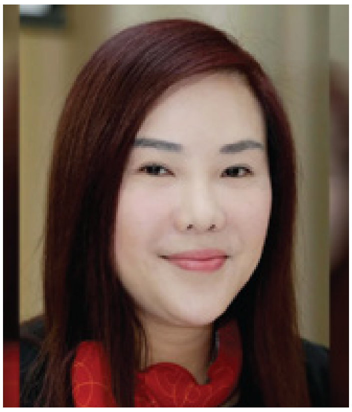
Yearbook

1st Quarter Checkpoint

AmBank Group 50 YEARS MALAYSIA KITA

AmInvest

EXECUTIVE SUMMARY



In our Yearbook 2025, we wrote at length how geopolitics would shape global markets against a backdrop of moderate but sustained growth. We were positive on United States ("US") equities, for their resilient economy but tempered by lofty valuations after two years of strong performance. In Asia including Malaysia, we were defensively positioned focusing on domestically driven themes that offered defensive qualities and dividend yields.

What surprised, not just us but the world at large, was China's ability to narrow the Artificial Intelligence ("AI") gap with the US. AI industry players had to reassess expectations and financial markets questioned the valuations of tech related stocks, several of which were priced to perfection. First, the US introduced the AI Diffusion Rule, which restricts the number of AI processors that can be exported to most nations. This was followed by DeepSeek unveiling capabilities that nearly match those of established American rivals at a fraction of the cost, which was hailed as a "Sputnik moment" and which US President Donald Trump called a "wake-up call" for America.

Even more shocking was Liberation Day. On 2 April 2025, Trump unveiled a slew of tariffs on 60 countries considered worst offenders, as high as 34% on China which will see tariffs reach 69% in total. This sent shockwaves across global markets. For those who thought 1Q 2025 was challenging due to trade wars, it was only the beginning.

At the point of writing, Wall Street economists raised the probability of a US recession in the next 12 months to 35% - 40% from 20% previously. As financial markets are forward looking, risk assets are under pressure, with investors pricing in the negative impact to economic growth and expectations that central banks especially the Fed would cut policy rates.

The global economy would not be spared. While growth is still projected for 2025, the downside risk stemming from Liberation Day can be as high as 2.0% - 2.5% for China which is set to be the most affected. Prior to this, Premier Li Qiang at the National People's Congress kept China's target gross domestic product ("GDP") growth at "around 5%" for 2025. Anticipating that the country would be most targeted, China government had been introducing stimulus plans aimed at countering the adverse impact of the trade war and shoring up sluggish consumption as well as a weak property market, including a "more proactive fiscal policy," which will see an increase in deficit spending from 3% to 4% of GDP.

Externalities also overshadowed underlying positive developments in Malaysia. Year-to-date as of 31 March 2025, net foreign selling in Malaysian equities amounted to RM 10 billion, far exceeding the full year 2024 net selling of RM 4.2 billion. This is despite Malaysia's 4Q 2024 GDP released in February 2025 showed that the economy grew by 5%, surpassing the initial estimate of 4.8%. A key milestone in strengthening the value proposition of Johor to compete for global investments was the signing of Johor-Singapore Special Economic Zone agreement in January 2025 by the governments of Malaysia and Singapore.

Volatility will continue to prevail in 2Q2025 given that Trump's tariff strategies are still unfolding. Nonetheless, market weakness should find a floor when investors have fully digested the impact of tariffs.

Malaysian stocks are supported by stable fundamentals while we keep an eye on inflationary spikes. Dividend yielding and defensive stocks are still preferred. On the fixed income front, the expectation of slower economic growth has triggered a rally in US Treasuries, with sentiments spilling over to Malaysian bonds albeit marginally. Local bond rates are more stable due to local investor support. Any spike in yields will be a good trading opportunity for entry.

Wee Peng

Goh Wee Peng
Managing Director,
Integrated Wealth Menagement

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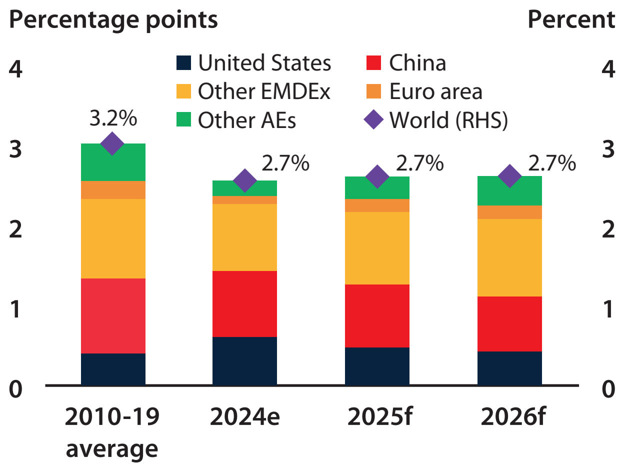
MACRO DEVELOPMENTS

Global

The World Bank has maintained its global growth outlook estimate at 2.7% per annum for 2025 - 2026 in its January 2025 report while revising the 2024 growth estimate higher by 1 basis point to 2.7%. Both developed markets ("DM") and Emerging Markets ("EM") are projected to grow at a pace that is approximately 0.5% slower in 2024-2026 compared to the pre-pandemic decade.

