Market Review & Outlook

May 2025

(as at 30 April 2025)

Overview

The United States ("US") Gross Domestic Product ("GDP") posted a contraction for the first time since 2022 with the advance estimate of first quarter 2025 ("1Q2025") GDP at -0.30% Quarter-on-Quarter ("QoQ") annualised, which also disappointed consensus estimates of -0.20% QoQ annualised (fourth quarter 2024 ("4Q2024"): 2.40% QoQ annualised). The contraction was driven by a surge in imports of 41.30% QoQ annualised (4Q2024: 10.70%) attributed to pre-tariff front-loading and a moderation in Personal Consumption to 1.80% QoQ annualised (4Q2024: 4.00% QoQ annualised). Economists view the 1.80% QoQ annualised growth in Personal Consumption as a resilient number at this point and take some comfort in still robust business purchase non-residential equipment that grew 22.50% QoQ annualised (4Q2024: -8.70% QoQ annualised). However, economists caution against GDP weakness going forward as higher import duties could cause a supply shock, that would raise costs and lead to weakness in domestic demand.

The US saw softer inflation in March, with headline PCE inflation at 0.00% Month-on-Month ("MoM") and 2.30% Year-on-Year ("YoY") (February: 0.40% MoM, 2.70% YoY) and the Core Personal Consumption Expenditure ("PCE") softened to 0.03% MoM and 2.60% YoY (February: 0.50% MoM, 3.00% YoY). While the Fed's preferred inflation indicator showed softness in March, the central bank is likely to look through the data on expectation of price-pressures materialising from high US tariff levels and producers likely to pass on these additional costs to consumers.

Non-farm Payrolls came in better than expected at 177,000 for April (March: 185,000) beating consensus expectation of 138,000, pointing to still resilient job creation particularly in sectors considered shielded from trade and tariffs such as healthcare, social assistance and professional and business services. However, numbers could see a drop next month given that trade and tariff exposed sectors such as hospitality, transportation and construction typically drive hiring in May.

Fed Funds Futures as at 6 May 2025 are pricing a year-end rate of 3.56% that amounts to a 93.7 basis points ("bps") in rate cuts, or roughly 4 rate cuts of 25bps for 2025.

The European Central Bank ("ECB"), at its 17 April meeting, cut interest rates by 25bps, marking its 7th consecutive monetary policy easing since June 2024. The deposit facility, the main refinancing operations and the marginal lending facility were lowered to 2.25%, 2.40% and 2.65%, respectively. US trade policy is currently the main driver of the economic outlook and the euro-area monetary stance. ECB President Christine Lagarde said at a press conference that an assessment of monetary policy restrictiveness is now "meaningless" with the neutral rate concept only useful in a shock-free world. The resilient recovery seen in Europe in 2024 puts the continent on relatively stable footing coming into the tariff war, but it will face some headwinds from the US tariff and trade policy. Already attributed to the negative drag of US trade policy, latest Purchasing Managers Index ("PMI") readings eased for the euro-area at 50.1 points ("pts") in April (March: 50.9 points), falling significantly in the large economies of Germany at 49.7pts (March: 51.3pts) and France at 47.3pts (March: 48.0pts).

Malaysia

In April 2025, the Department of Statistics Malaysia reported Malaysia's GDP advance estimate rose 4.40% YoY in the 1Q2025, which was weaker than previous quarter's +5.00% YoY. This was due to lower growth in supply-side sectors, especially the mining sector which recorded a contraction at 4.90% 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 marginally lower growth of 4.20% YoY and 5.20% YoY, respectively (4Q2024: 4.40% YoY and 5.50% YoY).

Malaysia's Consumer Price Index ("CPI") headline inflation eased to 1.40% YoY in March 2025, down from last month's 1.80% YoY, owing to slower increases in prices of alcoholic beverages and tobacco, restaurant and accommodation, personal care, social protection and miscellaneous goods and services and declines in the costs of information and communication, and clothing and footwear. In contrast, core inflation remained stagnant at 1.90% YoY. All in all, inflation outlook remains susceptible to both domestic and international factors such as implementation of Sales and Service Tax ("SST"), wage-related adjustments, domestic price controls, subsidy policies (RON95) and price fluctuations in global commodities.

