Market Review & Outlook
March 2025
(as at 28 February 2025)

Overview

February began with a slew of economic data highlighting the resilience of the United States ("US") economy. The US ISM Manufacturing Index came in stronger than expected (50.90 vs. 49.30), while average hourly earnings rose by 0.50% Month-on-Month ("MoM"), exceeding the consensus forecast of 0.30%. Additionally, the unemployment rate fell to 4.00%, lower than the expected 4.10%, reinforcing the economy's strong footing.

However, inflation data indicated that the battle against rising prices is far from over. The US Consumer Price Index (CPI) increased by 3.00% Year-on-Year ("YoY"), slightly above the consensus estimate of 2.90%. Meanwhile, core CPI rose by 0.40% MoM, surpassing the forecasted 0.30%. These inflationary pressures, coupled with the introduction of reciprocal tariffs announced by US President Donald Trump - which are expected to further exacerbate inflation - pushed the closely watched US 10-year Treasury yield to 4.63% on February 12, 2025, as market expectations of US Federal Reserve ("US Fed") rate cuts faded.

As the month progressed, however, new economic data challenged the prevailing growth narrative. Retail sales in the US underperformed expectations, declining by -0.90% MoM compared to the forecasted -0.20%. At the same time, unemployment claims came in higher than expected (242,000 vs. 222,000 forecast), while the flash Services PMI fell short (49.70 vs. 53.00 forecast). These weaker data points contributed to a sharp decline in yields, bringing the 10-year Treasury yield down to 4.22%.

Malaysia

The labour market remained in good condition with the unemployment rate declined to 3.10% in December 2024, reaching the lowest rate in almost a decade (May 2015: 3.10%, November 2024: 3.20%). The decline in the unemployment rate came amid growing labour force participation rate during the month which increased to 70.60% in December 2024 from 70.50% in the prior month. Employment gained by 28,400 or 0.20% MoM in December 2024 as hiring rose across the services, manufacturing, construction and agriculture sectors.

Malaysia's headline Consumer Price Index ("CPI") stayed benign at 1.70% in January, the same rate as recorded in December 2024. January's inflation outturn came as lower prices of food and housing, utilities & 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. Core CPI slightly accelerated to 1.80% in January 2025 from 1.60% in December 2024.

Malaysia’s final Gross Domestic Product (“GDP”) in the fourth quarter 2024 (“4Q2024”) was revised upwards to 5.00% from initial estimates of 4.80%, which marks the slowest growth in three quarters driven by weaker manufacturing output (4.40% vs 5.60% in the third quarter 2024 (“3Q24”)) and contractions in agriculture (-0.50% vs 4.00%) while construction growth accelerated (20.70% vs 19.90%). On the expenditure side, growth moderated for government spending (3.30% vs. 4.90%) and fixed investment (11.70% vs. 15.30%) but edged higher for private consumption (4.90% vs. 4.80%).

Malaysia's trade surplus plunged to RM3.6 billion in January 2025 from RM19.1 billion in December 2024, hitting the lowest level since April 2020, mainly due to a surge in imports. Exports rose by 0.30% YoY to RM122.8 billion, easing sharply from a 16.90% surge in December. The pullback in January export growth was attributed to the weakness of all three export sectors, namely manufacturing, agriculture, mining and quarrying. Imports grew by 6.20% to RM119.2 billion due to rises in capital goods and intermediate goods.

Fixed Income

US Treasury Market

US Treasury Tenor	28-Feb-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.99	-20.8	-25.2
2Y	4.02	-30.8	-36.3
5Y	4.12	-32.5	-36.4
7Y	4.21	-33.2	-36.3
10Y	4.53	-31.6	-33.3
20Y	4.49	-29.8	-29.2
30Y	3.99	-20.8	-25.2

Source: Bloomberg, 1 March 2025

The US Treasury curve flattened in early February as inflationary pressure remained persistently high as highlighted in the overview section. This was followed by comments from the US Fed Chairman, Jerome Powell who reiterated that interest rates are expected to remain elevated to control inflation.

As the month progressed, geopolitical uncertainty, tariff and trade tension led to increased risk aversion among investors, prompting a shift from riskier assets into safe-haven bonds. Concerns over the potential impact on the US economic growth outweighed inflationary worries, resulting in a late-month rally in the US Treasury yields as market responded to data indicating declining consumer confidence, and slowing GDP growth. For instance, the Conference Board survey of the Consumer Confidence Index fell to 98.3, missing the consensus estimate of 102.5 - its largest monthly decline since August 2021. Additionally, the Atlanta Fed’s growth indicator, the GDPNow tracker, signaled that the US economy is on track for a -1.50% growth in the first quarter 2025 (“Q12025”).