Exhibit 1: Contributions to global growth



Source: World Bank, Global Economic Prospects report January 2025

In the same report, the World Bank estimates a drag to global growth of 0.3% for 2025 from a blanket increase of a 10% tariff on all US trading partners. Earlier, the German Institute of Economic Research had estimated a drag to global growth of 0.6% for 2025 from the impact of a +60% tariff on China and a +10% tariff on the rest of the world. The drag on global growth could be less than anticipated as businesses have built inventory and continue to do so during periods of tariff implementation pauses.

While the slower growth, stemming from the tariff war, **will increase the need for policy stimulus, the tariff action will exert inflationary pressure** in the US and elsewhere via supply chain disruption, and therefore reduce the scope for interest rate cuts. Governments both in EM and DM would likely have to utilize some form of fiscal spending stimulus on top of potential monetary policy rate cuts.

Despite the slew of early piecemeal tariff announcements (please refer to Exhibit 2 for details) in 1Q 2025, Trump's tariff salvo was just beginning. Trump's threat to impose reciprocal tariffs became a reality, post end of the first quarter. On 2 April 2025, he announced new import taxes on all goods entering the US, sending shockwaves across global markets. The move is seen as the Trump administration's sweeping attempt at reshaping the international trade order, with the aim of addressing "trade imbalances" as well as protecting American jobs and manufacturing.

The new tariff regime sets (i) a 10% baseline tariff on all imports to the US effective 5 April 2025; (ii) higher custom tariff rates on 60 countries considered "worst offenders" effective 9 April 2025; and (iii) blanket 25% tariffs on "all foreign made automobiles" effective immediately. The 10% baseline tariffs will not apply to Canada or Mexico, which have already been targeted with blanket 25% tariffs, with some exemptions and delays.

Exhibit 2: Selected Tariff Proposals by Trump since his Presidency

Policies	Planned vs Implementation	Impact
Tariffs	**<u>Planned</u>** 60% on Chinese products; 25% on Canada and Mexico; at least 10% on the rest of the world. **<u>Announced</u>** **1 February:** Trump issued executive order to impose: - i) 25% tariffs on most goods from Canada and Mexico. ii) 10% tariff on goods from China. iii) 10% on Canada's energy and oil exports. The tariffs will take effect on 4 February 2025. **4 February:** Tariffs on China take effect. China announced a probe into Google, added several US companies to a "blacklist" of entities, imposed new export controls on critical minerals and imposed 10% tariffs on US products, including coal, LNG and agricultural equipment with effect from 10 February. **10 February:** Trump signed executive orders to impose 25% tariffs on all steel and aluminium. **18 February:** Trump threatened 25% tariffs on semiconductor, pharmaceuticals and automobiles, and that they "can go substantially higher over the course of a year". **25 February:** Trump ordered an investigation into national security risks of dependency on copper imports that could lead to tariffs on the product. **27 February:** Trump said tariffs on Canada and Mexico will take effect as scheduled and announced another 10% blanket tariff on China for its role in fentanyl flows into the US. **3 March:** Trump mentioned levies on agriculture imports to take effect on 2 April. **4 March:** Trump levies 25% tariffs against Mexico and Canada and additional 10% on China. China and Canada hits US with retaliatory tariffs. **7 March:** Trump signs an order pausing tariffs on Canadian and Mexican goods compliance with the United States-Mexico-Canada Agreement deal until 2 April. **2 April:** Trump announced reciprocal tariffs on 'Liberation Day' with a 10% baseline tariff on all imports effective 5 April and higher custom tariff rates on 60 countries, effective 9 April as well as 25% tariff on all imported automobiles effective immediately.	Protectionism would result in reduced competition, making domestic industries less efficient, while domestic consumers would pay higher prices due to labour and input prices. US and global growth would be dampened by lower trade and supply chain disruptions.

