GLOBAL DEVELOPMENTS IN 2025

The global economy grew stronger than expected in 2025. According to the International Monetary Fund's (IMF) *World Economic Outlook* (January 2026 update), global growth was revised upward to 3.3% for 2025, compared to 3.2% in its October 2025 projection. The upward revision was partly driven by China, where the economy was estimated to grow by 5.0% (October 2025 projection: 4.8%), attributable to supportive fiscal stimulus measures. The US also registered faster-than-anticipated expansions, primarily underpinned by a pickup in technology investment. Closer to home, the ASEAN-5 economies collectively expanded by 4.2% (October 2025 projection: 4.2%), in line with previous trajectories.

A major development during the year was the announcement of new US tariff measures on 2 April 2025. The announcement had a notable impact on global trade dynamics in the first half of 2025, as businesses engaged in significant frontloading of trade activities ahead of the tariff implementation to mitigate potential supply chain disruptions. Subsequent negotiations between various trading partners resulted in bilateral arrangements that led to downward revisions of tariff rates in certain countries.

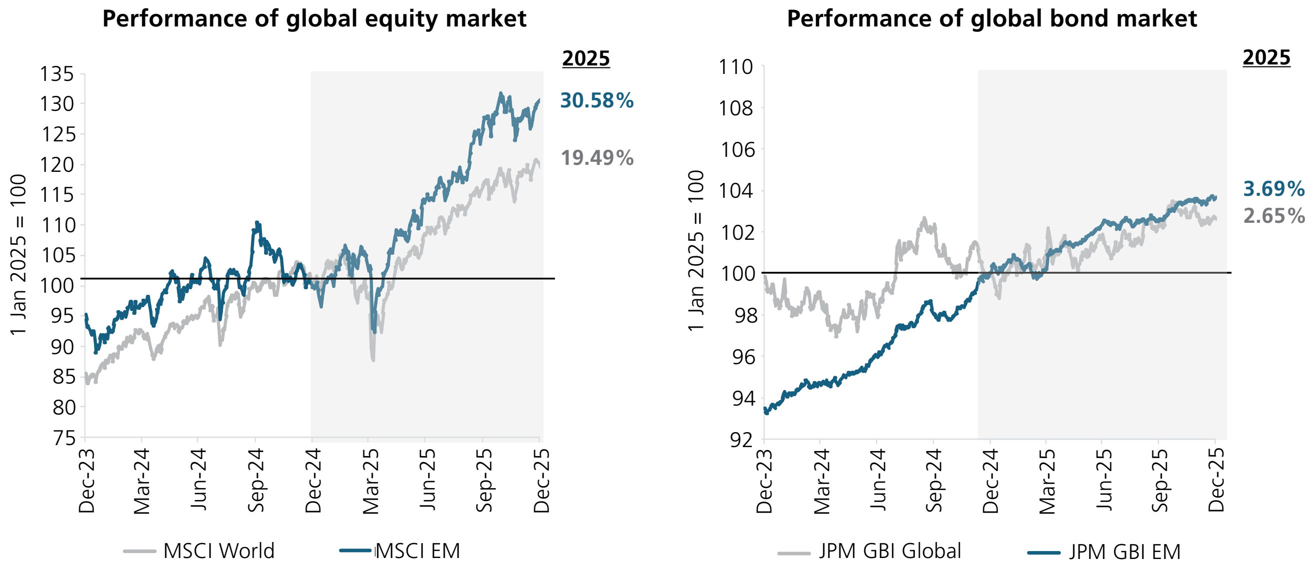
Technological advancements in artificial AI also emerged as a defining theme during the year. Global semiconductor sales reached record highs in November 2025, driven by sustained demand for AI-enabled applications. These developments supported global trade activity and underscored the deepening interlinkages between technological innovation and international trade flows.

The year was further marked by a global monetary movement. The US Federal Reserve (Fed) shifted from restrictive stances to monetary easing amid signs of moderating growth. The Fed implemented its first 2025 policy rate reduction by 25 basis points (bps) in September 2025, citing concerns over labour market softness despite inflation remaining above the 2% target. This was followed by two additional 25 bps cuts in its October and December 2025 meetings. Meanwhile, the People's Bank of China (PBoC) also reduced key lending rates by 10 bps in May 2025 and introduced stimulus measures to stabilise an economy weighed down by a prolonged property sector downturn and persistent deflationary pressures.

Global financial markets recorded broad-based gains in 2025, supported by the commencement of monetary policy easing in major economies and fuelled by investors' expectations of further rate cuts in the near term. The MSCI World Index rose by 19.49%, while the MSCI Emerging Markets Index advanced by 30.58%, reflecting stronger investor appetite for emerging markets (Chart 2). This was further reinforced by a weakening US dollar amid uncertainties surrounding US trade and monetary policies. Global market capitalisation expanded to US$150.99 trillion in 2025 (2024: US$123.61 trillion), underpinned by resilient corporate earnings and optimism over continued policy support. Despite the overall uptrend, 2025 was marked by episodes of heightened volatility, largely stemming from global trade frictions and geopolitical tensions. The VIX Index, an options-based gauge of market volatility, spiked to 52.33 points on 8 April 2025 — its highest level since the pandemic — reflecting elevated investor anxiety.

Nevertheless, investor sentiment remained broadly resilient. Technology-related stocks were the primary drivers of market gains, propelling major indices such as the S&P 500, Nasdaq and Japan's Nikkei 225 to record highs. In the US, sustained corporate earnings and significant capital expenditure commitments by leading technology firms bolstered optimism. In Asia, technology and semiconductor stocks rallied partly due to optimism around AI infrastructure and hardware supply-chain upgrades. China accelerated its move toward domestic AI application and semiconductor capability, spurred by US export restrictions and supportive government measures. This was illustrated by the launch and subsequent upgrades of DeepSeek's low-cost Chinese AI model, which leveraged domestic accelerators and highlighted growing competitiveness in the global AI landscape.

