Market Review & Outlook

February 2025

(as at 31 January 2025)

Overview

The United States ("US") Federal Reserve ("Fed") at its policy meeting on 29 January 2025, kept the policy rate unchanged at 4.50%. There were hawkish edits to the accompanying statement with the removal of wording that a) inflation was moderating towards the 2.00% target and b) the employment rate had stabilised. While the edits suggest an extended pause in the rate cut cycle, the Fed Chair Jerome Powell played down the changes as a clean-up of the wording to the monetary policy statement. As at 5th February 2025, the Fed Funds futures market continued to price a year-end rate of 3.90% (that is a total of two 25 basis points ("bps") rate cuts this year) in line with the November 2025 dot plot.

The advanced estimate of US Gross Domestic Product ("GDP") growth for the fourth quarter of 2024 ("4Q2024") came in at 2.30% Quarter-on-Quarter ("QoQ") annualised, disappointing consensus expectation of 2.60% QoQ (third quarter of 2024 ("3Q2024"): 3.10% QoQ annualised). While disappointing consensus expectations, the underlying data for fourth quarter of 2024 ("4Q2024") growth highlighted resilience with consumer spending growing at 4.20%, the fastest pace since the first quarter of 2023 ("1Q2023") and the second consecutive quarter of >3% growth.

Headline inflation rose in December 2024 with Consumer Price Index ("CPI") growth at 2.90% Year-on-Year ("YoY") (November 2024: 2.70% YoY) driven by higher prices for food at 2.50% YoY (November 2024: 2.40%) and less disinflation in energy at -0.50% YoY (November 2024: -3.20% YoY). However, there is some indication of moderating consumer demand as core inflation eased to 3.20% YoY (November 2024: 3.30% YoY).

The US labour market remains resilient with the unemployment rate at 4.10% in December 2024 (November 2024: 4.20%) and US non-farm payrolls making further gains in December 2024 with 256,000 jobs created, improving from a revised 212,000 jobs in November, that in-turn rebounded from the dip to 36,000 in October due to adverse weather and strikes.

US President Donald Trump on 1st February 2025, announced new tariffs of 25% on Canada and Mexico (with a carve-out for energy imports from Canada to be taxed at 10%) and 10% tariffs on China. The tariffs were to be effective on 4th February 2025, but the tariffs on Canada and Mexico have been given a 30-day pause. These tariffs are largely expected to raise US inflation to >3% for 2025 which would reduce policy room for the US Fed to continue its rate cut cycle. At the same time, these tariffs would be expected to put a 0.10%-0.20% drag on the US long-run GDP growth.

The European Central Bank ("ECB") continued its easing with its fifth cut in this policy cycle by 25bps for all its three main policy rates at its 30 January 2025 meeting, bringing the ECB Deposit Rate, ECB Main Refinancing Rate, and ECB Marginal Lending Facility rate to 2.75%, 2.90% and 3.15% respectively. Amid sputtering growth in the Euro Area, the ECB President signaled further policy loosening ahead stating that the current monetary policy level was “restrictive”.

Malaysia

Malaysia’s 4Q2024 advance GDP grew by 4.80% year-on-year, slowing from 5.30% in 3Q2024 and 5.90% in 2Q2024. This marked the lowest growth rate since the first quarter of 2024 (“1Q2024”), primarily due to a significant slowdown in manufacturing (4.30% vs. 5.60% in 3Q2024) and a contraction in agriculture (-0.60% vs. 3.90% in 3Q2024) caused by reduced oil palm production and forestry and logging activities. Meanwhile, the services sector held up its gain while construction activity sustained a robust double-digit expansion. After incorporating the advance GDP estimate for 4Q2024, Malaysia’s economy grew by an average of 5.10% for the full year of 2024 (2023: +3.60%).

Malaysia's trade surplus expanded to RM19.2 billion in December 2024, significantly surpassing market expectations of RM16.6 billion. This was the largest trade surplus since September 2023, driven by a substantial increase in exports, which rose by 16.90% year-on-year to a 27-month high of RM138.5 billion. The export growth was mainly due to low base effects and front-loading activities ahead of Trump's trade policies. Meanwhile, imports increased by 11.90% year-on-year to a four-month peak of RM119.3 billion, the fastest growth in four months, far exceeding forecasts of 3.30%.