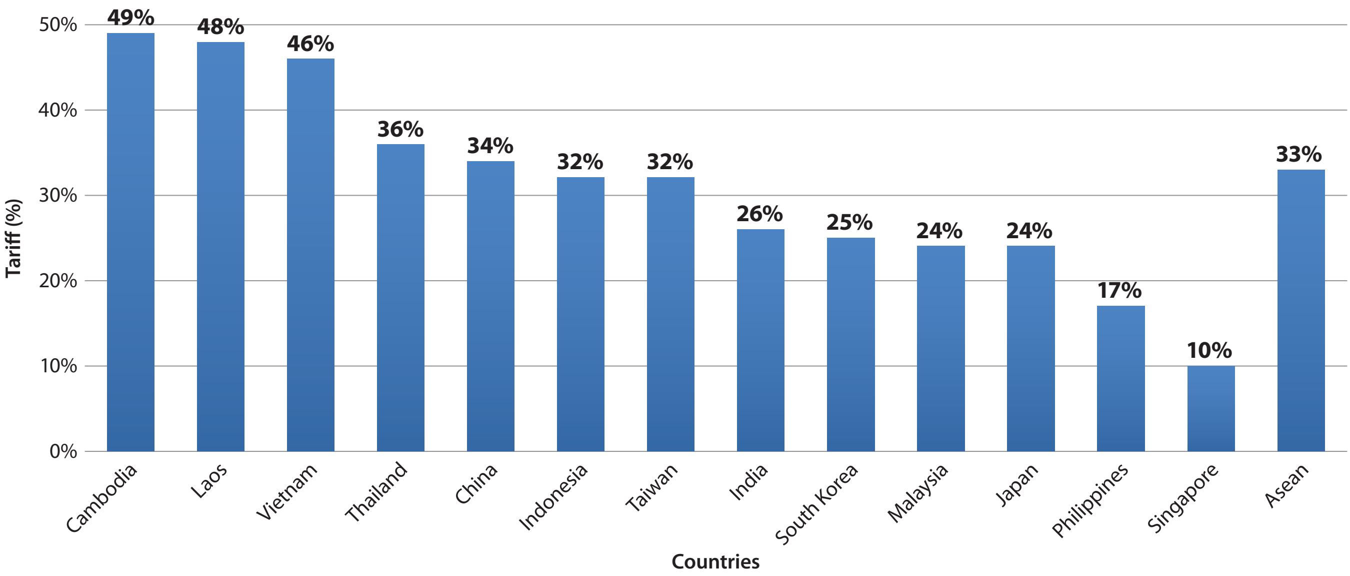
Policies	Planned vs Implementation	Impact
Immigration	**<u>Planned</u>** Mass deportation of migrant labour. **<u>Announced</u>** **20 January:** Trump declared a national emergency and orders the military to the southern border. **29 January:** Trump orders preparation of Guantanamo Bay for detention of migrants. Within a month "hundreds" of illegal migrants are held at the site. **January - February:** Starting 21 January, there were more than 800 arrests per day by US Immigration and Customs Enforcement, but the number declined to less than 600 per day in February. March figures have not been published.	US growth would be dampened particularly in-migrant labour dependent sectors such as agriculture, leisure and hospitality and transportation.
Tax	**<u>Planned</u>** Cut corporate tax in US from 21% to 15%. **<u>Announced</u>** 20 January: Trump pulls the US out of the global corporate minimum tax deal of 15% deal that was brokered by the Biden administration and 140 countries.	Reduced tax revenue would add to US's already-high fiscal deficit, but US equities market would benefit from the boost to corporate earnings, which in turn is another attraction to draw portfolio flows away from other markets and into the US.
Climate / Energy	**<u>Planned</u>** Less focus on climate change; to lower energy costs through increased oil production. **<u>Announced</u>** **20 January:** Trump declares a national energy emergency and allows drilling in Federal lands and waters, including the Outer Continental Shelf. He pauses new leases for offshore wind power generation. **20 January:** The US withdraws from the Paris Agreement.	Lower US demand for renewable energy and related imports; potentially lower oil prices as US is the largest oil producer in the world.

Source: Reuters, Bloomberg, various news sources, AmFunds Management Berhad, 3 April 2025

Asia

The tariffs announced on 2 April were bigger and broader than expected. In addition to the baseline tariff of 10%, Asia was hit with substantial reciprocal tariffs (see Exhibit 3). In contrast, reciprocal tariff on the EU is at 20% and below 15% for most Latin American economies.

Exhibit 3: Reciprocal Tariffs in Asia



Source : Bloomberg, 3 April 2025

Exhibit 4 below provides more details of the impact of the Reciprocal Tariff on selected markets.

Exhibit 4 : Impact of Reciprocal Tariff

Countries	Reciprocal tariff	Impact
China	**34%** This is on top of existing 20% and another 15% pre-Trump (i.e. total 69%)	US also ended the duty-free exemptions for China's small parcel exports, which amounted to USD 30-50 billion annually. Barring mitigating actions by China, this could shave off at least 2-2.5ppt off China's GDP growth.
South Korea	**25%**	Export contributes 44% of GDP, with US exports accounting for 19% of total exports—i.e. effectively 8.4% of GDP is affected. Key industries affected: electrical & electronics equipment, vehicles, machinery products, mineral fuels & oils products. This does not include potential future tariffs on semiconductor exports.
Taiwan	**32%**	Reciprocal tariffs currently do not cover semiconductors. Hence, the 32% tariff on Taiwan only applies to non-semiconductor exports to US. Estimated impact: GDP growth may decline from 2.9% to 2.0%.

