Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Muhammad Hafiz bin Tajuddin – Sector Analyst

19 SEPTEMBER 2025

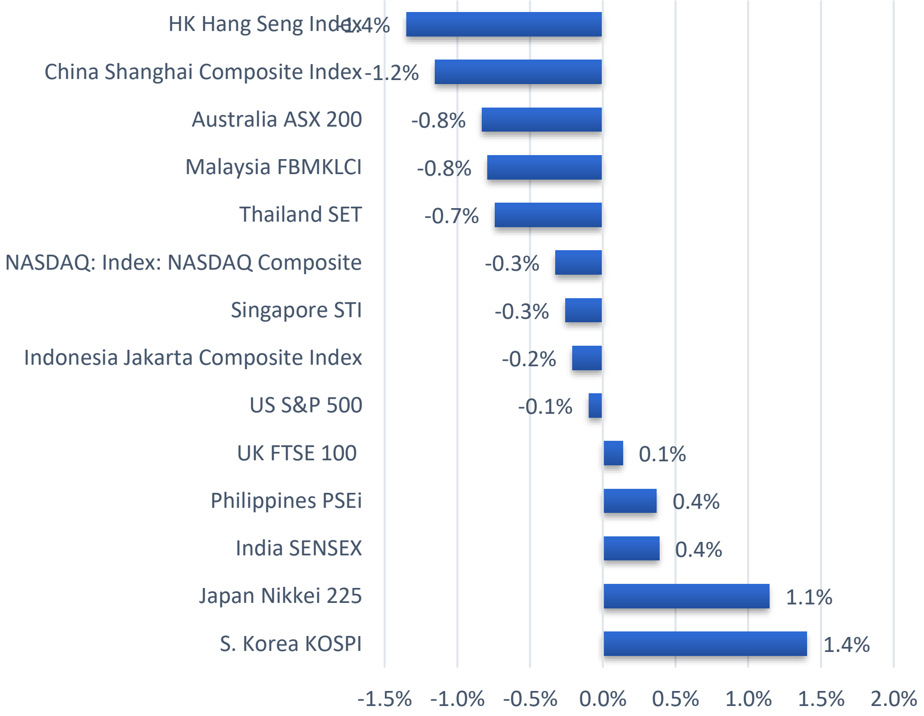
Fed Kicks Off Rate-Cutting Cycle, But Markets Stay Unimpressed

If It Makes You Happy, It Might Be Bad Policy

Few would envy Jerome Powell right now. Normally, a rate cut from the Federal Reserve would send Wall Street soaring. Instead, the Dow barely blinked before sliding into profit-taking mode, while Bursa Malaysia's FBM KLCI mirrored the weakness, dipping toward the 1,600 line. Markets had already priced in the Fed's move—a 25-basis point cut to 4–4.25%—after weeks of political pressure from President Trump. But beneath the surface, the unease runs deeper.

Inflation in the U.S. remains stubborn at 2.6%, above the Fed's 2% target. Tariffs, rebranded as "Liberation Day" duties, have only worsened cost pressures for consumers. Yet American households keep spending, fueling sticky inflation even at today's relatively high borrowing costs. Lowering rates risks pouring gasoline on this fire. AI optimism may keep Wall Street buzzing, but the real soft spot is jobs: hiring has slowed dramatically, from 123,000 new jobs per month at the start of the year to just 27,000 since May. The culprit? Not interest rates—but Trump's crackdown on immigration, which has simply drained the pool of available workers.

Benchmark equities performance as of 18 September 2025



Source: CEIC

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Muhammad Hafiz bin Tajuddin – Sector Analyst

19 SEPTEMBER 2025

Fed Kicks Off Rate-Cutting Cycle, But Markets Stay Unimpressed

In some sense, the Fed may have gone overboard its mandate. The U.S. economy is fundamentally strong—too strong, if anything—but job creation has been strangled by politics, not monetary policy. The tragedy is that the Fed's credibility is now on the line. Independence from politics has always been its bedrock. Yet Trump has meddled openly: firing Fed officials only to be overruled in court, parachuting in political allies like Stephen Miran, and even mulling Powell's removal over "renovation costs." When investors see the Fed acting as an extension of the White House, faith in U.S. monetary stewardship begins to crack.

