Market Review & Outlook

April 2025

(as at 31 March 2025)

Overview

The United States ("US") Federal Reserve ("Fed") in its 18 - 19 March 2025 Federal Open Market Committee ("FOMC") meeting, maintained the Fed Funds Target Rate ("FFTR") at a range of 4.25%-4.50% for the second straight meeting, in line with market expectations. The Fed's dot plot continued to show the median view of the FFTR for year 2025 remained unchanged at 3.90% level (i.e. two 25 basis points ("bps") rate cuts implied in 2025). However, it is notable that the individual projections suggest a more hawkish stance versus the previous dot plot with the number of cuts (based on individual projections) has been pared back as FOMC committee members await the impact of upcoming tariffs.

US headline Consumer Price Index ("CPI") cooled a bit more than expected after a hot January print, rising by 0.20% Month-on-Month ("MoM") and 2.80% Year-on-Year ("YoY") in February. With core CPI (excluding food and energy prices) also rose at a slower pace, coming in at 0.20% MoM and 3.10% YoY in February, the lowest YoY pace for core CPI since April 2021 (3.00%), back when US inflation started to accelerate. In addition, the Fed's preferred inflation measure - the Personal Consumption Expenditures ("PCE") index rose 0.30% MoM and 2.50% YoY during the corresponding period, in line with forecasts. The core PCE price index, showed a 0.40% MoM increase in February, putting the 12-month inflation rate at 2.80%.

In terms of US employment conditions, the US labour market data released during the month painted a bleak picture, with Bureau of Labor Statistics ("BLS") reported a slightly weaker-than-expected jobs creation at 151,000 in February (below the median estimate of 160,000); while unemployment rate also surprised with an uptick to 4.10% (from 4.00% in Jan), as the number of unemployed persons rose by 203,000 to 7,052,000 (January: +37,000 to 6,849,000).

Moving toward the Eurozone, as widely expected the European Central Bank ("ECB") cut interest rates by 25 bps at its March meeting, marking the sixth move since June 2024. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be lowered to 2.50%, 2.65% and 2.90%, respectively. Finally, the European Union announced a delay in implementing its first set of retaliatory tariffs until mid-April in response to the US tariffs, to allow time for negotiation with Washington and reassessment of affected goods in order to minimise economic impact.

Malaysia

On 6 March 2025, Bank Negara Malaysia ("BNM") held the overnight policy rate ("OPR") steady at 3.00%, issuing a neutral policy statement as widely expected. BNM continued to maintain its monetary policy stance and believes that the current OPR level remains supportive of the domestic economy amid external headwinds from US trade policy uncertainties. In its 2024 Annual Report, BNM maintained its official Gross Domestic Product ("GDP") growth forecast for 2025 at 4.50% to 5.50% YoY (2024: 5.10% YoY) after considering the positive spillovers from the global tech upcycle, which is expected to drive domestic growth and offset the external uncertainties related to a more restrictive US trade policy. BNM also maintained its 2025 inflation rate forecast at 2.00% to 3.50%. This forecast reflects the upside risk to inflation amid ongoing domestic policy reform measures and price adjustments such as RON95 petrol subsidy rationalisation, electricity tariff review and foreign labour costs.

Moving towards the CPI, headline inflation dropped to 1.50% YoY primarily due to slower rises in prices for transport, health, recreation, sports and culture which helped offset the higher costs for insurance and financial services and education. However, core inflation rose slightly to 1.90% YoY from last month's 1.80% YoY, indicating sustained price pressures in essential goods and services. The minimum wage hike to RM1,700 per month from RM1,500 per month for employers with more than five employees had a muted impact on the inflation rate during the month.

Malaysia's labour market has remained stable and healthy with the unemployment rate in January 2025 holding at 3.10% for the second consecutive month. The number of unemployed declined by 4.70% YoY to 533,800 (December 2024: 538,500) reflecting steady employment growth. The domestic jobs growth in the service sector remained resilient, supported by accommodation, food and beverage as well as wholesale and retail trade. Improvement in employment was also seen in the manufacturing, construction, agriculture and mining and quarrying sectors.

Malaysia's trade in February 2025 demonstrated steady growth, where:

- Total trade increased by 5.90% YoY, reaching RM223.9 billion.
- Exports rose by 6.20% YoY to RM118.3 billion, reflecting strong external demand
- Imports fell by 5.50% YoY to RM105.6 billion.
- Trade balance remained in surplus at RM12.6 billion.