Countries	Reciprocal tariff	Impact
India	**26%**	Reciprocal tariff on India is lower than many Asian economies. Given ongoing bilateral trade discussion between US and India, this tariff rate may be lowered in the future. Impact is less significant due to India's lower export dependency, with exports accounting for only 12% of GDP, and US exports accounting for 18% of total exports.
ASEAN-5 excluding Malaysia	**10% (Singapore)** to **36% (Thailand)**	While Singapore has the lowest reciprocal tariff of 10%, its economy is highly export-oriented. Hence, policy makers are expected to adopt accommodative policies. Thailand may be worst impacted with 36% reciprocal tariff. Exports contribute 57% of GDP, with US exports accounting for 18% of total exports—i.e 10% of GDP could be affected, with vulnerable industries being electronic products, plastic pellets, rubber products, computer parts and vehicle parts. Philippines and Indonesia are relatively more sheltered due to their domestic driven economies.
Malaysia	**24%**	Reciprocal tariff is at low end of peers, which implies that Malaysia's exports to the US could be more competitive. However, Malaysia has high export dependence, with exports accounting for nearly 80% of GDP, and China is Malaysia's largest trading partner. Hence, barring mitigating actions by policy makers, there could be downside risks to growth.

Source : AmFunds Management, 3 April 2025

China, as expected, bore the biggest brunt of the increase in tariffs. In addition to the reciprocal tariff, the US also ended duty-free exemptions for China's small parcel exports, which amounted to USD30-50 billion annually. It is estimated that this trade war could shave 15ppt off China's exports and 2-2.5ppt off its GDP growth. In anticipation of the US's actions, Beijing announced a slew of stimulus measures over the past several months in its bid to revive growth and reflate asset markets, with the latest announcement out of the 14th National People's Congress ("NPC") meeting **setting the 2025 growth target at an ambitious "around 5%"**. This contrasts with the consensus expectation for China's growth at 4.5% for 2025 that factors in aggressive US tariffs and China government stimulus measures.

Growth expectations in ASEAN-5 (Malaysia, Indonesia, Philippines, Singapore and Thailand) in 2025 remain unchanged at this juncture with trend growth in the 4%-5% range, supported by robust domestic demand and sustainable investments. Having said that, the Trump 2.0 trade regime with reciprocal tariffs creates a less certain outlook for ASEAN, particularly in terms of trade diversion and foreign direct investment, versus Trump 1.0. Hence, we expect potential downgrades in GDP forecasts for the region. As of end-March 2025 consensus estimates, Indonesia is expected to grow by 5.0% in 2025, underpinned by sustainable domestic consumption while the Philippines is projected to grow by 6.0% on the back of continued public investment in infrastructure projects and election-related spending. Meanwhile, Singapore's 2025 economic growth is expected to come in at 2.6% in view of headwinds stemming from rising global trade protectionism moving into 2H2025. Thailand's projected growth of 2.8% in 2025 would be supported by higher international tourist arrivals, cash handouts and continued foreign direct investment but countered by tighter credit conditions and weaker external demand due to a decline in global growth.

Exhibit 5: Real GDP growth forecast by country

Year-on-Year ("YoY") (%)	2023	2024	2025F
China	5.4	5.0	4.5
Indonesia	5.1	5.0	5.0
Malaysia	3.6	5.1	4.7
Philippines	5.5	5.6	6.0
Singapore	1.8	4.3	2.6
Thailand	2.0	2.5	2.8

Source: Bloomberg, 31 March 2025

Malaysia

Malaysia's final 4Q2024 **GDP was revised upwards to 5.0%** from initial estimates of 4.8%, bringing 2024 growth to 5.1% (2023: 3.6%). The commendable growth in 2024 came within the government's forecast range of 4.8% - 5.3%, driven by stronger domestic demand and a rebound in net exports. Moving into 2025, we are optimistic about domestic growth and expect GDP growth to fall between 4.5 - 5.5%, underpinned by sustained household spending (which in turn is supported by Malaysia's near decade-low unemployment rate of 3.1% as of December 2024) as well as continued policy support.

In relation to Trump's Reciprocal Tariffs, Malaysia is listed among the 60 worst offender countries and attracts US import tariffs of 24% effective 9 April 2025. However, semiconductors which are major export items to the US come under an exemptions list in Annex II of the reciprocal tax regime but may attract the baseline US import tariff of 10%. Among other items listed in Annex II are pharmaceuticals, copper, steel, aluminium and energy products. Automobiles and automotive parts are also listed in Annex II but are subject to a separate US import tariff of 25%.

The Government of Malaysia has announced that it would not impose retaliatory tariffs, but would rather actively engage the US authorities for a solution that upholds free and fair trade. The National Geoeconomic Command Centre that was recently established by the Cabinet is assessing the US announcement and is exploring a multi-pronged strategy to mitigate the effects on the economy and industry sectors.