Malaysia's labour market has remained healthy, with unemployment rate in February 2025 remained unchanged at 3.10%. The number of unemployed reduced further by -4.30% YoY to 532,500 (January 2025: 534,000) owing to increase in employment growth in accommodation and food and beverage, wholesale and retail, art and information and communication activities.

Malaysia's trade in March 2025 showed steady growth, where:

- Total trade increased by 2.20% YoY, reaching RM249.9 billion.
- Exports rose by 6.80% YoY to RM137.3 billion, driven by the front-loading of electronics exports and shipments to the US.
- Imports fell by 2.80% YoY to RM112.6 billion due to high base of capital goods imports.

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

Fixed Income

US Treasury Market Overview

In April, UST, an asset often seen as a haven during crisis, saw its largest sell-off in recent years. Demand was weak during the weekly Treasury auction, precipitated by the uncertainties over US Tariff policy and fiscal health. The yield on 10-year UST jumped by 70bps, after initially declining following Trump's "liberation day" tariff announcement. This triggered a dramatic decision by President Trump to pause some tariff, however, the reputation of UST has been dented. That reputation has allowed the US to borrow at low cost for decades.

To recap, jitters in the bond market sent the yield on the 30-year UST above 5.00%, while the 2-year UST also spike by 50bps to above 4.00%. We expect bond market volatility to remain elevated in the near term, although it may still price in some anticipated Federal Funds Rate cuts in 2025.

US Treasury Yields Summary

US Treasury Tenor	30-Apr-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
1Y	3.85	-17.0	-29.7
2Y	3.60	-28.1	-63.9
5Y	3.73	-22.3	-65.6
7Y	3.94	-13.8	-54.3
10Y	4.16	-4.3	-40.7
20Y	4.69	+9.5	-16.5
30Y	4.68	+10.7	-10.4

Source: Bloomberg, 6 May 2025

Asian Bond Indices Performance

Markit Asian USD Index	30-Apr-25	Month-on-Month ("MoM")	Year-To-Date ("YTD")
Asian Dollar Index	142.6	0.24%	2.64%
Asian Dollar IG Index	144.1	0.30%	2.65%
Asian Dollar HY Index	132.2	-0.98%	1.74%
Asian Dollar Corp Index (ex-banks)	145.0	0.15%	2.71%

Source: Bloomberg, 30 April 2025

In April, investors leaned toward Investment Grades ("IG") segment with the Asian Dollar IG Index recording a MoM gain of 0.30%. In contrast, Asian Dollar High Yield ("HY") Index declined by 0.98% during the month. The divergence in performance was mainly driven by broad risk-off sentiment stemming from heightened geopolitical tensions between the United States and China, as markets weighted the potential economic impact of the trade war. Additionally, the market showed concerns after US President Donald Trump was exploring options to remove Federal Reserve Chairman Jerome Powell. Nevertheless, the sentiment eased after Trump's clarification on not having such plans and that tariff on China could come down substantially. As a result, the overall Asian Dollar Bond Index posted a modest MoM gain of 0.24% to 142.6.

