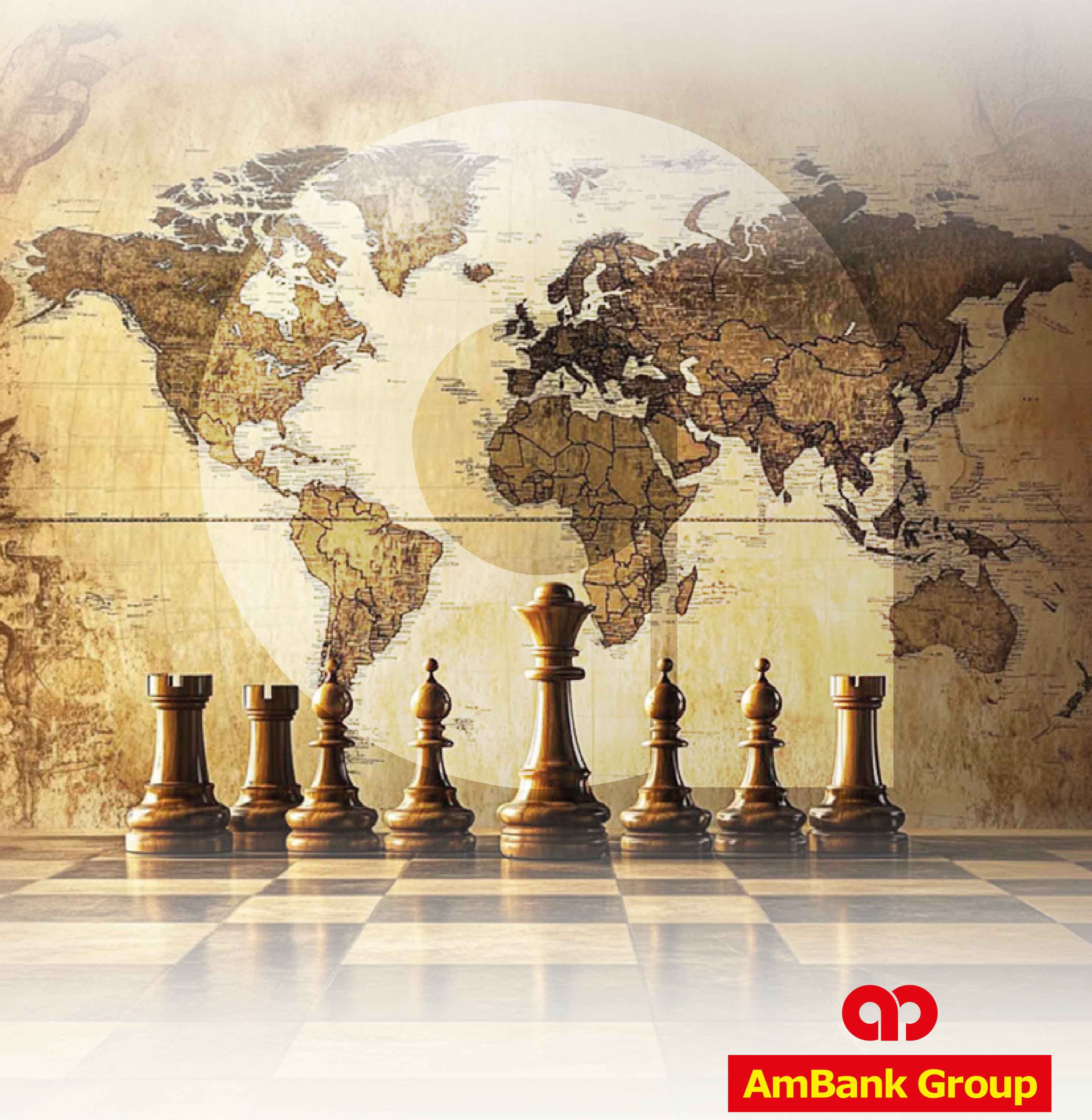
Yearbook

2nd Quarter Checkpoint

AmBank Group
50 YEARS MALAYSIA KITA



AmBank Group

EXECUTIVE SUMMARY

In our last Quarterly Checkpoint which was written post 'Liberation Day', the tariff announcement on 2 April by Unites States ("US") President Donald Trump, we stated that '*market weakness should find a floor when investors have fully digested the impact of tariffs*.'

Following 'Liberation Day', two 90-day pauses were announced by US. The first was on 9 April where reciprocal tariffs were put on hold for all countries except China. The second on 12 May, via a joint-announcement with China, post talks in Geneva that there would be a 90-day temporary reduction in tariffs between the two countries. Volatility was elevated in the capital markets in the early part of 2Q25 but following the second pause, equity markets rebounded to pre-Liberation Day levels and more, even with the US continuing to impose a universal tariff of 10% for all countries and a 30% tariff on China, as investor sentiment turned bullish and with a view that the worst was over.

There is clearly a risk-on mode in equity markets. **As trade deals are made, expect mini-rallies**. The sell off in US Treasuries with the risk-on mode was exacerbated following **Moody's downgrade of US** long-term credit rating from Aaa to Aa1 on 16 May.

China took active action in supporting its economy by cutting the Reserve Requirement Ratio of banks by 50bps, releasing some one trillion renminbi and cutting lending rates by 10bps, reducing borrowing costs and as a signal to reassure investors and the broader population. **Many central banks have also cut interest rates** in the current environment, including Europe, UK, Australia, Korea, India and Indonesia.

Malaysia continued to see fixed income inflows, which supported its declining yields, unlike the US. The stock market rebounded together with global equity markets, but valuations remain attractive with indicators that the tariffs are not impacting the local economy as yet with domestic consumption strong and investments robust. Bank Negara Malaysia had in mid-May **cut the Statutory Reserve Requirement by 1ppt, releasing some RM19 billion** in the domestic financial system.