On the inflation front, Malaysia's headline consumer price index came in at 1.8% in 2024, in line with officials' 1.5% - 2.5% forecast range. Headline inflation continued to stay benign at 1.7% YoY in January 2025 as lower prices of food and housing, utilities and other fuels offset the increase in transport and other services costs amid strong demand for festive items during the Lunar New Year celebration in late January.

Going forward, inflation risks remain tilted to the upside in the later part of the year due to the pending implementation of an electricity base tariff hike, fuel subsidy rationalisation and the expanded scope of the Sales and Service Tax. Nonetheless the impact should be mitigated by targeting the T15 group and possibly a staggered rollout. Also, the absence of excessive domestic demand pressures and the management of planned fiscal consolidation (the projected fiscal deficit in 2025 is 3.8% of GDP, vs 4.1% in 2024) would help keep inflation in check, in our opinion. We expect **2025 headline inflation** to settle within Bank Negara Malaysia's ("BNM") projected range of **2.0-3.5%**. Against this backdrop, we see BNM keeping its Overnight Policy Rate ("OPR") at 3.0% throughout 2025.

KEY DEVELOPMENTS AFFECTING CAPITAL MARKETS IN 1Q2025

1) Biden's AI Diffusion Rule

On 13 January 2025, the outgoing President Biden proposed new rules on the export of AI chips to safeguard US technological leadership in AI, maintain US hegemony in the global order and to prevent China from accessing advanced AI chips. The rule is subject to a 120-day comment period before becoming effective. Key highlights of the new rules are as follows:

- US headquartered companies that maintain 50% of AI computing capacity in the US and obtain Validated End User ("VEU") status, can place a maximum 7% of their AI computing capacity in any single tier-2 country like Malaysia.
- Allied country headquartered companies that maintain 75% of AI computing capacity in the US/allied countries and obtain VEU status, can place at a maximum 7% of their AI computing capacity in any single tier-2 country like Malaysia.
- Companies not headquartered in the US or allied countries who obtain VEU can get access to 320k H100/or equivalent computing power over 2 years (note: H100 is Nvidia's flagship DC GPU designed for AI workloads).
- For others who do not satisfy the above requirements, they can get access to 50k H100/or equivalent computing power over 2 years. This can increase to 100k H100s with G2G arrangements.

2) The Emergence of DeepSeek

In late January 2025 that DeepSeek (a start-up China-based company owned by quant-fund High-Flyer) shocked the world with the release of its V3 and R1 large language models **("LLM")** that appear to perform comparably to leading U.S models. Key highlights:

- DeepSeek's V3 model has out-performed Meta's Llama 3.1, OpenAI's GPT-4o and Anthropic's Claude Sonnet 3.5 in accuracy ranging from complex problem-solving to math and coding.
- Its R1 model exhibits superior reasoning abilities compared to Open AI's model (Open AI is the developer of ChatGPT)
- It is developed at less than 1/10 of the cost of GPT, uses lower-end chips, and is less energy-intensive (e.g. DeepSeek's V3 model uses around 2000 Nvidia specialized chips versus 16,000 for competitors' models)
- It is significantly better at understanding Chinese versus GPT
- It is cheaper (compared with "closed source" proprietary models like Open AI) and can be customized for users' specifications.

Industry experts see **more open-source players** like DeepSeek sprouting up due to the availability and cheaper access to open-source platforms. Since then, other AI models have emerged including Ali Baba's QwQ-32B and Manus (created by Chinese company Monica). These models use less computing and memory, implying reduced need for hardware or infrastructure spending for data centers and more spending on software. This will likely result in lower costs of access, boost AI adoption and may accelerate the replacement cycle of mass consumer products like personal computers and smartphones (due to rapid improvements and innovation of open-source platforms). As with all new technologies and evolutionary impacting developments, AI which is coming of age will have several variants and will continue to evolve with its various forms. Ultimately, AI's usage and applications will be the game changer in our lives, which is still in early stages.

3) Johor-Singapore Special Economic Zone ("JS-SEZ")

The JS-SEZ agreement was signed by the governments of Malaysia and Singapore in January 2025. The **funding set aside by both countries** reinforces the governments' commitment to ensure the success of JS-SEZ for mutual benefit. Spanning over 3,500 km2 and divided into 9 flagship zones, the JS-SEZ aims to bring **50 high-value projects in the next 5 years** and facilitate investment opportunities in the 11 sectors identified, which include manufacturing, logistics, tourism, energy, digital economy and green economy.

We believe the cross-border initiative will help boost foreign direct investment, facilitate technology and knowledge transfer and create job opportunities to boost the overall economic growth in Johor and Malaysia. Investors on the other hand will benefit from JS-SEZ's proximity to Singapore's highly developed economy and enjoy the lower operating cost in Johor and tax incentives offered. On the domestic front, the Property and Construction sectors are the biggest beneficiaries of this development. Other sectors such as Plantations, Building Materials and Power sectors would also benefit although to a lesser extent, in our view.