US Market Outlook

We expect the US Treasury yields to remain range bound in the short term and expect 2 cuts in the Fed Fund Rate in 2025.

Asian Bond Indices Performance

Markit Asian USD Index	28-Feb-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	142.3	1.81%	2.44%
Asian Dollar IG Index	143.7	1.75%	2.38%
Asian Dollar HY Index	133.0	2.23%	2.39%
Asian Dollar Corp Index (ex-banks)	144.7	1.84%	2.50%

Source: Bloomberg, 28 February 2025

Asian dollar indices performed stronger in the month of February due to falling USD yields fed through to the Asian markets. Asian Dollar High Yield ("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 Investment Grade ("IG") Index had returns of 1.84%, 1.81% and 1.75%, respectively.

Overall, Asian dollar bonds performance 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% MoM), Hong Kong (2.30% MoM) and Malaysia (2.14% MoM). The gain was also extended to the local currency bond markets which top three gainers were Korea (1.94% MoM), Indonesia (1.51% MoM), and Thailand (1.27% MoM).

The US Dollar Index

The US Dollar Index ("DXY") declined by 1.30% MoM, ending at 107.61 in February. The DXY Index is near a yearly low as traders shun the Greenback in a flight to safe havens from President Trump's tariffs, which are set to kick start on 4 March for Mexico, Canada and China. Furthermore, the weaker Greenback was due to lower expectationof a Fed rate cut in 2025, hence narrowing the interest rate gap between US yields and other countries. Overall, we expect the DXY to be volatile in the near term, as President Trump's economic policies remain ambiguous, which could introduce uncertainty and impact market sentiment.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	28-Feb-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.50	-3	-3
5Y	3.63	-2	-2
7Y	3.75	-2	-3
10Y	3.81	-1	-3
15Y	3.98	0	-1
20Y	4.07	+1	-1
30Y	4.13	0	+1

Source: Bond Pricing Agency Malaysia, 28 February 2025.

Despite volatility in the US Treasury market, the local bond market remained calm and supportive, and also 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 by 2.25-3.50 basis points ("bps") 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.

There were four sovereign bond auctions with a total size of RM20.0 billion in February, namely the three re-openings of the 30-year MGS with a size of RM4.5 billion on 6 February, RM5.0 billion of 7-year Government Investment Issue ("GII") on 13 February and the RM4.5 billion of 20-year MGS on 21 February and new issuance of RM5.5 billion of 5.5-year GII on 28 February. Demand remained solid with Bid-to-Cover ("BTC") of 2.36 times ("x") for the 30-year MGS at the start of the month and rose steadily over the next two auctions at 2.87x for the 7-year GII and 2.99x for the 20-year MGS. There was a surprise jump in demand for the 5.5-year GII auction at month-end with BTC of 3.16x despite a larger than expected size of RM5.5 billion without private placement; possibly due to investor interest in carry at the mid-duration given the recent falls in US Treasury yields.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increased 14.8% MoM to RM14.8 billion in February (January: RM10.0 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 RM1.2 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 GII which saw a net inflow of RM2.0 billion in January.

Notable domestic corporate issuances in February included RM1.0 billion of Cagamas IMTN (AAA), RM1.85 billion of LPPSA IMTN of various tranches, RM250 million of PKNS IMTN (AA3), RM150 million of WCT IMTN (A+). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.79% (-3bps MoM), 3.84% (-6bps MoM), 3.90% (-5bps MoM), 3.97% (-3bps MoM) respectively.

Strategy

Interest Rates Outlook:

Bank Negara Malaysia is expected to maintain its current policy rates throughout 2025. This stability in interest rates is anticipated to support the bond market, as it reduces uncertainty and volatility.

Market Strategy:

We will configure the portfolios at a slight overweight in duration against the benchmark while identifying bonds along the yield curve that are undervalued compared to their peers.

Tactical Asset Allocation:

Focus on corporate bonds to balance credit quality and sector exposure, ensuring diversification to mitigate risks associated with any single sector.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	28-Feb-25	MoM	YTD
S&P 500 Index	5,954.5	-1.42%	1.24%
Nasdaq Index	18,847.28	-3.97%	-2.40%
MSCI Europe Index	187.06	3.48%	10.11%

Source: Bloomberg, 3 March 2025.