As risk assets have rebounded strongly, we are cautiously optimistic. We await the end of the two 90-day pauses, the first of which will be in early July and the second in mid-August. Should the situation after the pauses be worse than the current environment of US imposing a 10% Universal Tariffs and 30% tariffs on imports from China, it will likely result in a shift from risk assets back to safe havens.

We continue to **prefer lower volatility assets, such as fixed income securities and dividend-yielding equities**. We also favour countries with a high proportion of domestic demand as well as those which can provide policy support for their economies.

Malaysia's capital markets continue to be supported by the country's strong fundamentals, while the sector-specific exemptions and 90-day pauses by the US mean the impact to Malaysia is temporarily marginal. The structural reforms including subsidy rationalisation which is expected to be on track and timely considering weaker commodity prices and the fiscal discipline will result in greater comfort by foreign investors investing in Malaysia.

During the quarter, the expanded scope of the Sales and Service Tax was also announced, and will take effect on 1 July 2025. While the move indicates the government's commitment towards fiscal prudence and caps fiscal deficit, it will also raise operational expenses and pose downside risks to market earnings.

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CONTENTS

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MACRO DEVELOPMENTS

Global

2Q2025 started with a bang but is easing into a whimper.

Market declines caused by the Liberation Day tariffs reversed after Trump granted a reprieve on retaliatory tariffs. On 9 April 2025, the Trump administration announced that except for China, the reciprocal tariffs would be suspended for 90 days, and only a baseline tariff of 10% will be levied until 9 July 2025. However, Trump increased the tariff on imports from China to 145% after China announced additional retaliatory tariffs against US.

Yet, slightly over a month later, US and China mutually reduced tariffs against each other. Under the agreement negotiated in Geneva and announced on 12 May 2025, US and China agreed to a 90-Day temporary reduction in tariffs. US will reduce tariffs on Chinese goods to 30% from 145%, while China will cut tariffs on US imports to 10% from 125%. Within the 30% US tariff – the US maintains its 20% fentanyl-related tariffs on China while China also maintains its 10% retaliatory tariff on US and non-tariff countermeasures.

However, despite the above, US tariffs will still be higher than they were before the announcements on 2 April, Liberation Day.

After the recent US talks with China and the UK and given the fact that most US imports from Canada and Mexico have been excluded from the new tariff regime, economists and market sentiment point towards a US baseline tariff that will eventually be around 10% (assuming the US deems that China has made progress on clamping down on fentanyl exports). However, there will be sector specific tariffs that could be higher for what the US deems to be critical sectors, although the aggregate level of such tariffs could be mitigated by purchasing agreements and quotas. The Trump administration has also shown that it is willing to allow carve outs for certain products.

This scenario is generally, what most economists have been cautiously computing for US growth at 1.5% for 2025. Rather the **de-escalation will bring down the probability of recession**, to 30% from the previous Bloomberg consensus of 40%. The reduction in recession risk and inflation persistence risk supports the Fed's neutral stance, with the next potential signpost for Fed policy change after the 90-day pause from the latest de-escalation.

On 10 June 2025, the World Bank cut its global growth forecast to 2.3%, from 2.7% in its January 2025 report. This was due to a substantial rise in trade barriers and the effect of an uncertain global policy environment. The growth this year would be the weakest outside of a recession since 2008. The forecast is conservatively based on tariffs in effect as of late May i.e. a 10% US tariff on imports from most countries. Hence, there are downside risks should tariffs increase after the 90 day reprieve. The organisation estimates that a further increase of 10% points in average US tariffs with proportional retaliation by other countries, could shave another 0.5% point off the outlook for 2025.

By geography, the World Bank cut the GDP growth forecast by 0.5% point for advanced economies to 1.2% from its January 2025 assessment. US growth for 2025 is slashed by 0.9% point to 1.4% with 2026 growth lowered by 0.4% point to 1.6%. For the Eurozone, the GDP growth forecast is cut by 0.3% point to 0.7% and in Japan by 0.5% point to 0.7%. For emerging markets, the Bank cut its growth estimates by 0.3% point to 3.8% from its January forecast. However, the forecast for China is left unchanged at 4.5% as the Bank stated that Beijing still had monetary and fiscal space to support its economy and stimulate growth.

Global (contd)

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 disruptions, and therefore reduce the scope for interest rate cuts. Governments both in EM and DM would likely have to utilise some form of **fiscal spending stimulus on top of interest rate cuts**.

In addition to tariff uncertainty, geopolitical flare ups globally continue to be black swans that could affect sentiment as well as selected sectors. For example, rising tensions in the Middle East could boost oil prices or India-Pakistan tensions that could dampen demand for edible oils. During such events, gold is typically a beneficiary of safe haven demand.

Other Key Developments in 2Q2025:

- **Replacing Biden's AI Diffusion Rule**

  On 13 May 2025, US Department of Commerce ("DOC") rescinded Biden's AI Diffusion Rule before it was set to come into force on 15 May 2025. This was on the grounds that it would have stifled American innovation, saddled companies with onerous regulations and undermined diplomatic relations with dozens of countries. The rule will be replaced by another policy at a later date. Media reports suggest that the replacement would be a global licensing regime with government-to-government agreements.

  In the meantime, the DOC released some guidance for the industry. Among others, the DOC reminded that the use of Huawei's Ascend chips anywhere in the world would violate US' export rules; that there are consequences of using US AI chips to train AI models in China and recommended ways to protect chip supply chains from diversion tactics.

- **Moody's downgraded US rating**

  On 16 May 2025, Moody's downgraded the long-term credit rating of the US from Aaa to Aa1. Alongside the downgrade, the outlook was revised from negative to stable. The growing debt burden and persistent fiscal deficits of the US are the primary reasons for the downgrade.