4) Lower oil prices

OPEC+ held an extraordinary online meeting on 3 March, **confirming plans to increase output** (i.e. unwind voluntary cuts) from 1 April 2025. Earlier, OPEC+ had introduced 2.2 million barrels per day production cuts that it now plans to unwind in stages through the end of 2026. If we include Iraq, Nomura Research estimates that this would increase OPEC+ production volume by 1.23 million barrels per day higher than January - March 2025 levels, and 2.46 million barrels per day higher by end-2026. This development further exacer bates the slight oversupply situation in the crude oil market, especially given President Trump's push for aggressive oil drilling. Crude oil prices, which had been declining since mid-January 2025 on growth concerns emanating from potential tariffs, fell to a low of USD 68.33 on 5 March 2025 before recovering to close at USD 74.74 on 31 March 2025 due to geopolitical tensions and sanctions. However, given growth concerns and excess supply, we expect downside risks to crude oil prices.

EQUITY STRATEGY

Exhibit 6: Performance and Valuations of Selected Markets

Ticker	Last Price	% Year-To-Date ("YTD")	Price-to-Earnings Ratio ("PER") 2025 (x)	PER 2026 (x)	Index Estimated Dividend Yield (%)
S&P 500	5611.85	-4.59	20.79	18.44	1.46
Nasdaq 100	19278.45	-8.25	24.50	21.24	0.87
Japan	35617.56	-9.39	18.18	16.65	2.27
China	74.31	14.84	11.50	10.30	2.32
Taiwan	20695.9	-10.15	14.62	12.75	3.31
South Korea	2481.12	3.43	8.92	7.57	2.51
India	23519.35	-0.53	19.67	17.43	1.53
Singapore	3972.43	4.88	12.14	11.61	5.47
Indonesia	6510.62	-9.11	10.95	9.87	5.68
Thailand	1158.09	-16.07	12.28	11.25	4.42
Philippines	6180.72	-5.64	9.69	8.86	3.26
Vietnam	1306.86	3.16	10.51	8.65	2.64
Malaysia	1513.65	-7.84	13.55	12.73	4.40

Source: Bloomberg, 31 March 2025
Note: Past performance is not an indication of future performance.

US

We are taking a more cautious view on the US. **US equities remain crowded**, yet this is **not supported by earnings**. Inventory building in anticipation of tariffs has aided GDP growth while markets reflect the uncertainty of business decisions in the new world of Trump tariffs. The earnings trend for the S&P 500 has been on a downtrend since September 2024. Higher costs and business uncertainty due to unpredictable tariff hikes pose further downside risks ahead. In addition, that almost 40% of overall S&P 500 gains in the past 10 years have been driven by a selected group of tech stocks dubbed the Magnificent 7 ("Mag-7") i.e. Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. With the emergence of DeepSeek and Chinese AI, **the lure of the US's Mag-7 may be muted, especially given cheaper valuations of Chinese tech**. The Hang Seng Tech Index is trading at 14.9x 2026 P/E, versus 21.3x for Nasdaq.

Asia

Despite the US tariff uncertainty, both Chinese onshore and offshore equities have been the regional outperformers YTD. This is thanks to the emergence of DeepSeek, which has bolstered investors' sentiment especially the local technology sector. Meanwhile, the country's stimulus measures have continued to stabilise its economy. In the recent NPC meeting, the **government maintained its pledge of monetary and fiscal policy support** to boost domestic consumption, stabilize the property market and achieve a ~5% GDP growth this year. The frontloading of orders ahead of Trump's tariff announcements also likely contributed to the strong manufacturing output so far but it remains to be seen if this can be sustained. The property market continued to stabilise on the back of stimulus measures and easing purchase restrictions.

The range of reciprocal tariffs announced by Trump has China, Vietnam and Thailand suffering the highest rates in Asia. The scale of the tariffs has exceeded market expectations and will hit exports and likely reignite inflationary pressure. The region's central banks' ability to cut interest rates to support growth will need be balanced against potential inflation spike and defending against USD strength.

Beyond the direct impact, the heightened level of trade uncertainty will affect business and consumer spending decisions. In the context of listed companies, China has lower exposure to US exports as compared to the Taiwan, Vietnam and Thailand markets. Nonetheless, we expect the governments will be reaching out to the US in the near term to negotiate for potential exemption or reduction in the tariffs.

Our investment **preference for sectors that benefit from domestic demand i.e. financials and consumer** has generally worked well in the north Asian markets, and we continue to favour these sectors given the concern on global trade slowdown. We are **cautiously positive on the HK/China markets as we expect continued stimulus** from the Chinese government. However, ASEAN markets, except for Singapore, have been underperforming YTD due to uncertain impact from the new US policies. This includes the reciprocal tariffs as highlighted in the earlier section. As such, we would **focus on defensive sectors and high yielding stocks such as REITs in the ASEAN markets**. Singapore and Philippines are relatively less impacted by the reciprocal tariff with the latter trading at attractive valuation.