Overall, Malaysia's trade outlook remains positive, supported by robust export growth and stable domestic demand.

Fixed Income

US Treasury Market Overview

In March 2025, the US Treasury yield curve steepened, driven by concerns over tariffs, higher inflation expectations, and slowing economic growth. The curve pivoted around the 10-Year ("10Y") yield, with short-term yields rallying and higher yields at the long end. The 2-Year ("2Y")/10Y spread widened from 22 bps to 32 bps by the end of March, reflecting increased uncertainty. Early in the month, the curve bear steepened, as investors anticipated further monetary policy adjustments with the weaker-than-expected job data, the Automatic Data Processing ("ADP")'s Non-Farm Payroll (NFP) report showing 77,000 jobs added (vs. 115,000 expected) and unemployment at 4.10% (vs. 4.00% consensus).

Following the FOMC meeting on March 19, 2025, the curve bull-steepened, with the 2Y yield falling by 7 bps and the 10Y yield declining by 10 bps. The Federal Reserve maintained its policy rate at 4.25%-4.50%, reinforcing market uncertainty. By the end of March, investor sentiment weakened, with the Conference Board's Consumer Confidence Index hitting a 4-Year ("4Y") low of 98.3, as concerns over tariff-driven inflation persisted.

US Treasury Yields Summary

US Treasury Tenor	31-Mar-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	4.02	-6.2	-12.3
2Y	3.88	-10.6	-35.8
5Y	3.95	-6.9	-43.2
7Y	4.07	-4.1	-40.6
10Y	4.21	-0.3	-36.4
20Y	4.60	+7.4	-25.9
30Y	4.57	+8.1	-21.1

Source: Bloomberg, 2 April 2025

US Market Outlook

- The 10Y US Treasury yield is expected to remain in the range of 3.90%–4.20%.
- We anticipate two rate cuts in the Fed Funds Rate in 2025.

Asian Bond Indices Performance

Markit Asian USD Index	31-Mar-25	Month-on-Month ("MoM")	Year-To-Date ("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

The appetite in the Asian Dollar Bond index saw a preference for High Yield ("HY") with the Asian Dollar HY Index recording a MoM gain of 0.35% compared to the Investment Grade ("IG") Asian Dollar IG index which saw a slight decline of 0.03%. The overall Asian Dollar Bond Index saw a decline of 0.04% to 142.2.

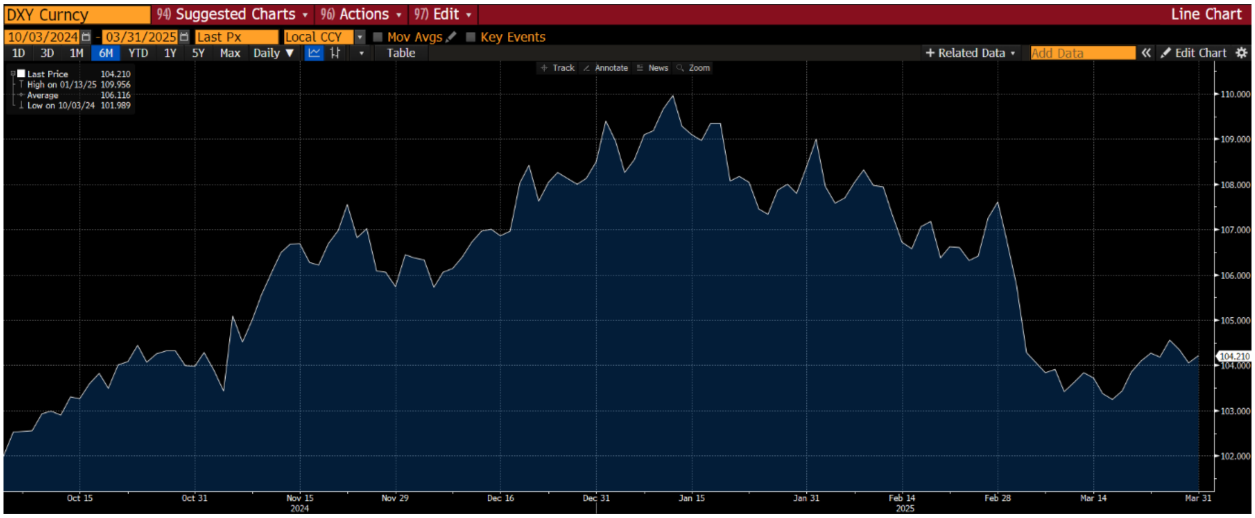
The Asian Dollar bond performance by country was mixed. The top three gainers by sequence were Philippines (0.38% MoM), Korea (0.29% MoM) and China (0.28% MoM) while the top three losers by sequence were Indonesia (-1.12% MoM), Thailand (-0.41%) and Malaysia (-0.37% MoM).