The Standard & Poor's ("S&P") 500 Index fell by 1.42% MoM in February weighed down by a slump in chipmaker Nvidia after its quarterly report failed to rekindle Wall Street's AI rally, while investors focused on data pointing to a cooling US economy. US jobless claims also saw their biggest weekly jump in five months. President Trump said his proposed tariffs of 25% on Mexican and Canadian goods would take effect on the March 4, 2025, along with an extra 10% duty on Chinese imports, defying expectations of those who hoped for a further delay in the levies. President Trump also said wider 'reciprocal' tariffs were coming in April.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 3.48% MoM, despite uncertainty from President Trump's tariffs. President Trump had threatened to impose 25% duties on imports from the EU, saying the tariffs would be announced "very soon". Following talks with U.K. Prime Minister Keir Starmer, President Trump hinted that Britain may manage to avoid his tariffs regime.

Asia Pacific Equity Index Performance

Index	Index level	Feb-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	715.24	0.96%	1.58%
FTSE ASEAN	813.76	-3.40%	-5.33%
CSI 300 INDEX	3,890.05	1.91%	-1.14%
KOSPI INDEX	2,532.78	0.61%	5.55%
HANG SENG INDEX	22,941.32	13.43%	14.36%
S&P BSE SENSEX INDEX	73,198.10	-5.55%	-6.32%
TAIWAN TAIEX INDEX	23,053.18	-2.01%	0.08%

Source: Bloomberg, 3 March 2025.

Chinese onshore equities rose by 1.9% MoM in February. The Ministry of Culture and Tourism reported 501million trips (+5.9% YoY) onshore, and RMB677 billion in overall spending (+7% YoY) over the 8-day Spring Festival (January 28th-February 4th). China's Tax Bureau further estimated a 10.8% rise YoY in overall consumption (merchandise +9.9% YoY vs. services +12.3% YoY). For this Lunar New Year, the distinction was clear between soft luxury/tier-1 city spending trends vs solid lower tier city spending trends, and in particular, strong demand for affordable treats and subsidized trade-ins. The Hang Seng Index rose 13.4% MoM due to the emergence of Deepseek deepening optimism in AI and robotics, which drove re-rating on IT and Internet names. In addition, President Xi's meeting with top internet/tech firms on February 17, a first since November 2018, along with Alibaba's better-than-expected 4Q24 results and projected AI capex fuelled the rally. Southbound recorded RMB143 billion net inflows in February (vs. RMB 119 billion net inflows in January).

South Korea's Korea Composite Stock Price Index ("KOSPI") rose 0.60% MoM on mean reversion from previous lows. The industrials sector saw strong beats and YoY growth in net profit from most defence names and shipbuilders. The Bank of Korea lowered the base policy rate by 25bps to 2.75%. This cut was driven by a significant downward revision of the 2025 GDP growth forecast (1.9% to 1.5%) prioritizing economic growth over inflation and financial stability. The Taiwan Stock Exchange Corporation ("TWSE") index fell 2.00% MoM following Nvidia's fourth quarter ("4Q") results rippled through the entire semiconductor sector. January industrial production grew 5.10% YoY which is well below the consensus of 8.50% after rising 20.00% YoY in December, despite the monthly volatility, the underlying industrial production trend showed decent growth of 6.90% on a Quarter-on-Quarter ("QoQ") seasonally adjusted annual rate suggesting still strong growth in the tech sector.

Indian equities fell by 5.60% MoM dragged by persistent FII selling, subdued corporate earnings, uncertainty around tariffs under Trump 2.0 and domestic growth concerns – despite the tax cheers in the budget, Reserve Bank of India rate cut and other liquidity measures were undertaken. In February the repo rate was cut by 25bps bringing down the policy rate to 6.25%. Composite Purchasing Managers' Index fell to 57.7 in January (from 59.2 in December). January CPI at 4.3% YoY softening from 5.2% YoY in December.

ASEAN Equity Index Performance

Index	Index level	Feb-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,895.70	1.03%	2.85%
JAKARTA COMPOSITE INDEX	6,270.60	-11.80%	-11.43%
STOCK EXCH OF THAI INDEX	1,203.72	-8.43%	-14.03%
PSEi - PHILIPPINE SE IDX	5,997.97	2.31%	-8.13%
HO CHI MINH STOCK INDEX	1,305.36	3.19%	3.05%
FTSE Bursa Malaysia KLCI	1,574.70	1.14%	-4.12%

Source: Bloomberg, 3 March 2025.