Malaysia

Malaysia, along with its regional peers, continues to be subdued by Trump's actions. Reciprocal tariffs, at 24%, are at the low end of its Asian peers. Hence, Malaysia's exports to the US would be relatively cheaper than regional competitors, which is positive.

The recent equity market sell-off in Malaysia resulted in foreign shareholding dropping to 19.6%. On a brighter note, this is already lower than during the COVID period trough of 20.1%, which may see limited further decline going forward.

The recently announced 4Q2024 GDP growth reaffirms a supportive view on the Malaysian market. Growth remains resilient amid the rising investment upcycle, increases in civil service salaries and local institutional liquidity to offset foreign outflows.

Given the expected market volatility and risk-off sentiment from the external front in the near term, we continue to favor domestic-centric, defensive sectors as well as dividend-yielding stocks.

FIXED INCOME STRATEGY

US

The recent tumult on Wall Street, triggered by Trump's tariffs has led to increased risk aversion among investors, prompting a shift from riskier assets into safe-haven bonds. This has resulted in a sharp downward movement in the US Treasury ("UST") yields as the market responds to recent anaemic economic data, indicating declining consumer confidence and slowing growth ahead.

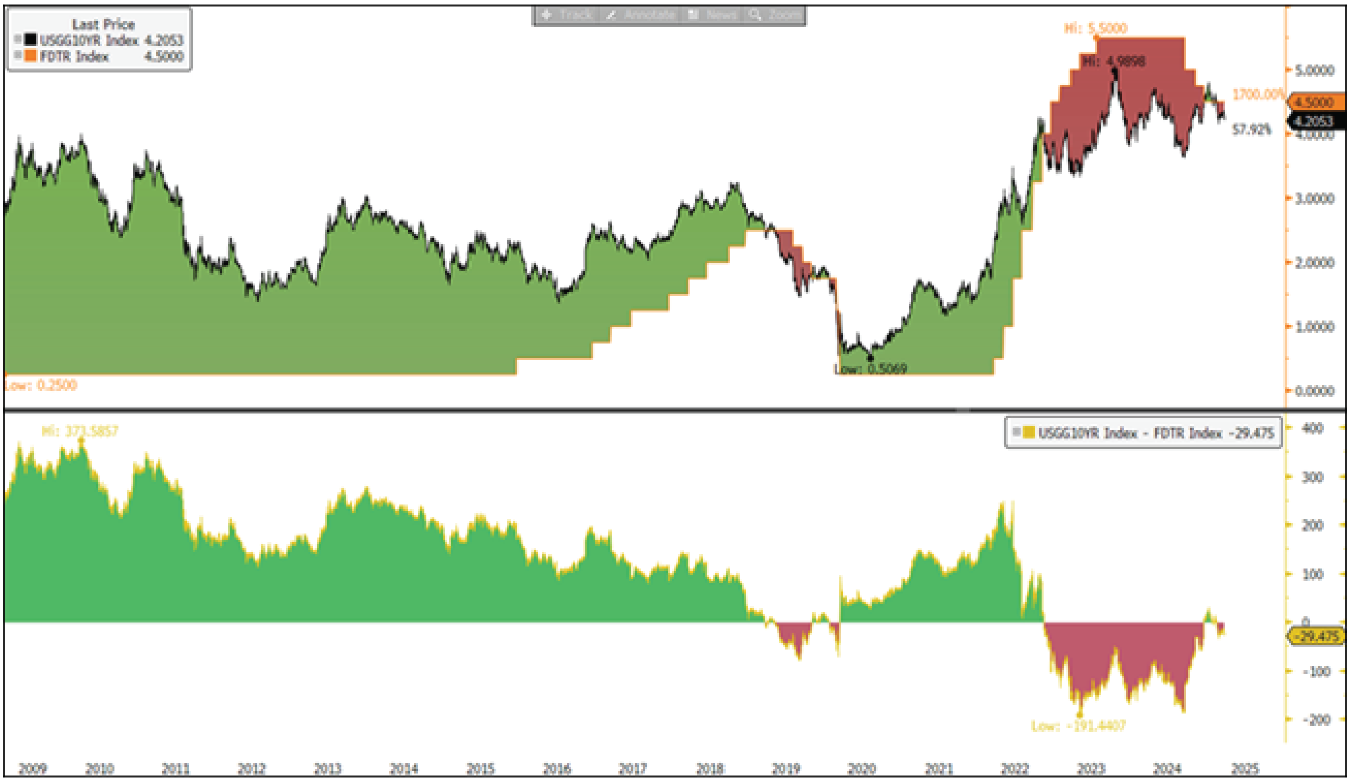
As the market prices in slower growth in the US to the order of 0.5% to 1.0% drag on GDP growth from the higher input cost, supply chain disruption and weaker consumer sentiment, the US Federal Reserve (the Fed) is expected to take a more dovish stance given weaker growth outlook. As such we see potentially two cuts of 25 basis points ("bps") from the Fed this year in which will support the shorter end of the US Treasury curve.