The US Dollar Index

The US Dollar Index ("DXY") declined by 3.16% MoM, ending at 104.21 in March. The DXY Index fell to a five-month low due to uncertainties surrounding US trade and economic growth, as tariffs raised concerns that the US economic performance would suffer. The harsher-than-expected tariffs threaten to raise prices on trillions of dollars in goods imported into the US each year while retaliatory tariffs between the US and other countries could disrupt supply chains and worsen the economic outlook. In addition, risks to the US economy are reflected in rising bets for Fed interest rate cuts, which could add to the depreciation pressure on the dollar.

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.

Chart 1: The US Dollar Index



Source: Bloomberg, 2 April 2025

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	28-Mar-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.45	-5	-8
5Y	3.60	-3	-5
7Y	3.71	-4	-7
10Y	3.80	-1	-4
15Y	3.93	-5	-5
20Y	4.01	-6	-7
30Y	4.15	+2	-1

Source: Bond Pricing Agency Malaysia, 28 March 2025.

In March 2025, Malaysian Government Securities ("MGS") yields rallied across the curve – although not as much as UST – with the exception of the 30-year MGS. MGS traded stronger with yields falling by 1-5bps in the 2 to 10-year tenures while the ultra-long tenures also traded firmer, with the 20-Year ("20Y") MGS yield falling by 6bps. The 30-Year ("30Y") MGS yield was an outlier as it increased by 5bps MoM.

There were three sovereign bond /sukuk auctions with a total size of RM14.0 billion in March, namely the three re-openings of the 15-Year ("15Y") MGS with a size of RM4.0 billion on 7 March, RM5.0 billion of 30Y Government Investment Issue ("GII") on 13 March and RM5.0 billion of 10Y MGS on 27 March. Demand remained solid with Bid-to-Cover ("BTC") of 2.16 times ("x") for the 15Y MGS at the start of the month and improved further in the next auction at 3.08x for the 30Y GII. On the other hand, the 10Y MGS auction was weak with BTC of 1.67x – the lowest since October 2024, possibly affected by the upcoming Raya holiday.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increase 8.0% MoM to RM17.9 billion in March (February: RM16.6 billion). Meanwhile, February saw an outflow of foreign flows totalling RM1.1 billion, after an inflow of RM1.2 billion in the previous month. The outflow mainly came from GII which saw a net outflow of RM1.4 billion in February.

Some notable domestic corporate issuances in March included RM2.01 billion of Cagamas IMTN (AAA), RM600 million of Aeon Credit Sukuk (AA3), RM200 million of CIMB MTN (AAA), RM500 million of CIMB Islamic Sukuk (AAA), RM300 million Eco World IMTN (AA3), RM600 million Gamuda IMTN (AA3), RM700 million IJM Treasury IMTN (AA3), RM250 million Bank Islam IMTN (A1), RM200 million Mercedes-Benz MTN (AAA), RM750 million OSK Rated IMTN (AA2), RM485 million Qualitas IMTN (AA3), RM500 million Sunway Healthcare IMTN (AA2), RM300 million UEM Sunrise IMTN (AA3) and RM600 million YTL Power IMTN (AA1). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.73% (-6bps MoM), 3.79% (-5bps MoM), 3.85% (-5bps MoM) and 3.91% (-6bps MoM) respectively.

Strategy

Interest Rates Outlook:

BNM is expected to maintain its current policy rate throughout 2025 supported by stable economic growth and low inflation. However, external risks remain, particularly policy uncertainty from the US, which could lead to increased market volatility and potential shifts in capital flows. Any significant changes in US monetary policy or geopolitical developments could influence BNM’s future rate decisions.