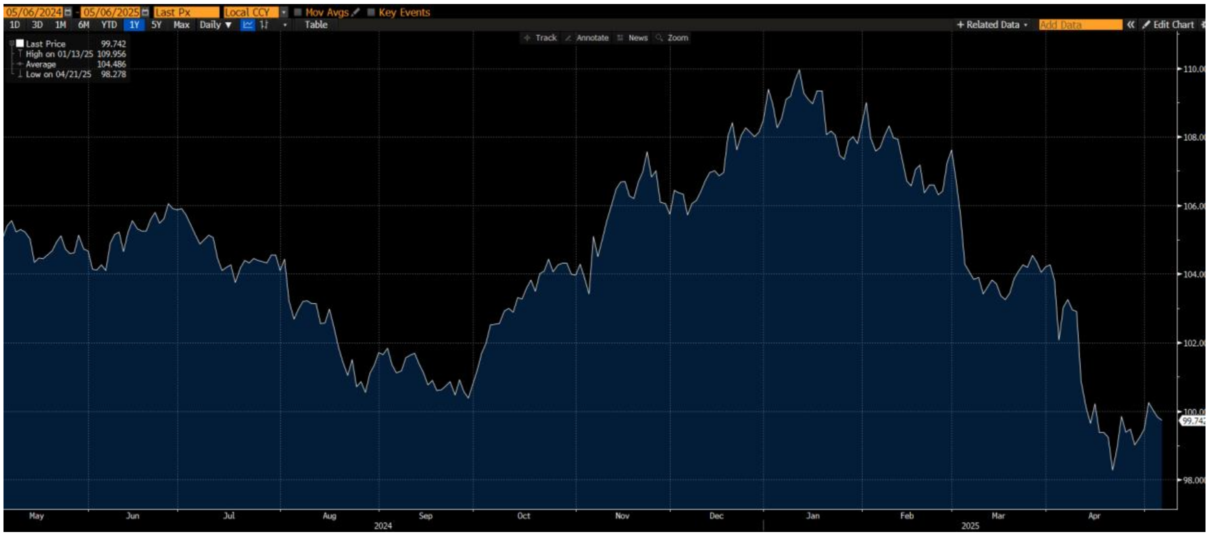
The Asian Dollar bond performance by country was mixed. The top three gainers by sequence were Indonesia (0.54% MoM), Korea (0.52% MoM) and the Philippines (0.42% MoM) while the top three losers by sequence were Thailand (-0.98% MoM), Malaysia (0.02% MoM) and Hong Kong (0.15% MoM).

The US Dollar Index

The US Dollar Index ("DXY") declined by 4.55% MoM, ending at 99.468 in April. The DXY fell to a 1-year low on 21 April 2025 due to concerns over President Trump's tariffs that led to retaliatory tariffs from China, sparking concerns on prolonged trade war. President Trump's criticism of Fed Chair Jerome Powell and speculation about his potential removal has further dented investor confidence, causing capital outflow from the US. Subsequently, on 23 April 2025, the greenback regained strength after President Trump signaled a substantial reduction in tariffs on China imports and his confirmation that he had no intention to removing Fed Chair Jerome Powell, easing the market fears in the US financial market.

Overall, we expect the DXY to be volatile in the short term with key factors influencing the movement including Federal Reserve's policy stance, upcoming economic data releases and the outcome of the President Trump's 90 Day Tariff Pause, which could introduce uncertainty and affect market sentiment.

Chart 1: The US Dollar Index



Source: Bloomberg, 6 May 2025

MALAYSIAN BOND MARKET

MGS Benchmark Tenors	30-Apr-25 (%)	Net Change MoM (bps)	Net Change YTD (bps)
3Y	3.24	-21	-29
5Y	3.40	-21	-26
7Y	3.55	-17	-23
10Y	3.68	-12	-16
15Y	3.83	-9	-15
20Y	3.92	-9	-16
30Y	4.10	-7	-9

Source: Bond Pricing Agency Malaysia, 30 April 2025.

For the month of April, Malaysian Government Securities ("MGS") rallied across all tenures, with the short-end curve yields falling between 17 – 21bps while the long & ultra long-end curve yields declined between 7 – 12bps, shaping the bull-steepening curve. The rally in the domestic bond market was a reflection of market pricing in a potential 25bps rate cut in 2025, following the lower-than consensus first quarter GDP reading for Malaysia.