  The downgrade exerted upward pressure on US yields and is negative on the US Dollar. There could also be potential outflows from US equities. The sell-off in US treasuries is not expected to be substantial. Some funds limit their investments in sovereign debt rated below AAA (e.g. Hong Kong's HKD1.3 trillion pension fund) but most funds do not require AAA ratings for US Treasuries.

Asia

Following the 12 May 2025 tariff de-escalation, China is naturally the biggest beneficiary as the fear of a significant slowdown is temporarily mitigated. Should the lower trade tariffs be prolonged beyond the 90-Day limit, economists have estimated **at least a 1% point contribution to GDP**, bringing it closer to the government's target of "around 5%". Hence, this may lessen the urgency for the Chinese government to undertake fiscal stimulus.

Currently, the PBOC has rolled out new stimulus measures to cushion its economy from the trade war. Banks' Reserve Requirement Ratio will be lowered by 0.5ppt (effective from 15 May) and key interest rates are cut by 0.1ppt (effective from 8 May). Thus, the 7-day reverse repo rate has dropped to 1.4% from 1.5%. The overnight, 7-day and 1-month standing lending facility (SLF) rates are cut to 2.25%, 2.40% and 2.75% respectively. The rate cuts are expected to drive the loan prime rates (LPR) lower by 0.1ppt as well.

The impact of the tariff de-escalation to the rest of the region is less clear. **Downside risks to growth remain**. Trade uncertainty has held back capital investment, while cheap exports from China may cap profit margins of regional players. Tech-dependent economies like South Korea and Taiwan may still be subject to more volatility, due to potential tariff measures by US on semiconductors.

Since our 1Q2025 checkpoint, consensus **growth expectations for Asia Pacific as a whole have softened by 23 bps to 3.75% for 2025 and 16 bps to 3.73% for 2026** as weaker direct demand from the US and softening global demand from Trump tariff disruption began to crystalize in weaker export shipments. Despite the 90-day pause, downside risks to growth remain, as uncertainty over the longer-term tariff environment affects business planning and private investment.

In May, several government-related thinktanks have cut their growth assumptions for 2025. Korea Development Institute (KDI), a state-run think tank, has revised its forecast for South Korea's GDP to 0.8% for 2025, vs the 1.6% projected in February. Thailand's National Economic and Social Development Council (NESDC) has cut its GDP forecast for 2025 to 1.3%-2.3% (from 2.3-3.3% previously), citing weakening private consumption and investment. Bank Negara Malaysia, following the release of 1Q25 GDP, now expects 2025 GDP growth to come in slightly below the earlier forecast for 4.5-5.5%. On 21 May 2025, Bank Indonesia also lowered the 2025 GDP growth to 4.6-5.4% from 4.7-5.5%.

It should be noted that with US tariffs on China reduced to 30% and tariffs on the UK maintained 10% with some limited carve-outs; the "Liberation Day" or "Reciprocal" tariff regime announced on 2 April 2025 remain largely intact.

Growth among the ASEAN-6 is expected to diverge going forward, but generally with a step-down in growth from pre-trade war levels (see Exhibit 1). These growth outlooks have softened by between 0.3% point (Malaysia) to 0.7% point (Singapore) from a month ago. In contrast, China GDP growth has been upgraded by circa 0.3% following the Geneva trade deal.

Exhibit 1: 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	4.8
Malaysia	3.6	5.1	4.2
Philippines	5.5	5.6	5.6
Singapore	1.8	4.3	1.7
Thailand	2.0	2.5	2.0
Vietnam	5.1	7.1	6.1

Source: Bloomberg, 30 May 2025

Malaysia

Advance estimate of 1Q2025 GDP came in at 4.4%, which was weaker than last quarter's +5.0% YoY. This was due to lower growth in supply-side sectors, especially the **mining sector which recorded a contraction** at 4.9% YoY following a slower performance in the crude oil and natural gas sub-sectors. In the same vein, both **manufacturing and service sectors also recorded a marginally lower growth** of 4.2% YoY and 5.2% YoY, respectively (4Q2024: 4.4% YoY and 5.5% YoY).

Notably, exports rose in March by 6.8% YoY to RM137.3 billion, driven by the **front-loading of electronics exports** and shipments to US. Imports fell by 2.8% YoY to RM112.6 billion due to high base of capital goods imports. At the same time, Malaysia's labour market has remained healthy with unemployment rate in March 2025 remained unchanged at 3.1%. The Consumer Price Index ("CPI") **headline inflation eased** to 1.4% YoY in March 2025 from February's 1.8% YoY while **core inflation remained unchanged** at 1.9% YoY. However, inflation is **susceptible to upside drivers** in the later part of the year from domestic factors such as subsidy rationalisation and wage-related factors; mitigated by global deflation or disinflation as US reduces its demand for imports.

With the US-China 90-Day temporary reduction in tariffs, reducing the need for monetary easing; Bank Negara Malaysia ("BNM") which recently cut the Statutory Reserve Requirement may maintain its wait -and-see approach and not cut the Overnight Policy Rate ("OPR").

With regards to direct US tariffs on Malaysia, following 3 days of negotiations which ended on 24 April 2025, the Minister of International Trade and Industry, Tengku Zafrul Abdul Aziz briefed the cabinet that among the key areas for future rounds of negotiations are Malaysia's non-tariff barriers, particularly in agriculture and Malaysia's merchandise trade surplus with the US that currently stands at USD25 billion. In addition, Malaysia's Deputy Secretary-General (Trade), Mastura Ahmad Mustafa has been appointed as Malaysia's chief negotiator, while the US has named one of its Assistant US Trade Representatives to lead talks between US and Malaysia.