Meanwhile, Malaysia's headline inflation unexpectedly cooled further to 1.70% in December 2024 (from 1.80% in November 2024), primarily tempered by softer non-food price inflation (i.e. information & communication, recreation, sport & culture, and personal care). For the full year, headline inflation averaged 1.80% in 2024 (2023: 2.50%), which is well within the Ministry of Finance’s forecast range of 1.50%-2.50%.

Bank Negara Malaysia kept the overnight policy rate unchanged at 3.00% for the tenth consecutive meeting, which was in-line with market expectations. Bank Negara Malaysia cited that the current monetary policy stance remains supportive of the economy and expects the strength in domestic economic activity to be sustained in 2025, underpinned by resilient domestic expenditure.

Fixed Income

US Treasury Market

US Treasury Tenor	31-Jan-25 (%)	Net Change MoM (bps)	Net Change Year-To-Date ("YTD")
1Y	4.16	0.50	0.50
2Y	4.20	-4.30	-4.30
5Y	4.33	-5.50	-5.50
7Y	4.44	-4.00	-4.00
10Y	4.54	-3.10	-3.10
20Y	4.84	-1.70	-1.70
30Y	4.79	0.50	0.50

The US Treasury market was mostly weaker in January 2025 after US President Donald Trump announced the delay in tariff implementation on China, Mexico and Canada, and due to the slowing US growth. The 4Q2024 GDP growth was down to 2.30% (survey: 2.60%) from 3.10% in 3Q2024.

As expected by the market, the FOMC on 29th January 2025 maintained the policy rate at 4.25%-4.50%, the first pause since the Fed started cutting in September 2024. Yields moved up 1-3bps with the pause. Data from Fed Funds Futures show 2 cuts are expected in 2025.

Asian Bond Indices Performance

Markit Asian USD Index	31-Jan-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	139.7	0.62%	0.62%
Asian Dollar IG Index	141.2	0.63%	0.63%
Asian Dollar HY Index	130.1	0.16%	0.16%
Asian Dollar Corp Index (ex-banks)	142.1	0.65%	0.65%

Source: Bloomberg, 31 December 2024

Asian dollar indices performances were stronger in the month of January as weaker-than-expected economic and core-inflation data lend support to reverse initial sell-off in US treasury at the start of January. Corporate Index (ex-banks) led the strong performance with a return of 0.65% for the month followed by Asian Dollar Index and Asian Dollar IG Index, with returns of 0.63% and 0.62%, respectively. Asian Dollar HY Index recorded a much smaller return as its performance were impacted by credit spread widening.

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 India (0.85% MoM), China (0.78% MoM) and Singapore (0.67% MoM).

The US Dollar Index

US Dollar Index ("DXY") declined by 0.11% MoM in January primarily driven by weaker-than-expected economic and core inflation data, coupled with the Federal Reserve decision to keep monetary policy unchanged. This combination weighed on the US dollar during the month. However, the DXY saw a rebound on the final day of January following the White House's announcement that tariffs on imports from Canada, Mexico and China would take effect on 1st February 2025.

We expect the DXY will likely experience volatility in the near term, as President Trump may leverage tariffs as a tool in negotiations with trading partners, which could introduce uncertainty and impact market sentiment.

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	31-Jan-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.52	-1	-1
5Y	3.66	0	0
7Y	3.76	-2	-2
10Y	3.82	-2	-2
15Y	3.98	0	0
20Y	4.06	-1	-1
30Y	4.21	+1	+1

Source: Bond Pricing Agency Malaysia, 31 January 2025.

Local bond market was mixed for the month under review, amidst Malaysia advanced fourth quarter GDP and CPI for December both came in lower than expectations, and a stronger than anticipated showing for exports for the month. During the first Monetary Policy Committee ("MPC") meeting of the year, Bank Negara Malaysia ("BNM") has decided to maintain the overnight policy rate ("OPR") at 3.00% by as widely expected, premised on outlook of sustained domestic economic growth and manageable inflation. Overall, Malaysian Government Securities ("MGS") traded firmer with yields fell 1-2bps, except for the ultra-long end 30-Year Malaysian Government Securities ("MGS") which increased 1bps on a MoM basis in January.