There were three sovereign bond /sukuk auctions with a total size of RM14.0 billion in April, namely the re-opening of the 15-year Malaysia Government Investment Issuance ("MGII") with the size of RM4.0 billion, followed by re-openings of 3-year Malaysia Government Securities ("MGS") with the size of RM5.0 billion, and a new issuance of the 10-year MGII with the issue size of RM5.0 billion. During the first half of April, auction demand remained strong with bid-to-cover ("BTC") ratios recorded at 3.36x and 3.18x, respectively, for both 15-year MGII and 3-Year MGS re-openings. However, the 10-year MGII new issue only garnered a moderate BTC of 1.995x, as bidding demand turned weaker towards end-April, primarily due to rich valuations.

The local bond market saw trading volume of corporate bonds (including quasi-sovereign) increase by 3.80% MoM to RM18.5 billion in April (March: RM17.9 billion). Meanwhile, March saw an inflow of foreign funds totalling RM3.2 billion, after an outflow of RM1.1 billion in the previous month. The inflow predominantly came from MGS and Government Investment Issuance ("GII") which recorded a net inflow of RM1.7 billion and RM1.4 billion, respectively, in March.

Some notable domestic corporate issuances in April included RM4.80 billion of Lembaga Pembiayaan Perumahan Sektor Awam IMTN (GG), RM1.50 billion of Cagamas IMTN (AAA), RM2.10 billion Pengurusan Air SPV Berhad IMTN (AAA), RM800 million of Sime Darby Property Berhad (AA1) and RM800 million of Benih Restu Berhad (AA2). The 3-year, 5-year, 7-year and 10-year generic AAA corporate yield ended the month at 3.66% (-7bps MoM), 3.71% (-8bps MoM), 3.78% (-7bps MoM) and 3.86% (-5bps MoM) respectively.

Strategy

Interest Rates Outlook:

An increasing number of economists and strategists are forecasting a potential Overnight Policy Rate ("OPR ") rate cut in 2025, contingent on evolving economic data. The bond market appears to have largely priced in this expectation, as reflected in current yields and the shape of the yield curve.

Should the economy continue to soften, we anticipate Bank Negara Malaysia will respond with appropriate policy measures, including OPR easing as one of the available tools. While any decision on rate cuts will remain data-dependent, our portfolios are tactically positioned to benefit if such a cut materialises. Accordingly, we are overweight duration relative to the benchmark—though not excessively—considering rich valuations and tight credit spreads.

Tactical Asset Allocation:

We are overweight on corporate bonds in our portfolio construction, supplemented by tactical positions in government bonds for trading opportunities.

EQUITIES

Global Equities

Global Equity Index Performance

Indices	30-Apr-25	MoM	YTD
S&P 500 Index	5,569.06	-0.76%	-5.31%
Nasdaq Index	17,446.34	0.85%	-9.65%
MSCI Europe Index	176.48	-1.36%	3.89%

Source: Bloomberg, 2 May 2025.

The Standard & Poor's ("S&P") 500 Index fell by 0.76% MoM in April driven by a combination of economic contraction, escalating trade tensions and market volatility. US GDP declined by 0.30% in Q12025 partly attributed to a 41.00% surge in imports, as businesses rushed to stockpile goods ahead of President Trump's tariffs on US trading partners. Weak consumer spending and reduced government expenditures further dampened economic sentiment. President Trump's tariffs also triggered a market selloff with the S&P500 plunging by 11.00% at one point in April, though it later partially recovered.

The Morgan Stanley Capital International ("MSCI") Europe Index fell by 1.36% MoM in April as investors reacted to worse-than-expected economic data out of the US. President Trump's tariffs unsurprisingly emerged as a key theme in early corporate results, with many companies citing the difficulty of forecasting, while bank profits beat estimates. Elsewhere, preliminary data showed that the eurozone economy grew by a better-than-expected 0.40% in Q12025, following stagnation at the end of 2024.

