increased by 3.4% YoY (Jul: 3.7%), while industrial production grew by 5.2% YoY (Jul 2025: 5.7%). Meanwhile, fixed asset investment rose just 0.5% YoY from January-August 2025 (Jan-Jul 2025: 1.6%), weighed down by a deepening property sector contraction, slower growth in the tertiary industry and weakening private investment.

- In August 2025, the headline inflation rose to 1.3% (Jul: 1.2%), while core inflation increased to 2.0% (Jul: 1.8%). The unemployment rate held steady at 3.0% in July 2025 (Jun:3.0%). BNM international reserves amounted to US\$123.6bn as of 30 September 2025 (15 Aug: US\$122.0bn). The reserves position is sufficient to finance 4.8 months of imports and is 0.9x of the total short-term external debt. The Ringgit appreciated by 0.4% against USD, closing at 4.2072 at end September 2025 (Aug: 4.2248).
- Four auctions were held in September 2025, reopening of 3Y MGS 04/28, reopening of 30Y MGII 03.54, reopening of 15Y MGS 04/39 and reopening of 3Y MGII 07/28. The auctions received an average bid-to-cover ratio of 2.063x.
 - RM5.0b reopening of 3Y MGS 04/28 averaging yield of 3.036% at a bid-to-cover ratio of 1.928x;
 - RM5.0b (including RM2.0b private placement) reopening of 30Y MGII 03/54 averaging yield of 3.927% at a bid-to-cover ratio of 1.928x;
 - RM4.5b (including RM1.0b private placement) reopening of 15Y MGS 04/39 averaging yield of 3.638% at a bid-to-cover ratio of 1.52x; and
 - RM5.0b reopening of 3Y MGII 07/28 averaging yield of 3.162% at a bid-to-cover ratio of 2.876x.
- In August 2025, Malaysia's MGS and GII yields were mixed, fluctuating between +2 to -8 bps across the curve, influenced by developments in US trade policy and resilience of domestic fundamentals. Foreign fund flows resumed their two-month selling trend, recorded a net foreign fund inflow of RM3.05 billion in August 2025 (Jul: -RM5.53 billion). YTD, the net foreign fund inflows stood at RM18.96 billion. Meanwhile, the 10Y UST yield declined to 4.23% as at end-August 2025 (July: 4.37%), following Fed Chair Jerome Powell's signal of a possible rate cut in Sept 2025, citing increasing risks in the labour market.
- In September 2025, Malaysia's MGS and GII posted losses, with yields climbing between 6 to 14 bps across the curve, driven by weak demand at government bond auctions, foreign fund outflows, and heightened geopolitical and tensions. Foreign fund flows turned net sellers during the month, recorded a net foreign fund outflow of RM6.8 billion (Aug: RM3.05 billion). YTD, the net foreign fund remained positive at RM12.12 billion. Meanwhile, the 10Y UST yield declined to 4.16% as at end-September 2025 (Aug: 4.23%), as soft labour market data and rising unemployment reinforced expectations of Fed rate cuts.

BENCHMARK	Dec 2024 Yield	Aug 2025 Yield	Sep 2025 Yield	MOM Change	YTD Change
3-year MGS	3.47%	3.00%	3.10%	11 bps	-47 bps
5-year MGS	3.62%	3.08%	3.22%	14 bps	-39 bps
10-year MGS	3.82%	3.39%	3.45%	6 bps	-37 bps
15-year MGS	3.97%	3.59%	3.66%	7 bps	-31 bps

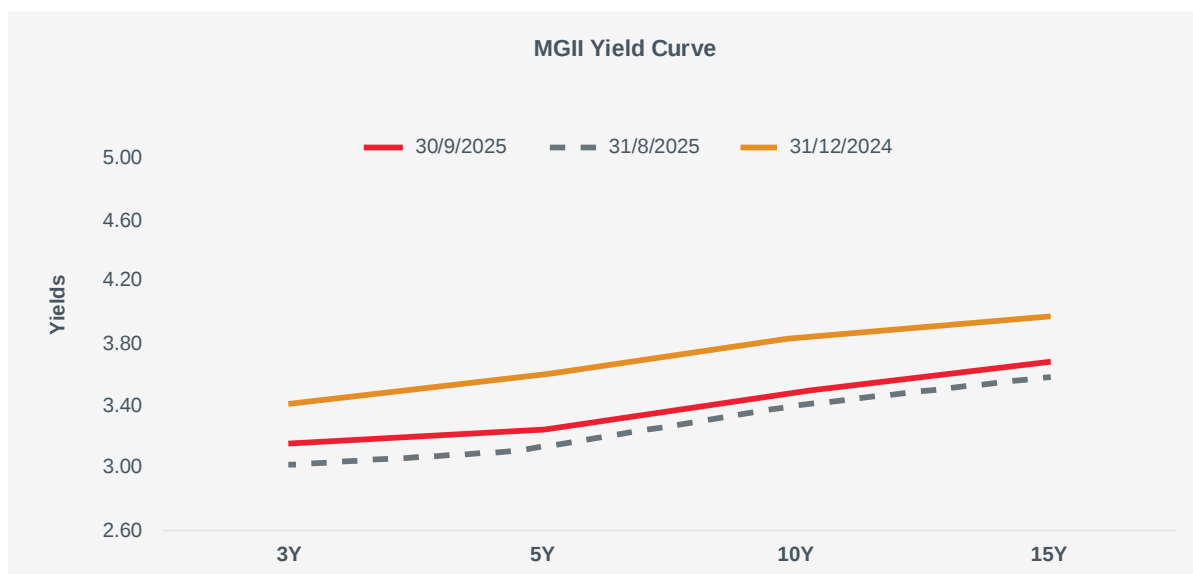
Source: Bloomberg



Source: Bloomberg

BENCHMARK	Dec 2024 Yield	Aug 2025 Yield	Sep 2025 Yield	MOM Change	YTD Change
3-year MGII	3.42%*	3.02%	3.15%	13 bps	-27 bps
5-year MGII	3.62%	3.13%	3.24%	11 bps	-37 bps
10-year MGII	3.83%	3.42%	3.48%	7 bp	-35 bps
15-year MGII	3.98%	3.59%	3.70%	11 bps	-28 bps