Market Strategy:

For second quarter of 2025 (“Q22025”), our strategy focuses on positioning for an overweight duration stance, based on expectations of a positive bond market performance. This outlook is driven by:

- Ample domestic liquidity in the bond market, supporting demand for fixed-income instruments.
- Uncertainty in the global growth outlook, especially with the looming trade war from US tariffs.
- Potential monetary easing or accommodative policies by central banks, should growth weaken.

Tactical Asset Allocation:

To overweight corporate bonds in portfolio construction with tactical positions on government bonds for trading purposes.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	31-Mar-25	MoM	YTD
S&P 500 Index	5,611.85	-5.75%	-4.59%
Nasdaq Index	17,299.29	-8.21%	-10.42%
MSCI Europe Index	178.91	-4.36%	5.23%

Source: Bloomberg, 2 April 2025.

The Standard & Poor's ("S&P") 500 Index fell by 5.75% MoM in March as investors were cautious about the impact of a round of new tariffs, which would largely be passed on to U.S. consumers in the form of higher prices. Consumer confidence slumped to a 12-year low as more Americans are expressing concerns about tariffs and a pick-up in inflation. Investors were anxious over a potentially toxic mix of worsening inflation and a slowing US economy as households were afraid to spend due to a deepening trade war escalated by President Trump.

The Morgan Stanley Capital International ("MSCI") Europe Index fell by 4.36% MoM in March amid rising fears of a global trade war. Selling was widespread in most European markets as investors awaited US President Trump's fresh tariffs announcement, and the impending implementation of the already announced duties. President Trump stated that he would likely impose duties on essentially all of the US's trading partners. He was also expected to announce his plan for reciprocal tariffs.

Asia Pacific Equity Index Performance

Index	Index level	Mar-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	714.07	-0.16%	1.42%
FTSE ASEAN	818.76	0.61%	-4.75%
CSI 300 INDEX	3,887.31	-0.07%	-1.21%
KOSPI INDEX	2,481.12	-2.04%	3.40%
HANG SENG INDEX	23,119.58	0.78%	15.25%
S&P BSE SENSEX INDEX	77,414.92	5.76%	-0.93%
TAIWAN TAIEX INDEX	20,695.90	-10.23%	-10.15%

Source: Bloomberg, 2 April 2025.

Chinese onshore equities stayed largely flat MoM with fund flows still favouring offshore-listed Chinese equities and profit taking on AI proxies done tactically amidst geopolitical uncertainties ahead in April. Retail sales rose 4.00% YoY in January-February compared to 3.30% YoY in December, reflecting ongoing trade-in subsidy support, along with an improvement in furniture sales and Lunar New Year related sales upticks. The Hang Seng Index rose 0.78% MoM in March, initially rallying on better than expected in fourth quarter 2024 ("4Q24") results, with broadening upside to materials, healthcare and energy sectors but pulled back after Tencent's measured buyback and capex guidance on March 19 and Joe Tsai of Alibaba warning against a potential bubble in data centre build out on March 25.

The Korea Composite Stock Price Index (“KOSPI”) in South Korea fell 2.00% MoM amid weakening artificial intelligent (“AI”) sentiment. Industrial production modestly recovered, rising by 1.00% MoM in February, following a 2.80% drop in January. The Taiwan Stock Exchange (“TWSE”) index fell 10.20% MoM dragged down by weakening AI sentiment as well. The manufacturing PMI rose moderately by 0.5-pt to 51.5-pt in February after easing off by 1.6-pt in January, suggesting steady near-term demand and production trends.

India equities rose by 5.80% MoM driven by green shoots in high-frequency indicators, the Reserve Bank of India’s proactive approach to banking system liquidity, easing regulatory pressure on banks, Indian Rupee (“INR”) appreciation and strong foreign institutional investors buying. There were also upward revisions in earnings per share (“EPS”) across all sectors. Industrial production for January printed much above expectations at 5.00% YoY (consensus: 3.50%) driven by mining and consumption goods following subdued performance in November and December.

ASEAN Equity Index Performance

Index	Index level	Feb-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,972.43	1.97%	4.88%
JAKARTA COMPOSITE INDEX	6,510.62	3.83%	-8.04%
STOCK EXCH OF THAI INDEX	1,158.09	-3.79%	-17.29%
PSEi - PHILIPPINE SE IDX	6,180.72	3.05%	-5.33%
HO CHI MINH STOCK INDEX	1,306.86	0.11%	3.16%
FTSE Bursa Malaysia KLCI	1,513.65	-3.88%	-7.84%

Source: Bloomberg, 2 April 2025.