There were three sovereign bond auctions with a total size of RM14.5 billion in January, namely the reopening of the 7-year MGS, the new issuance of the 15-year Government Investment Issue ("GII") and the reopening of the 3-year MGII. These auctions saw immense reception with both the 7-year MGS and the 7-year GII saw decent bid-to-cover ("BTC") of 2.81 times and 2.62 times, respectively, while the 15-year GII even drew BTC of 4.29 times boosted by it being the first long duration auction this year after the supply lull in December.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) decreased 24.6% MoM to RM10.0 billion in January (December: RM13.3 billion) due to holiday shortened trading days during the lunar new year month. In terms of foreign flows, Ringgit fixed income securities documented three consecutive months of foreign outflows with record of RM1.4 billion outflow in December as compared to RM1.1 billion outflow in November after witnessing outflow of RM11.4 billion in October (largest drawdown since March 2020). MGS and GII saw net outflow of RM2.0 billion during the month as compared to RM1.8 billion net outflow in November. Consequently, total share in government bond (MGS+GII) declined further from 21.4% in November to 21.20% in December.

Notable domestic corporate issuances in January included RM2.5 billion of Danum Capital Berhad (AAA) sukuk and RM400 million of Projek Lebuhraya Usahasama Berhad (AAA) sukuk. The 3-year, 5-year, 7-year, and 10-year generic AAA corporate yield ended the month at 3.82% (-1 bps MoM), 3.90% (-5bps MoM), 3.95% (-4bps MoM) and 4.00% (-4bps MoM) respectively.

Strategy

Market Outlook – Ringgit Bonds

Despite ongoing volatility seen in the US bond market, Malaysian bond yields have remained stable and well supported. The resilience can be attributed to strong domestic liquidity conditions and steady demand from institutional investors. With BNM expected to maintain its policy rate at current levels for the whole of 2025, we anticipate continued support for the bond market. The stable interest rate environment should help sustain demand for fixed income instruments, keeping yields within a predictable range.

Strategy

We maintain a slight overweight position in duration relative to benchmarks, seeking and capitalizing on relative value opportunities along the yield curve.

For asset allocation, our primary focus will continue to be on corporate bonds, as they offer enhanced yields. We aim to construct a well-diversified portfolio that balances credit quality and sector exposure.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	31-Jan-25	MoM	YTD
S&P 500 Index	6,040.53	2.70%	2.70%
Nasdaq Index	19,627.44	1.64%	1.64%
MSCI Europe Index	180.77	6.41%	6.41%

Source: Bloomberg, 3 February 2025.

The Standard & Poor's ("S&P") 500 Index rose by 2.70% MoM in January as Apple gained following a strong sales forecast. U.S. prices increased as expected in December, while consumer spending surged, suggesting that the Fed has the leeway to delay cutting interest rates for an extended period this year. The Central Bank held interest rates steady in its latest decision, with Fed Chair Jerome Powell saying there would be no rush to lower them again until inflation and jobs data made it appropriate to do so.

The Morgan Stanley Capital International ("MSCI") Europe Index rose by 6.41% MoM, outpacing other major global equity markets, as fears of sweeping US tariffs subsided. Investors also fled richly valued US tech stocks in favour of European defensive and growth stocks, including banks, pharmaceuticals and luxury retailers. The ECB confirmed expectations of a quarter-point interest rate cut, bringing its main rate to 2.75%.

Asia Pacific Equity Index Performance

Index	Index level	Jan-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	708.44	0.62%	0.62%
FTSE ASEAN	842.36	-2.00%	-2.00%
CSI 300 INDEX	3,817.08	-2.99%	-2.99%
KOSPI INDEX	2,517.37	4.91%	4.91%
HANG SENG INDEX	20,225.11	0.82%	0.82%
S&P BSE SENSEX INDEX	77,500.57	-0.82%	-0.82%
TAIWAN TAIEX INDEX	23,525.41	2.13%	2.13%

Source: Bloomberg, 31 January 2025.

Chinese onshore equities corrected amidst a sharp decline in the margin financing buy ratio from over 9% at end-2024 to 7.5% on 6 January. China's 4Q GDP YoY came in at 5.4% notably above consensus. December 2024 data showed an uptick in economic activity, including industrial production, exports and retail sales, while fixed asset investment slightly disappointed. Hang Seng Index rose 0.8% MoM due to less than feared initial US-China tariff tension which boosted index returns from mid-January onwards. Inbound travellers were 4.2 million in December (November: 3.6 million), recovering to 65% of the December 2018 level. Southbound recorded RMB90 billion net inflows in December (vs. RMB116 billion net inflows in November). South Korea's KOSPI Index rebounded strongly in January led by Industrials. The manufacturing PMI rose stronger than expected to 50.3 in January2025 from 49.0 in December2024, driven by increases in output and new orders.