The Straits Times Index rose in February boosted by several major announcements. The Fiscal Year 2025 (“FY2025”) budget was overall fiscal expansionary with the government announcing measures to alleviate the rising cost of living ahead of the general election this year. Additionally, the setting up of the SGD5 billion equity market development programme to improve the liquidity and appeal of the local bourse has lifted sentiment.

The Stock Exchange of Thailand (“SET”) Index continued its correction in February as it remains under pressure and the market lacks a clear catalyst for a turnaround, with foreign investors continuing to sell (over THB18 billion net in January-February), weak corporate earnings, and growing concerns over global policy shifts under Trump’s administration. The Jakarta Composite Index slumped in February due to the culmination of a few factors – (i) Investors’ concerns on governance and transparency issues over the establishment of the Daya Anagata Nusantara Investment Management Agency (“Danantara”), the country’s new sovereign wealth fund, (ii) system liquidity concerns and (iii) MSCI index rebalancing. Additionally, the big major banks reported weak January 2025 results, which further dampened sentiment.

The Philippines Composite Index rebounded in February as easing inflation and mid-term election-related spending should provide a stronger boost to consumption and macro-economic growth. The improvement in personal consumption should be supportive of the consumer sector and the high interest rate environment should keep NIMs elevated for banks. The Vietnam stock market rose in February as near-term growth has picked up in tandem with the post-election rebound in US consumer demand. Despite the US tariff uncertainty, the government has raised its 2025 GDP growth target to 8%, added VND84.6 trillion (0.80% GDP) to the public investment plan and revised up the fiscal deficit ceiling to 4-4.50% of GDP.

Malaysian Equities

The FTSE Bursa Malaysia KLCI (“FBM KLCI”) gained 1.10% MoM in February, YTD -4.10%. Investors flight to safety into large caps in the FBM KLCI in view of the uncertainty on US import tariff and AI diffusion policies. Malaysia’s FTSE Bursa Malaysia Mid 70 Index (“FBM70”) and FTSE Bursa Malaysia Small Cap Index (“FBMSCAP”) lost 6.60% and 5.40% MoM respectively. Plantation and Finance sectors were the best performing sectors, gaining 3.60% and 2.50% MoM respectively. On the other hand, Healthcare and Energy sectors were the worst performing sectors, with a loss of 10.40% and 8.40% respectively. The top three best performers in the FBM KLCI component stocks were Gamuda (7.90%), RHB Bank (7.50%) and QL Resources (6.10%), while the worst performing stocks were Petronas Chemicals (-20.00%), MR DIY (-17.90%) and PPB Group (-10.20%).

Foreign institutional investors were net sellers of RM5.2 billion worth of equities in February 2025. Local institutional investors were net buyers of RM1.1 billion worth of equities. Average Daily Value ("ADV") traded was at RM2.5 billion, down 4.50% MoM.

Strategy

Malaysia's investment case along with its regional peers were somewhat dented by the seemingly materialising key risk events coming out of the US. The events came in the form of the proposed AI chip regulations announced by the Biden led government and more recently, tariff announcements by the Trump led government on key US trade partners, Canada, Mexico and China.

Meanwhile, foreign sell downs also contributed to the domestic market's weakness. In January 2025, Malaysian equities saw net foreign outflows rising 10.4% MoM to RM3.1 billion, the fourth consecutive month of outflows.

We reiterate the navigating Trump 2.0 is key with volatility heightened. As such, domestic-driven sectors like banks, consumer and property would provide defensive qualities to the portfolio along with dividend yielding stocks.

In the global markets, we have seen some market rotation taking place where last year's outperformers like the US and technology stocks stumbled in February while laggards like the European and Chinese markets saw a healthy rebound.

We remain vigilant on the Asian markets as President Trump's new policies unfold. Nonetheless despite the trade war ongoing which could undermine Chinese GDP growth, we expect Beijing to stay committed to economic stability and will implement stepped-up fiscal and monetary policies to mitigate external shocks. We believe this could fuel further upside in the Chinese equities given the tariff concern is already well-known.

In other parts of Asia, we maintain our investment focus on sectors and stocks that benefit from domestic consumption, domestic policies and China+1 policies (i.e. sectors and companies that benefit from (i) shift in demand from high-tariff Chinese exports to other exporters that are levied a lower trade tariff; and/or (ii) relocation of manufacturing facilities out of China to different markets to avoid high trade tariffs against made-in-China products). Meanwhile for defensiveness during periods of uncertainty, we pick companies that generate stable income stream and grow their dividends consistently.

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