The Straits Times index rose in March. Singapore was relatively less impacted by the 10% reciprocal tariff from the US. While there were slower growth concerns, the interest rate was expected to move down. The Singapore market, especially the Singapore Real Estate Investment Trusts (“S-REITs”), was seen as defensive amid the global market volatility. A lower rate environment would translate into more pressure on banks’ net interest margin (“NIM”) but provide relief in borrowing costs for Real Estate Investment Trusts (“REITs”).

The Stock Exchange of Thailand (“SET”) Index continued to drop in March as economic growth remained slow, with most banks only expecting low single-digit to flat loan growth for the year. Even though valuations for the market is undemanding, trading at 12x price-to-earnings (“PER”) with 4% dividend yield, but exports will be hit by the 37% reciprocal tariffs from US. Export contributes 57% of total GDP, while Thailand’s exports to the US accounted for about 18% of total exports, translating to 10% of the country’s GDP. The condition was exacerbated by the short-term impact from the Myanmar earthquake towards the end of the month. The Jakarta Composite Index staged a rebound late in March to close the month on a positive note after a mid-month scare when the index got sold off on rumours of the resignation of the well-regarded Finance Minister, which she later denied. The index then staged a relief rally on the back of Danantara’s management team announcement and state-owned enterprise (“SOE”) banks’ annual general meetings (“AGMs”) where the banks announced higher dividend payouts and professional new managements.

The Philippines Composite Index continued its rebound in March as US Dollar ("USD") weakened. The Philippines continued to be one of the cheapest markets in ASEAN, trading at a PER of 8.7x, its lowest in the last 10 years. The direct impact of the 17% reciprocal tariffs from US on the Philippines economy was low given its domestic nature, with around 70% of the economy driven by domestic consumption. Meanwhile, the mid-term election-related spending and easing inflation should boost domestic consumption. The Vietnam stock market ended flat in March. While the country was imposed a steep 46% reciprocal tariffs by the US, we expect negotiation by the government for potential exemption or reduction in the final outcome based on the previous experience during Trump's first term as US president. Notwithstanding the tariffs uncertainty, the government has raised its pump-priming measures which included easing in the property sector and promoting credit growth from local banks.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") lost -3.90% MoM in March, YTD -7.80%. Malaysia's FTSE Bursa Malaysia Mid 70 Index ("FBM70") and FTSE Bursa Malaysia Small Cap Index ("FBMSCAP") lost -2.20% and -2.10% MoM respectively. Energy and Utilities were the best performing sectors, gaining 0.50% and 0.20% MoM respectively. On the other hand, Telecommunications and Finance were the worst performing sectors, with a loss of -6.40% and -4.90% respectively. The top three best performers in the FBM KLCI components stocks were PPB Group (7.1%), YTL Corp (5.8%) and YTL Power (5.1%), while the worst performing stocks were Axiata (-14.4%), Nestle (-12.0%) and CIMB Group (-10.4%).

Foreign institutional investors were net sellers of RM4.7 billion worth of equities in March 2025. Local institutional investors were net buyers of RM4.4 billion worth of equities. Average Daily Value ("ADV") traded was at RM2.9 billion, up 16% MoM.

Strategy

The equity market is expected to adjust to Trump's tariffs as investors digest the economic impact, depending on how the tariffs are applied to final or intermediate goods and possible responses from other countries, especially key trade partners such as Canada, Mexico and China.

Malaysia is in a relatively better position compared to its ASEAN peers given the 24% tariff is near the lower end of the range and is lower than many ASEAN peers. Foreign selling continued in March, the heaviest since February 2020 at RM4.6 billion and marking the 6th consecutive month of negative foreign outflow.

Looking ahead, Trump's policies will lead to continued market volatility. We continue to favour domestic-centric sectors like banks as well as dividend yielding stocks for a defensive tilt.

In the global markets, 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 whilst 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 Asia, the range of reciprocal tariffs announced by Trump has China, Vietnam and Thailand suffering the highest rates in the region. 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 to 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 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.

We maintain our investment preference for sectors that benefit from domestic demand i.e. financials and consumer sectors given the concern about global trade slowdown. We are cautiously positive on the HK/China markets as we expect continued stimulus from the Chinese government. 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 the Philippines are relatively less impacted by the reciprocal tariff with the latter trading at attractive valuation.