Other Policy Announcements

Expanded Sales & Service Tax

The Ministry of Finance announced in early June that Malaysia's expanded Sales and Service Tax (SST) will come into effect on 1 July 2025, as part of the broader Budget 2025 fiscal reform agenda. Under the revised framework, a sales tax of 5% to 10% will be applied to selected non-essential items. Concurrently, the service tax (6% or 8%) will be broadened to cover additional service categories. The government anticipates RM5b in additional revenue in 2025 (based on half-year implementation), with **annual target of RM10b a year** (equivalent to 0.48% of GDP). The policy is designed to preserve affordability for essential goods and services while improving long-term fiscal sustainability.

Details of the expanded SST are provided in the Table below:

Exhibit 2: Details of the Expanded SST

0% Sales Tax:	Essential goods like chicken, beef, mutton, fish, prawns, squid, vegetables, local fruits, rice, barley, oats, wheat, flour, canned sardines, sugar, salt, white bread, pasta, noodles, instant noodles, milk, cooking oil, medicine, medical devices, books, journals, newspapers and pet food. Basic materials for construction like cement, stones and sand, as well as items for the agricultural sector like fertilisers, pesticides as well as agricultural and livestock machinery.
5% Sales Tax:	Selected goods such as king crabs, salmon, cod, truffles, imported fruits, essential oils, silk and industrial machinery.
10% Sales Tax	Certain goods such as road bicycles and antique hand-painted artworks.
8% Service Tax (rental or lease income)	Tax rate of 8% on all service providers whose rental or lease income exceeds RM500,000. The following are exempted: a) Leasing or rental of residential buildings, reading materials, financial leases and tangible assets outside Malaysia. b) Lessees that are micro, small and medium enterprises (MSMEs) with annual sales under RM500,000. c) Business-to-business (B2B) transactions and group relief to avoid double taxation. d) Twelve-month exemption for non-reviewable contracts from the date of the 8% service tax's implementation.

Exhibit 2: Details of the Expanded SST (cntd)

6% Service Tax (construction services)	Tax rate of 6% for construction services with a threshold of RM1.5 million. Exemptions for the following: a) Residential buildings and public amenities related to housing. b) B2B transactions to avoid double taxation. c) Twelve-month exemption for non-reviewable contracts from the date of implementation of the 6% service tax.
8% Service Tax (Financial Services)	Tax rate of 8% on fee- or commission-based financial services. Exemptions for: a) Basic financial services for Malaysians, including basic banking and interest- or profit-based Islamic financing. b) Foreign exchange and capital market gains, punitive fees or charges, outward remittances from Malaysia, financing facilities directly related to exports, charges to overseas remittance agents for inbound transfers, and brokerage or underwriting services related to life, medical and family insurance/takaful. c) B2B transactions to avoid double taxation, shariah-compliant fee arrangements, and service providers for Bursa Malaysia and Labuan.
6% Service tax on selected healthcare	Tax rate of 6% for private healthcare, traditional and complementary medicine, and allied health services provided to foreigners, on service providers exceeding the RM1.5 million threshold.
6% Service Tax (private education)	Tax rate of 6% for private preschool, primary and secondary education providers with annual tuition fees exceeding RM60,000 per student. Exemptions: Malaysian students with disabilities (OKU card)
8% Service Tax for beauty services	Tax rate of 8% for taxable services exceeding RM500,000 in a 12-month period, such as facial treatments and hairdressing.

Source: Ministry of Finance portal https://www.mof.gov.my/portal/pdf/siaran-media/cukai-perkhidmatan.pdf, The Star

Expected impact:

Inflation:
MOF maintains forecast CPI of 2.0-3.5%. However, although prices of essential items remain unaffected by the expanded SST, we note that costs of doing business will increase.

Fiscal deficit:
The government has demonstrated its commitment to fiscal consolidation with the 2025 fiscal deficit target maintained at 3.8% of GDP.

Equity market:
Sectors which will be **most impacted are Property and REITs**, with marginal impact on Banks. We see potential **earnings erosion** post implementation on 1 July 2025, especially with **further cost increase** down the road, e.g. electricity tariff hike on 1 July and petrol subsidy rationalization in 2H 2025. Our sectoral impact analysis is as below:

Sector	Impact	Remarks
Banking	Marginally negative	Non-essential fee-based revenue accounts for 5-7% of total sector operating income. The fees mainly affect commercial and corporate accounts and are likely to be passed on. Larger corporate clients are expected to absorb these fees but SME firms that are more cost-sensitive may be discouraged from taking on more fee-based banking facilities, thus affecting non-interest income. Banks may be encouraged to expand Shariah facilities (which do not incur service tax). Banks with larger corporate base like RHB Bank and CIMB Bank may be affected while retail-based banks like Public Bank, Bank Islam and Hong Leong Bank will be less affected. Bank Islam and Syarikat Takaful may be relative winners as Islamic financing and Takaful are exempt from tax.
Construction	Neutral	Most contract structures allow for cost pass-through mechanisms and new project tenders are likely to be repriced, transferring the incremental cost to the end customer. Most construction contracts are governed by “change-in-law” clauses, which enable contractors to pass on any incremental tax costs to their clients. Importantly, key building materials such as cement, sand, and iron remain exempt from sales tax, maintaining the status quo at 0%. As such, we anticipate limited earnings disruption stemming from the revised SST structure