Asia Pacific Equity Index Performance

Index	Index level	Apr-25 (Local currency)	YTD (Local currency)
MSCI AC ASIA x JAPAN	717.86	0.53%	1.96%
FTSE ASEAN	830.66	1.45%	-3.36%
CSI 300 INDEX	3,770.57	-3.00%	-4.18%
KOSPI INDEX	2,556.61	3.04%	6.55%
HANG SENG INDEX	22,119.41	-4.33%	10.27%
S&P BSE SENSEX INDEX	80,242.24	3.65%	2.69%
TAIWAN TAIEX INDEX	20,235.03	-2.23%	-12.16%

Source: Bloomberg, 2 May 2025.

Chinese onshore equities fell 3.00% MoM amid larger than expected tariff hikes from the US on 2 April, and China's retaliation. China's 1Q2025 GDP grew 5.40% YoY. March data showed broad-based upside versus ("vs") consensus. Retail sales rose by 5.90% YoY, due to continued trade-in stimulus for home appliance and electronics and a pickup in growth in other categories. China's forex reserves rose by US$13.4 billion to US$3,240.7 billion in March. The Hang Seng Index fell by 4.30% MoM. The key downside triggers were larger than expected tariff hikes from the US on 2 April, and China's retaliation. Inbound travellers totalled 3.8 million in March (February: 3.7 million), recovering to 66.00% of the February 2019 level. Southbound recorded HK$167 billion in net inflows in April (vs HK$160 billion in March).

South Korea's Korea Composite Stock Price Index ("KOSPI") rose by 3.00% MoM backed by defence and shipbuilders on strong order flow from diverse clients and upbeat earnings. Korea's real GDP contracted by 1.00% QoQ in 1Q2025, reflecting broad based weakness across various sectors. Industrial production rose by 2.90% MoM in March, exceeding consensus expectations of 0.30%. Taiwan's Taiwan Stock Exchange ("TWSE") index fell by 2.20% MoM, dragged down by weakening AI sentiment. Taiwan's manufacturing PMI fell notably by 1.7pts to 49.8 in March (the lowest reading in 12 months), following the rise of 0.5pts in February, with details hinting at a slowing of demand and production trends.

India equities rose by 3.70% MoM driven by a pause in tariffs, a second interest rate cut and ongoing cash injections by the Reserve Bank of India ("RBI"), which eliminated a liquidity deficit in the financial system. Additional factors included a weaker US dollar ("USD"), falling oil prices and growing optimism among foreigners about India's domestic demand and faster economic growth. RBI cut the repo rate by 25bps in April, bringing the policy rate down to 6.00%. India's goods trade deficit reverted to USD21.5 billion in March from USD14 billion in February. March CPI printed at a six-year low of 3.30% YoY (vs consensus at 3.50%), down from 3.60% YoY in February.

ASEAN Equity Index Performance

Index	Index level	Apr-25 (Local currency)	YTD (Local currency)
STRAITS TIMES INDEX STI	3,832.51	-3.52%	1.19%
JAKARTA COMPOSITE INDEX	6,766.80	3.93%	-4.42%
STOCK EXCH OF THAI INDEX	1,197.26	3.38%	-14.49%
PSEi - PHILIPPINE SE IDX	6,354.99	2.82%	-2.66%
HO CHI MINH STOCK INDEX	1,226.30	-6.16%	-3.20%
FTSE Bursa Malaysia KLCI	1,540.22	1.76%	-6.22%

Source: Bloomberg, 2 May 2025.

The Straits Times Index corrected in April, as the Monetary Authority of Singapore ("MAS") lowered its expectation for growth and inflation. For 2025, MAS expects Singapore's GDP growth to slow to 0.00–2.00% YoY from 4.40% last year. MAS core Inflation is now forecast to average 0.50–1.50% YoY in 2025, down from 1.00–2.00% in the January 2025 outlook. Meanwhile, in the recently called general election, the current ruling party (PAP), has returned to power with nearly 66.00% of the popular vote vs the 61.00% seen in the 2020 election. The Thai SET Index rebounded in April, as the Bank of Thailand ("BoT") delivered a "back-to-back" easing with a 25bps rate cut in April. The tone of the Monetary Policy Committee ("MPC") statement remained very dovish, as concerns arose from global trade uncertainty due to US trade policies. Additionally, the government was reported to be contemplating a THB500 billion (2.50% of GDP) fiscal package aimed at boosting domestic consumption and investment.