Source: Bloomberg. *MGII3Y Index



Source: Bloomberg

Outlook

- ▶ The Fed lowered interest rates by 25 bps in September 2025 to a range of 4.00%-4.25%, with Fed Chair Jerome Powell describing the move as a “risk management cut” in response to a softening labour market. He emphasized a data-dependent, “meeting-by-meeting” approach, noting a “shifting balance of risks” between the Fed’s dual mandate, as downside risks to employment increased while inflation showed signs of moderation. This signals a cautious policy stance with room for further easing if economic conditions deteriorate. Meanwhile, the CME Group’s FedWatch tool priced in a 94.6% probability of another 25-bps cut in October, driven by heightened economic uncertainty from the US government shutdown and limited data availability, which increased market expectations that the Fed would act pre-emptively to support growth. On the tariff front, while some agreements have provided clarity, the overall tariff landscape remains complex and subject to change, with pending court rulings potentially impacting existing tariffs. Trade growth is expected to reflect these developments more fully in 2026. Additionally, concerns over long-term US fiscal health, geopolitical tensions, and slower growth in China continue to cloud the global market outlook.
- ▶ BNM kept the Overnight Policy Rate (“OPR”) at 2.75% during its September meeting, citing moderating inflation, resilient domestic demand and sufficient support for economic growth. The market anticipates that BNM will keep the OPR steady in the near term, with any future adjustments likely to be data-driven and contingent on significant changes in inflation or growth outlook. For 2025, BNM projects GDP growth between 4.0% to 4.8%, underpinned by resilient domestic demand supported by steady employment and wage growth, ongoing infrastructure projects and structural reforms. Headline inflation is forecasted to remain contained at 1.5% to 2.3%, reflecting stable global commodity prices and moderate domestic demand. Additionally, the Budi Madani RON95 targeted subsidy, launched in late September 2025, is expected to ease inflationary pressures by keeping fuel prices low for eligible Malaysians despite global oil price volatility. The upcoming Budget 2025 is likely to balance fiscal discipline with growth support, focusing on targeted subsidies, infrastructure investments and social assistance initiatives.
- ▶ Three auctions are expected in the month of October 2025, with reopening of 30Y MGS 07/55, reopening of 5Y MGII 08.30 and reopening of 20Y MGS 05/44. While there is ample liquidity in the system, the outcome of these auctions is likely to be influenced by prevailing market sentiment both from local and foreign investors. On the corporate front, we expect demand to remain resilient given institutional demand for bonds even though we have seen spreads being compressed significantly.

Table 1: Indicative Rates (%)

	30-Sep-25
MBB O/N*	1.00%
MBB 1-Week*	1.10%
MBB 1-Mth FD*	1.85%
MBB 6-Mth FD*	2.10%
MBB 1-Year FD*	2.10%
1-mth BNM MN	2.82%
3-mth BNM MN	2.84%
3-mth KLIBOR	3.22%
CP	
1-mth (P1)	3.51%
3-mth (P1)	3.64%

Source: Bloomberg/Bondstream

* Maybank2u.com.my

Table 2: Indicative Bond Yields (%)

	3yr	5yr	7yr	10yr	15yr
MGS	3.15	3.25	3.43	3.47	3.70
GII	3.17	3.25	3.40	3.50	3.71
Swap rate*	3.17	3.25	3.32	3.43	3.65
AAA	3.48	3.56	3.64	3.74	3.85
AA1	3.58	3.65	3.73	3.81	3.95
AA2	3.66	3.73	3.81	3.92	4.13
AA3	3.74	3.83	3.91	4.04	4.34
A1	4.62	4.87	5.06	5.37	5.82
A2	5.26	5.64	5.92	6.34	6.89
A3	5.89	6.40	6.76	7.28	7.96

Source: Bloomberg*/Bondstream

Disclaimer

This document is prepared for information purposes only and may not be published, circulated, reproduced or distributed in whole or part, whether directly or indirectly, to any other person without the prior written consent of Eastspring Investments Berhad. It should not be construed as an offer or solicitation for the subscription, purchase or sale of any securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this document is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness. Any opinion or estimate contained in this document is subject to change without notice. Investors may wish to seek advice from a professional adviser before making a commitment to invest in units of any of our funds. Eastspring Investments Berhad and its related and affiliated corporations together with their respective directors and officers may have or may take positions in the securities mentioned in this document and may also perform or seek to perform other investment services for the corporations whose securities are mentioned in this document as well as other parties. The graphs or charts are included for illustrative purposes only. Past performance is not necessarily a guide to future performance. The predictions, projections, or forecast on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of Eastspring Investments Berhad or any funds managed by Eastspring Investments Berhad. The value and any income accruing to the investments, if any, may fall as well as rise. An investment is subject to investment risks, including the possible loss of the principal amount invested. Eastspring Investments is an ultimately wholly owned subsidiary of Prudential plc. Prudential plc, is incorporated and registered in England and Wales. Registered office: 1 Angel Court, London EC2R 7AG. Registered number 1397169. Prudential plc is a holding company, some of whose subsidiaries are authorized and regulated, as applicable, by the Hong Kong Insurance Authority and other regulatory authorities. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or with the Prudential Assurance Company Limited, a subsidiary of M&G plc. A company incorporated in the United Kingdom.