Sector	Impact	Remarks
Consumer	Negative	The impact of sales tax may not be significant to consumer staple companies given continued lack of sales tax on essential items. However, concerns are on the service tax on rental, which may impact selected consumer companies. For example, Aeon Bhd derives majority of their earnings from rental income (i.e property management) so will have to incur higher rental expenses or pass down to their tenants. We also expect some impact on the retailers that rent their outlets e.g. Eco-shop and MRDIY.
Healthcare	Neutral	Medical tourism remains a small revenue contributor for hospitals accounting for less than 10% of revenue. The impact to earnings should be minimal as even though costs can be passed through, healthcare services are inherently price inelastic. Treatment cost in Malaysia is also significantly lower compared to Singapore and Thailand. In terms of contribution from foreign patients, Alpha IVF may be impacted as foreign patient revenue accounts for 40% of their revenue. However, Alpha IVF does have a high success rate, so customers may be willing to pay a higher price. Other healthcare providers have lower foreign patient contribution i.e. Sunway Healthcare (10% of total revenue), IHH Malaysia (10%) and KPJ (6%).
Property	Negative	The 6% SST on construction services will increase developers' operational costs for commercial and industrial properties. Most developers however are largely focused on residential properties (which are outside the scope of the SST). While the SST is to be borne by the developers, there is currently no guideline on how it applies to contracts entered before 1st July but billed thereafter. In addition, SST is now charged on leasing income from industrial and data centre assets. Although the costs will likely be passed on to customers, this essentially increases the costs of setting up industrial and data centre facilities in Malaysia.
REITS	Negative	Prime malls like Mid Valley, Sunway Pyramid and Pavilion KL should remain resilient, but REITs with weaker assets could face tenant churn and higher vacancy risk as smaller tenants may see pressure in their costs. Tenants may pass on higher costs to customers, which may impact retail sales. Near-term income should remain stable as rental contracts are locked in over a fixed leasing period.

Sector	Impact	Remarks
Others	Negative	5% sales tax on industrial machinery affects many industries that rely on such machinery e.g. Automotive, Electronics, Metalworks, Textiles and Apparel, Food and Beverage (processing, packaging and bottling equipment), Construction, Utilities (turbines, transformers, pumps, filtration systems), Transportation and Logistics (forklifts, conveyor systems, fabrication and assembly equipment), Agriculture (harvesters, irrigation systems).

EQUITY STRATEGY

Exhibit 2: Performance and Valuations of Selected Markets

Market	Last Price	% Year-To-Date	Price-to-Earnings Ratio ("PER") 2025 (x)	Price-to-Earnings Ratio ("PER") 2026 (x)	Dividend Yield (%)
S&P 500	5911.69	0.51	22.44	20.01	1.38
Nasdaq 100	21340.99	1.56	27.84	24.27	0.77
Japan	37965.10	-4.84	19.61	17.73	2.12
China	73.19	13.10	11.49	10.27	2.39
Taiwan	21347.30	-7.33	15.86	13.90	3.08
South Korea	2697.67	12.43	9.65	8.35	2.32
India	24750.70	4.68	21.12	19.11	1.64
Singapore	3894.61	2.83	12.47	11.79	5.57
Indonesia	7175.82	1.35	12.06	10.87	5.35
Thailand	1149.18	-17.93	12.68	11.72	4.42
Philippines	6341.53	-2.87	10.14	9.42	3.29
Vietnam	1332.60	5.20	11.10	7.37	2.87
Malaysia	1508.35	-8.16	13.80	12.79	4.38

Source: Bloomberg, end May 2025

US

We maintain a cautious view on the US market despite the recent de-escalation in the trade war with China. US equity **valuations remain elevated**, as **EPS has been on a downtrend** since September 2024. Since the end of 2024, the estimated EPS integer for 2025 has been downgraded by 3.4%. The **premium relative to the rest of the world is likely to narrow** as the narrative of US exceptionalism fades - largely due to the unpredictability of Trump's policies. While the proposed tax cuts may offer some relief to US corporates, higher costs and persistent business uncertainty continue to pose headwinds for the economy.

Asia

The 90-day truce between the US and China marks a **significant turning point for Asian equity markets**. It opens the door for further negotiations and helps ease immediate trade tensions between the two major trading partners of many Asian economies. Although uncertainty remains regarding the final outcome of these negotiations, there is growing optimism that other Asian countries may also secure lower tariffs from the US. As such, we adopt a **cautiously optimistic** stance, favouring a trading approach as equity markets are likely to remain volatile.

Looking ahead, we maintain a **positive outlook on the Hong Kong and China** markets, expecting **continued policy** support from the policymakers. While the urgency for stimulus may diminish slightly due to the temporary trade truce, we still anticipate accommodative measures. Tech-dependent economies such as South Korea and Taiwan may experience heightened volatility, particularly if the US introduces new trade measures targeting semiconductors.

The diminishing US exceptionalism could benefit ASEAN equity markets by attracting foreign inflows and easing currency pressures. This, in turn, may provide central banks in the region with greater flexibility to implement monetary easing. We continue to favour domestic-oriented sectors and dividend-yielding stocks for their defensive characteristics, while selectively adding exposure to companies that stand to benefit from the temporary pause in tariffs.

Malaysia

The 90-day pause and tariff cut by both US-China translated to a risk on stance, albeit confined to the period.

Net foreign selling slowed in April to RM1.9b (Mar: -RM4.6b) as foreign investors turned buyers from 23 Apr (totalling RM1.1b) amid a volatile month due to US reciprocal tariffs "twists and turns". Net foreign buying continued in May, amounting to RM1.03b. This narrowed the year-to-date net sell position to RM10.8b. We continue to favour domestic-centric sectors, as well as dividend yielding stocks for a defensive tilt whilst may add selectively to stocks that benefit from the tariff pause.

Our sector views:

Banking	Neutral. Recent cut in SRR should improve liquidity and boost NIM while lower trade tensions suggest less threat to economy and less need to cut interest rates. However, lack of visibility on actual tariff rates would continue to heighten business uncertainty and planning, thus may affect loan demand. The expanded scope of SST is marginally negative for fee income.
Construction	Positive. The recent scrapping of Biden's AI diffusion rule by the Trump administration is likely to sustain momentum for ongoing DC developments in Malaysia. Assuming RM20 mil of construction cost per MW, the estimated 1012MW of DC projects projected for Johor and Cyberjaya alone for 2025-2028 would translate into RM20b worth of construction projects.