CHART 2
Global equities and bonds performances improved in 2025

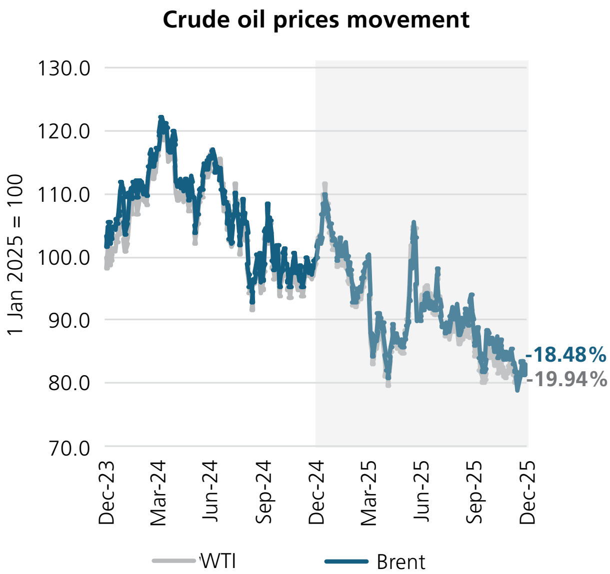


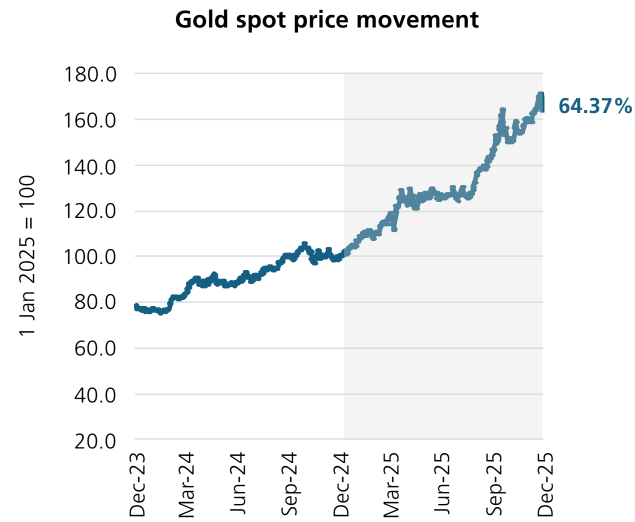
Source: Refinitiv Eikon Datastream, SC.

In the global bond markets, emerging economies slightly outperformed advanced economies, with the emerging bond index gaining 3.69% compared to a 2.65% increase in advanced market indices. The bond market in advanced markets were relatively volatile in the early part of the year, driven by the peak of global trade tensions. However, expectations of a global slowdown amid persistent trade frictions supported stronger demand for safe-haven securities. Meanwhile, as inflation pressures eased globally, major central banks including the Fed and the Bank of England began lowering policy rates to cushion the slowdown. The subsequent decline in yields lifted bond prices, further improving overall performance.

Looking at the global commodities markets, Brent crude oil price closed lower at US$60.85 per barrel, down 18.48% from the previous 2024 year-end. However, crude prices saw a temporary mid-year surge on heightened geopolitical risks in the Middle East, though the rally quickly eased as tensions subsequently de-escalated. The overall decline was primarily driven by muted demand, coupled with increasing global supply as OPEC+ began unwinding output cuts and non-OPEC+ production hovered near record highs. Meanwhile, gold repeatedly set new all-time highs and closed 2025 at US$4,341.10 per ounce, a 64.37% gain, propelled by safe-haven demand. In the first half of the year, the rally was strongly fuelled by uncertain global trade policies and persistent geopolitical tensions. As the year progressed, the rally received further momentum from the weakening of the US dollar and expectations of continued monetary easing (Chart 3).

CHART 3
Crude oil ended lower while gold surged in 2025





Source: Bloomberg.

MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2025

The domestic economy remained resilient in 2025 amid external uncertainties arising from global trade tensions and geopolitical risks, recording growth of 5.2%. This expansion was primarily supported by sustained private sector activity, with private consumption expanding steadily by 5.2% (2024: 5.1%), lowest unemployment rate in a decade (end-2025: 2.9%, 2015 – 2025 average: 3.6%) and wage growth outpacing inflation. Government assistance programmes, such as Penghargaan Sumbangan Asas Rahmah (SARA) and BUDI95, together with the public sector salary revision, have further supported household consumption amid a moderate inflation rate of 1.4% (2024: 1.8%) (Chart 5). Private investment also played a significant role in driving growth, maintaining a strong growth of 9.4% in 2025 (2024: 12.3%), sustained by continued realisation of approved investments as well as the ongoing implementation of initiatives under national master plans (Chart 4).

By economic sector, services remained the key growth contributor with a stable growth of 5.5% in 2025 (2024: 5.3%), supported by resilient consumer spending and positive labour market conditions. On the monetary policy front, Bank Negara Malaysia (BNM) reduced the Overnight Policy Rate (OPR) for the first time since 2020 as a pre-emptive measure to support domestic economic activity, considering the downside risks to the economy from global trade tensions and moderating inflation. Nevertheless, with major central banks in the advanced economies starting their monetary easing cycles, the Malaysian ringgit strengthened significantly in 2025 to end at RM4.061/US$ (2024: RM4.476/US$) (Chart 5).