Taiwan's TWSE index rose 2.1% MoM amid an increase in PC and server demand expectations. December industrial production grew 20% YoY beating expectations again after rising 10.3% YoY in November reflecting solid growth trend in the technology sector production. December manufacturing PMI readings rose further to 52.7 indicating solid near-term demand for technology exports. India's Sensex Index saw broad declines amid weakening market sentiment, downward earnings revisions and rupee weakness.

ASEAN Equity Index Performance

Index	Index level	Jan-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,855.82	1.80%	1.80%
JAKARTA COMPOSITE INDEX	7,109.20	0.41%	0.41%
STOCK EXCH OF THAI INDEX	1,314.50	-6.12%	-6.12%
PSEi - PHILIPPINE SE IDX	5,862.59	-10.20%	-10.20%
HO CHI MINH STOCK INDEX	1,265.05	-0.14%	-0.14%
FTSE Bursa Malaysia KLCI	1,556.92	-5.20%	-5.20%

Source: Bloomberg, 31 January 2025.

The Straits Times Index rose in January despite the uncertainties surrounding the Trump's inauguration as the President of the US. December2024 non-oil domestic exports (NODX) grew 9.00% YoY in December2024, ahead of consensus forecast of 7.4% YoY, driven by electronics export. Headline inflation remained flat at 1.6% YoY in December2024, while core inflation eased to 1.8% YoY due to moderation in service inflation. Sector-wise, Communications, Capital Goods, and Financials outperformed in January2025, while Retail, Real Estate, and Transportation underperformed.

The Thai SET Index dropped in January due to rising regulatory risks from the Thai government plan to cut electricity tariffs and concerns on the CP Group (related party transaction and potential major acquisition). Sector-wise, Financials and Technology outperformed while Industrials and Construction. The Jakarta Composite Index eased slightly (in USD terms) in January. The market was supported by the banking names that saw a reversal of foreign inflows following the inauguration of President Trump, which indicated a less aggressive stance on tariff sanctions, as well as a surprise rate cut by Bank Indonesia that boosted investor sentiment and the outlook has turned more favourable for growth. On the other hand, the Healthcare and Materials sectors saw weakness and dragged the market's performance during the month.

The Philippines Composite Index dropped drastically in January mainly due to the impact from index rebalancing where the disproportionately high index weights of the new inclusions mean the other existing heavyweights in the index had to have its weights reduced. Persistent foreign investors selling, for the third month in a row, also added pressure on the market. The Vietnam stock market remained flattish in January as trading activities remained subdued in a shortened month due to the Tet holidays. The 4Q2024 results season is underway with the banking names delivering generally positive results driven by resilient credit growth.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") lost 5.20% MoM in January. Malaysia's FTSE Bursa Malaysia Mid 70 Index ("FBM70") and FTSE Bursa Malaysia Small Cap Index ("FBMSCAP") lost 6.70% and 5.10% MoM respectively. Real Estate Investment Trust ("REIT") and Energy were the best performing sectors, gaining 0.40% and 0.00% MoM respectively. On the other hand, Construction and Technology were the worst performing sectors, with a loss of 13.50% and 10.50% respectively. The top three best performers in FBM KLCI component stocks were CelcomDigi (3.6%), Petronas Dagangan (1.5%) and Maybank (1.0%), while the worst performing stocks were YTL Power (-29.2%), YTL Corp (-28.5%) and Gamuda (-14.8%).

Foreign institutional investors were net sellers of RM3.1 billion worth of equities in January 2025. Local institutional investors were net buyers of RM1.2 billion equities. Average daily value ("ADV") traded was at RM2.6 billion, up 3.73% MoM.

Strategy

Malaysia's investment case along with its regional peers was somewhat dented by the seemingly materialising key risk events coming out from 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.

We remain vigilant on the Asian markets as the Trump's new policies unfold. Nonetheless, the US bond yields and dollar coming off the recent peak should lead to a reprieve for the Asian equities markets in the near term. As such, our investment focus is 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).

We also like the technology, financials, and consumer sectors that benefit from secular trends and robust domestic demand. Meanwhile for defensiveness during periods of uncertainty, we pick companies that generate stable income stream and grow their dividends consistently.

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

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

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