Our sector views (contd):

Energy	Neutral. OPEC's decision to raise output by a total of 0.822 million barrels per day across May and June has exerted some downward pressure, but this is only for the short term. Oversupply should taper off in 2026, as current WTI prices are below the USD65/barrel for new wells in US. The key downside risk remains a potential US-Iran deal that lifts sanctions and brings additional Iranian supply to market.
Healthcare	Positive on hospitals, as the diagnosis related groups payment system excludes private hospitals for now. President Trump's Executive Order to bring the prices of prescription drugs in line with the Most Favoured Nations should have minimal effect on Malaysian pharmaceuticals as they do not export to the US. However, we are cautious on the gloves sector in the near term as customer re-stocking is likely to occur only in 2H2025.
Plantations	Neutral on the sector as we expect CPO price to weaken due to anticipation of better production as well as the reduced appetite for CPO amid US-China trade truce. However, we expect the impact would be cushioned by the increased demand in Indonesia via its B40 implementation.
Property	Neutral. As the US is now scrapping its AI diffusion rule, this should ease investors' concerns over the potential cancellation of some of the major DC projects that have been signed with developers and contractors in Malaysia. Malaysia's market position to attract DC investments has not changed, given the favourable geographical location, adequate supply of power and water resources, and availability of land.
REITS	Neutral. The retail REITs' managers are seeing some slowdown in retail spending despite the festive season in Q1FY2025. Despite that, the revenue is still within, or above consensus forecasts and footfall remains robust. Although there is some negative impact from the expanded SST, we would be positioned in prime malls with stronger tenancy and long term rental reversions.
Technology	Neutral. External developments have been positive thus far in 2Q25. On 11 Apr, there was selective tariff exemption for smartphones and other consumer electronics. On 12 May, the Geneva trade deal resulted in lower US-China tariffs. On 13 May, Trump administration planned to rescind the Biden AI Diffusion rule.
Telecommunications	Neutral. Telecommunications sector is a defensive sector amid the global tariff uncertainties but may be a casualty should investors adopt a risk-on stance in the near term and switch to higher growth sectors. There has also been more clarity in the sector as U Mobile has received the official award from the MCMC to build the second 5G network.

Our sector views (contd):

Transport	US-China trade truce may boost frontloading and cargo volumes in the near term. The current marginal oversupply in the crude oil market is expected to cap price upside (barring geopolitical tensions in oil producing countries). This could potentially benefit port operators, shipping, logistics, and airlines in terms of lower fuel/operational costs.
Utilities	Neutral. Demand will be underpinned by ramp-up of data centre projects. The total capacity tied to Energy Supply Agreements (ESAs) rose to 5.9GW in Q4 2024, up from 4.7GW in Q3. However, we are maintaining neutral call on the sector given the stretched valuation.

FIXED INCOME STRATEGY

US

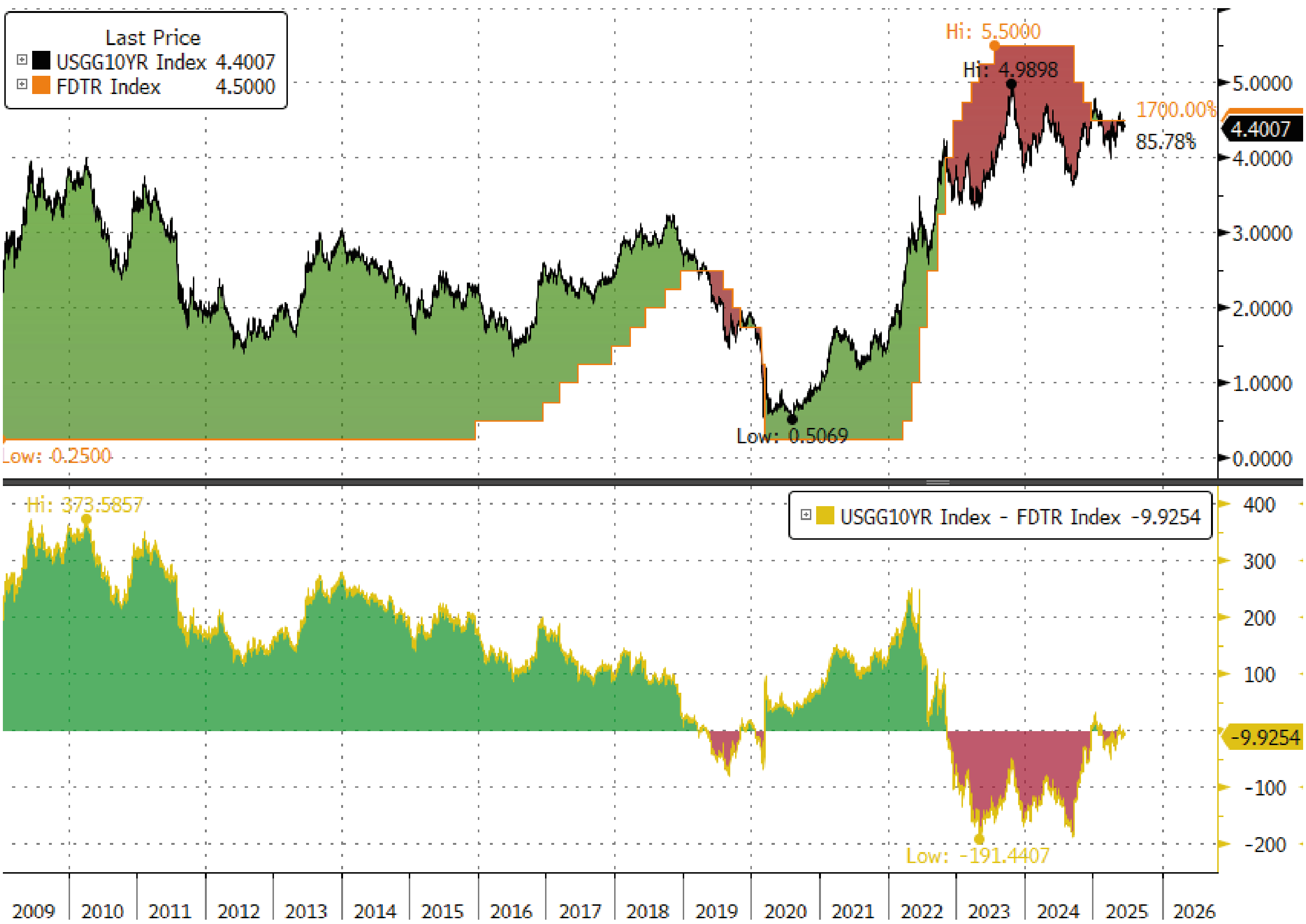
US Treasury yields climbed in the month of May 2025 as the market reacted to stronger than expected growth in April's Non-Farm Payroll (NFP) report (forecast: 130,000; actual: 177,000), the de-escalation of China-US tariff tension following a tariff-pause agreement and concerns over US President Donald Trump's large tax bill. The President's bill is expected to increase the US budget deficit by USD 2.4 trillion over 10 years while reducing tax by approximately USD 3.7 trillion.