The severe US trade tariff regime will slow global economic growth directly, for major US trading partners via lower exports due to higher import tariffs and weaker US consumer sentiment. At the same time slower growth in the US and globally will have negative secondary effects on other trading nations who may have a more diversified export base. As such we see that central banks globally will turn more dovish than currently, which will buoy global bond prices from the interest rate effect. Besides this, weaker growth will also support bond prices globally due to asset substitution effect as funds move towards fixed income and away from risk assets.

While dovish rate expectations should augur well for fixed income markets, the recent strong bond market rally coupled with near team inflation risk and US policy uncertainties, we think the US Bond market will see some short-term profit taking. The strong rally has also resulted in negative carry of US Treasuries appearing again, albeit marginally.

The rhetoric of rate cuts will increase in coming months. Beyond the immediate potential profit taking, our strategy is to position for longer duration on expectation of lower policy rates following weaker economic growth.

Exhibit 7: Negative Carry - US Treasury yield vs Fed Fund Rate



Source: Bloomberg, 31 March 2025

Asia

Asian dollar indices performed stronger in the month of February due to falling USD yields, which fed through to the Asian markets. The Asian Dollar HY Index recorded the highest return of 2.23% for the month followed by the Asian Dollar Corporate Index (ex-banks). The Asian Dollar Index and Asian Dollar IG Index, with returns of 1.84%, 1.81% and 1.75%, respectively. Overall, the performance of Asian dollar bonds by countries also followed suit, as all the countries in our coverage finished the month in positive territory. The top three gainers by sequence were Thailand (2.57% Month-on-Month ("MoM")), Hong Kong (2.30% MoM) and Malaysia (2.14% MoM). The gain was also extended to the local currency bond markets with the top three gainers being Korea (1.94% MoM), Indonesia (1.51% MoM), and Thailand (1.27% MoM).

Exhibit 8: Asian Bond Indices Performance

Markit Asian USD Index	31 March 2025	MoM	YTD
Asian Dollar Index	142.2	-0.04%	2.40%
Asian Dollar IG Index	143.7	-0.03%	2.35%
Asian Dollar HY Index	133.5	0.35%	2.75%
Asian Dollar Corp Index (ex-banks)	144.8	0.05%	2.56%

Source: Bloomberg, 31 March 2025
Note: Past performance is not an indication of future performance.

Malaysia

Despite volatility in the US Treasury market, the local bond market remained calm and supportive, and enjoyed positive sentiment from less hawkish pricing of US Treasuries in February and better regional sentiment from the continued pause in Trump tariffs during the month. Malaysian Government Securities **("MGS")** traded stronger with yields falling 2.25 - 3.50bps in the 2 to 10-year tenures with the ultra-long tenures also traded firmer with the 20-year MGS yield falling by 1bps and the 30-year MGS yield falling by 1.5bps.

The local bond market saw the **trading volume of corporate bonds** (including quasi-sovereign) increase 14.8% MoM to RM 14.8 billion in February (January: RM 10 billion) **rebounding** from January's holiday shortened trading days due to the Lunar New Year. Following the previous three consecutive months of outflows, January **saw a reversal in foreign flows with a RM 1.2 billion inflow** amid the absence of immediate Trump tariffs and potential trade negotiations between the US and major trade partners. The inflow was mainly focused on MGS and Government Investment Issues which saw a net inflow of RM 2 billion in January.

Exhibit 9: MGS Benchmarks Yield

MGS Benchmark Tenors	28 March 2025 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.45	-5	-8
5Y	3.60	-3	-5
7Y	3.71	-3	-6
10Y	3.80	-2	-4
15Y	3.93	-5	-6
20Y	4.01	-6	-7
30Y	4.18	-2	-2

Source: Bond Pricing Agency Malaysia, 31 March 2025.
Note: Past performance is not an indication of future performance.

Exhibit 10: Flat Yield Curve

Details	MGS3Y/OPR	MGS5Y/OPR	MGS10Y/OPR	MGS20Y/OPR
10-year Average (a)	0.41%	0.64%	0.98%	1.48%
10-year High	2.06%	2.39%	2.69%	3.23%
10-year Low	-0.46%	-0.12%	0.03%	0.43%
Current (b)	**0.38%**	**0.56%**	**0.77%**	**1.00%**
Current Excess (b-a)	0.03%	-0.08%	-0.21%	-0.48%

Source: Bloomberg, 31 March 2025.
Note: Past performance is not an indication of future performance.

Thus far, the **Ringgit bond market has been resilient**. We expect this **trend to continue, delivering stable returns** to investors. With Trump 2.0 policies continuing to unfold over time, the volatility is likely to stay elevated. Any spike in yields will be a good trading opportunity to enhance returns from capital gains and increase the portfolio's running yield.

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