The Jakarta Composite Index continued its recovery in April, as recent inflation trends suggested that price pressures were within Bank Indonesia's comfort zone and should allow the central bank to ease rates to support growth, financial stability risks permitting. The Philippines Composite Index continued its rebound in April, as the domestic-driven economy remains one of the cheapest markets in ASEAN. The market is supported by the monetary policy set-up that is highly accommodative, with expectations of four rate cuts this year, benefitting from low oil prices, waning domestic food inflation, and a weakened DXY environment.

The Vietnam stock market experienced a steep drop and was an underperformer in the region in April, as the country was initially imposed a steep 46.00% reciprocal tariff by the US, which was subsequently paused for 90 days. Elevated policy uncertainty remains, and the economic cost of a trade deal with the US, if achieved, will likely entail a partial withdrawal from Chinese supply chains. However, there could be upside risk to second quarter 2025 ("2Q2025") growth, as front-loading and trans-shipment kick into higher gear during the reciprocal tariff pause.

Malaysian Equities

The FTSE Bursa Malaysia KLCI ("FBM KLCI") gained 1.80% MoM in April but is down -6.20% YTD. April was one of the most volatile months, with the FBM KLCI plunging 7.50% to a low of 1,400pts on 9 April (the effective date of the reciprocal tariffs), before rallying sharply after President Trump paused the implementation of steep tariffs for 90 days on 10 April and signalled a willingness to negotiate on trade. This was followed by selective tariff exemptions on 11 April for smartphones and other consumer electronics, and the softening of automotive tariffs on 29 April.

Malaysia's FTSE Bursa Malaysia Mid 70 Index ("FBM70") and FTSE Bursa Malaysia Small Cap Index ("FBMSCAP") lost -2.00% and -1.60% MoM, respectively. Telecommunications and Consumer were the best performing sectors, gaining 4.90% and 4.20% MoM, respectively. On the other hand, Energy and Transport were the worst performing sectors, with losses of -9.20% and -5.30%, respectively. The top three best performers in FBM KLCI components stocks were MRDIY (19.20%), Axiata (17.30%) and Nestle (17.10%), while the worst performing stocks were Sime Darby (-5.90%), KLK (-5.20%) and YTL Corp (-4.00%).

Foreign institutional investors were net sellers of RM1.9 billion worth of equities in April 2025, YTD net outflow of RM11.8 billion. Local institutional investors were net buyers of RM2.2 billion worth of equities in April 2025. Average Daily Value traded was RM2.2 billion, down 18.00% MoM.

Strategy

Trump's announcement of a 90 day pause on all the 'reciprocal' tariffs in April has brought about some reprieve to equity markets, resulting in a positive rebound, with the percentage of rebound varying across countries. Malaysia, like other countries, has sent its own delegation to the US to negotiate on the tariffs.

At the time of writing, it has been reported that the US government has agreed to further talks with Malaysia regarding the reciprocal tariff imposed on imports. Separately, the Malaysian government has unveiled SME relief measures to support the domestic economy.

Heightened volatility continues as investors navigate Trump 2.0. Domestic portfolios continue to be positioned into dividend yielding stocks and defensive domestic-driven sectors such as banks.

While the US tariff rhetoric has ratcheted down in recent weeks, we maintain our cautious view on US equities as the fading of US exceptionalism, triggered by Trump's erratic trade policies, will likely result in continued weakness in both the USD and equities.

In Asia, we maintain our investment preference for sectors benefiting from domestic demand and high-yield stocks, given concerns about a global trade slowdown. We are cautiously optimistic on the Hong Kong/China markets, as we expect continued stimulus from the Chinese government. Meanwhile, in ASEAN, Singapore and the Philippines appear relatively less affected by the reciprocal tariffs, with the latter trading at attractive valuations.