In the same month, credit rating agency, **Moody's downgraded the US sovereign credit rating from Aaa to Aa1**, citing debt US government's high debt level and contributing to upward pressure on US Treasury yields.

The US 10-year yield rose to 4.50% during the month, following the Fed's expected decision to maintain the Fed Fund rate at 4.25-4.50%. This postponed market's expectations for the first rate cut from June 2025 to July 2025. At one point, the 10-year yield touched 4.60% on concerns of the widening US fiscal deficit before settling at 4.40% by month-end.

We expect US Fed to cut rates in the second half of this year, albeit with some delay. The Fed is in a difficult position with the inflation remaining sticky. The tariff could cause a spike in the prices of goods and accelerate the inflation further above Fed's target. Hence, we think the Fed will be waiting for more economic data before they decide on any rate cut. That said, a sharp rise in unemployment may trigger the Fed to cut rates more aggressively in the second half of 2025.

Exhibit 3: Negative Carry - US Treasury yield vs Fed Fund Rate



Source: Bloomberg, 30 May 2025

Asia

Asian dollar indices generally performed better in May 2025. The overall Asian Dollar Bond Index recorded a modest month-on-month (MoM) gain of 0.20% to 142.8. Market sentiment at the beginning of the month was subdued, primarily due to the US Federal Reserve's decision to maintain interest rates for a third consecutive meeting. Additional pressure came from uncertainties surrounding the potential expiry of tax cuts, ongoing tariff issues, and weaker-than-expected economic data.

Despite these challenges, Asian dollar indices strengthened towards the end of the month. This improvement was supported by a rebound in US Treasuries, driven by the following factors:

- An upward revision in US Q1 GDP, reflecting stronger consumer spending.
- An increase in initial jobless claims, reaching the highest level since November 2021.

The Asian Dollar bond performance by country was mixed. The top three gainers by sequence were India (0.76% MoM), Thailand (0.56% MoM) and Indonesia (0.38% MoM) while the top three losers by sequence were Singapore (-0.35% MoM), Malaysia (-0.27% MoM) and the Philippines (-0.07% MoM).

The Asian Dollar Bond Index may continue to show mixed performance depending on country-specific fundamentals and global market conditions.

Exhibit 4: Asian Bond Indices Performance

Markit Asian USD Index	30 May 2025	MoM	YTD
Asian Dollar Index	142.8	0.20%	2.85%
Asian Dollar IG Index	144.3	0.13%	2.79%
Asian Dollar HY Index	133.5	0.95%	2.70%
Asian Dollar Corp Index (ex-banks)	145.4	0.23%	2.95%

Source: Bloomberg, 30 May 2025

Malaysia

In May, Malaysian Government Securities ("MGS") rallied across all tenures, with the yields in shorter tenures of 5Y and 7Y tenures falling in the high teens (by -20bps MoM and -17bps MoM respectively) versus the yields in longer tenures of 10Y, 15Y and 20Y that fell in the low teens (by -13bps MoM, -14bps MoM and -11bps MoM respectively), resulting in bull-flattening of the MGS yield curve from the previous month. The bullishness in the domestic bond market was a continuation of the rally from the previous month as the market increasingly priced in a potential 25bps rate cut in 2025 particularly as BNM's MPC statement on 8 May was interpreted as dovish, as well as a continuation of some diversification away from USD assets by global investors. However, the ringgit bond market was mixed in the last week of May, given the volatility in US tariff policy announcements in that week which saw some investor interest return to USD assets.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increase by 8.11% MoM to RM20.0 billion (April: RM18.5 billion). April 2025 saw net foreign inflow of RM10.2 billion into ringgit bonds, the largest monthly foreign inflow since July 2023. The large foreign inflow was attributed mainly to investors positioning for a 25bps cut this year by BNM and some of the inflow could have come from diversification away from US assets.