And Malaysia? We've been here before. Under Biden, the Fed's rate hikes to tame runaway inflation unleashed the "King Dollar," pushing USD/MYR to RM4.79 at its peak and forcing Bank Negara into defensive hikes of its own. That nightmare could repeat if Fed credibility collapses and markets turn volatile again.

Still, it's not all gloom. Lower U.S. yields are a magnet for capital, and foreign funds are already returning to Asia, Malaysia included. With Treasuries less rewarding, our equities look more attractive. Expect more flows into Asian markets—China, Japan, Singapore, Malaysia—as the Fed eases further. Some forecasts even see rates heading down to 3.75% by end-2025, with another trim in early 2026. For investors willing to ride the tide, Asia may shine while Washington falters.

Source: CEIC

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Muhammad Hafiz bin Tajuddin – Sector Analyst

19 SEPTEMBER 2025

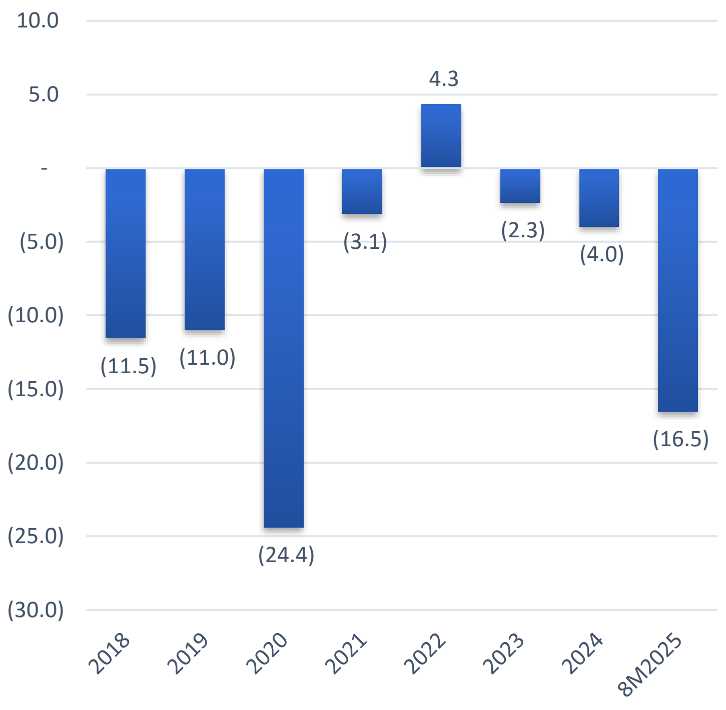
Fed Kicks Off Rate-Cutting Cycle, But Markets Stay Unimpressed

The risks, however, are far from over. The Federal Reserve still needs to prove to markets that it has not lost its grip on monetary credibility. That task has become more urgent after one FOMC member broke ranks, pushing for a more aggressive 50-basis-point cut. Investors will be parsing the FOMC minutes in the coming weeks for clues on whether this was an isolated dissent or the start of a deeper divide within the Fed.

But while Wall Street fixates on the Fed, Malaysia has its own set of issues demanding attention. Foreign investors have been pulling money out of Bursa Malaysia at an alarming pace: RM16.5 billion in net sales from January to August 2025—already quadruple last year's full-year tally of RM4 billion. This exodus cannot be ignored. It is a stark reminder that the government's reformist rhetoric must translate into tangible improvements in corporate earnings if Malaysia wants to retain global investors' confidence.

To be fair, Putrajaya has made notable progress on fiscal discipline. The federal government has narrowed its deficit to RM46.7 billion in the first seven months of this year, compared to RM53 billion in the same period last year. This trajectory is encouraging. Yet, fiscal consolidation alone will not excite equity markets. Investors are not simply buying policy promises—they are buying growth stories. For Malaysia, the fundamental question remains: can listed companies deliver sustained earnings growth? Until that question is answered with conviction, markets will continue to oscillate between bouts of optimism and sudden sell-offs. The Fed's drama may grab headlines, but our real test lies closer to home.

Foreign fund flows in Malaysian equities (RM billion)



Source: CEIC