Exhibit 5: MGS Benchmarks Yield

MGS Benchmark Tenors	30 May 2025 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.17	-8	-36
5Y	3.20	-20	-46
7Y	3.38	-17	-40
10Y	3.56	-13	-28
15Y	3.70	-14	-27
20Y	3.81	-11	-27
30Y	4.08	-2	-11

Source: Bond Pricing Agency Malaysia, 30 May 2025

Malaysia's fixed income market remains resilient amid the expectation of an Overnight Policy Rate (OPR) cut in July 2025. Despite rate cut expectations already being priced in, bond yields remain stable with sustained demand and no signs of selling pressure. Corporate bond markets continue to attract strong interest, with tight spreads reflecting confidence in domestic credit quality. **The Ringgit outlook is constructive, providing support for capital inflows with a weakening US dollar.** The MYR is supported by improving fundamentals and global appetite for EM currency exposure. Domestically, liquidity conditions are healthy, and bond auctions have been well-bid.

Market expectations are also supported by easing inflation and the broader global trend towards monetary easing. Core inflation has softened toward the lower end of BNM's target range, providing room for policy adjustment. Meanwhile, domestic growth remains solid, underpinned by a rebound in tourism, stable employment, and proactive fiscal measures.

We **maintain overweight on corporate bonds** despite the tight credit spreads, while added tactical positions in government bonds for trading opportunities.

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Strategy	Focus	Solutions
Sleep Well-At Night	This strategy is designed for clients seeking stability and a predictable income stream, with a blended portfolio of unit trust investment and structure investment idea. • Income Consistency • Regular Payout	**Income & Growth:** Quarterly payouts, diversified across equity, bonds, and convertible bonds. **Range Accrual Structure Investment:** Quarterly coupon, capital preserved if hold until maturity, limited volatility to market movement. **Investment Grade Fixed Income:** favour fixed income instruments (e.g. bonds) with strong credit profile.
Return Accelerator	This strategy is suited for clients seeking to balance return with manageable risk exposure through active and tactical thematic strategies. • Potential Higher Returns • Thematic Ideas and allocation	**Global Dividend Focus:** Blue-chip stocks with quarterly income and potential hidden gems. **Global Multi Asset:** Dynamic allocation to manage risk and seize opportunities. **Structured Investment with Equity Underlying – High Buffer:** Enhanced yield, tactical allocation with volatility dampen approach to engage the market.
High Octane Portfolio	This strategy is tailored for experienced investors comfortable with market volatility, seeks higher returns through aggressive growth assets, combine with tactical plays, and structured investment strategies. • Maximize Returns • Short-Term Tactical Play	**Technology & Innovation Equity:** Invest in leading tech firms, capture emerging trends, long-term growth focus. **Structured Investment with Equity Underlying – High Coupon, Momentum:** High income, volatility buffer, strategic entry/exit.

From the desk of:

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Chief Executive Officer
AmFunds Management Berhad

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Chief Investment Officer,
AmFunds Management Berhad

AWARDS AND ACCOLADES

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Asia Asset Management - Best of The Best Awards 2025

Best Asset Management Company (30 years), Malaysia

Best CEO of the Year, Malaysia: Goh Wee Peng

Best Bond Manager, Malaysia (5 consecutive years)

Best Institutional Asset Manager, Malaysia

Best Pension Fund Manager, Malaysia (7 consecutive years)

Best Sukuk Manager, Malaysia (4 consecutive years)

Best ASEAN Awards: Best Application of ESG (2 consecutive years)

Best Performance Awards: Asian Bonds, Local Currency (10 Years) (2 consecutive Years)

Best Performance Awards: Asian REITS (5 Years) (3 consecutive Years)

Alpha Southeast Asia - 16th Annual Fund Management Awards 2025

Best Fund with the Optimal Sharpe & Information Ratios (2 consecutive years)

Best Asset Manager (Money Market & Sukuk Funds)

Asset Publishing & Research Limited, publisher of The Asset (magazine) - The Asset Triple A Sustainable Investing Awards for Institutional Investor, ETF, and Asset Servicing Providers 2025

Best ETF Provider, Malaysia (4 consecutive years)

InsuranceAsia News - Institutional Asset Management Awards 2025

Insurance Fund House of the Year, Malaysia (8 consecutive years)

Best Islamic Fund Manager (3 consecutive years)

Best Passive Manager (2 consecutive years)

AWARDS AND ACCOLADES

FinanceAsia - FinanceAsia Asia's Best Companies 2025

Best Managed Company (Bronze)

Most Committed to ESG (Bronze)

Best Managed - Financial (Silver)

FinanceAsia - FinanceAsia Awards 2025

Biggest ESG Impact - Nonbank Financial Institutions (Domestic) (2 consecutive years)

The Edge Malaysia | Morningstar - The Edge Malaysia ESG Awards 2024

AmSustainable Series - Positive Change Fund, Best Impact In Basic Needs (Silver) (2 consecutive years)

LSEG - LSEG Lipper Fund Awards Malaysia 2025

AmDynamic Bond, Best Bond MYR Fund Over 10 Years (2 consecutive years)

AmDynamic Sukuk, Best Islamic MYR Fund Over 3 Years

LSEG - Global Islamic 2025 Lipper Fund Awards

AmDynamic Sukuk, Best Fund Over 3 Years

CorporateTreasurer - CorporateTreasurer Awards 2024

Best ESG Initiative

AWARDS AND ACCOLADES

Cambridge Islamic Funds Awards - Cambridge Islamic Funds Awards 2025

Best Islamic Sukuk Fund
in Malaysia
(2 consecutive years)

Best Islamic Fund Manager
in Malaysia 2025

FSMOne Recommended Unit Trust Awards 2024/25 - iFAST Capital Sdn. Bhd.

AmIncome Plus (Fixed Income
- Malaysia) (Short Duration)
(2 consecutive years)

AmBond
(Core Fixed Income - Malaysia)
(2 consecutive years)

Europe Equity Growth
(Sub Regional Equity - Europe)
(3 consecutive years)

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