

Market Review and Outlook

February 2025

Market Review

After a decent start to 2025, MSCI World Index slid by 0.81% mom in February. The American Dow Jones Index fell by 1.58% mom due to growing uncertainties regarding the effects of U.S. policy initiatives and emerging worries about economic growth. Among the key developments, President Trump issued various tariffs on imports from Canada, Mexico, and China, imposed new tariffs on steel and aluminum and engaged in trade talks with India while considering additional tariffs on autos and pharmaceuticals. On inflation, the U.S. CPI increased more than expected, +3.00% yoy in January 2025 (Survey: 2.9% yoy), driven largely by higher energy and egg prices.

Meanwhile, the European Stoxx 50 continued its upwards momentum +3.34% mom, boosted by the prospect of a ceasefire in Ukraine and likelihood of increase in spending on defense. The HCOB Eurozone Manufacturing Purchasing Managers' Index (PMI) rose to 46.6 in January (December 2024: 45.1), suggesting slight improvement in its manufacturing sector. As of the latest reading, European Union's (EU) January unemployment rate was at 6.20%, stable compared to December 2024.

In China, the Shanghai Composite Index rose by +2.16% mom. Excitement surrounding the potential of DeepSeek bolstered the broader Chinese technology sector. High profile meetings between President Xi and prominent entrepreneurs also suggested a more favorable regulatory landscape moving forward. The Caixin PMI Services rose to 51.4 in February (January 2025: 51.0), driven by a rebound in demand. Additionally, China's January CPI rose +0.5% yoy, fastest increase in five months (December 2024: +0.1% yoy).

In February, Brent oil price settled lower 3.78% mom to USD72.81/bbl due to the prospect of a ceasefire in Ukraine. As for crude palm oil, it was up +1.85% mom to RM4759/MT as inventory levels declined and production remained weak due to adverse weather conditions.

Turning to the ASEAN region, Singapore's Straits Times Index (STI) rose +1.03% mom, partly boosted by the announcement of several initiatives by the Equity Market Review Group. Among them was the launch of the SGD5bn MAS Equity Market Development Fund to invest in Singapore equities and tax exemptions for fund managers investing substantially in Singapore equities. Onto Singapore's January Non-Oil Domestic Exports (NODX), it fell 2.1% yoy (Survey: -0.30% yoy) dragged down by decline in non-electronics. Meanwhile, Indonesia's Jakarta Composite Index tumbled by 11.8% mom. Most sectors saw negative returns in February 2025, with Consumer Staples and Financials being the bottom performers. There was also a net outflow in equities to a tune of USD1.1bn for the month. During the month, a new sovereign wealth fund (Danantara) was launched in Indonesia and it has a direct reporting line to President Prabowo. The newly launched wealth fund would take over management of seven state-owned enterprises and this may have created a new source of policy uncertainty. Similarly, The Stock Exchange of Thailand also saw a sharp decline of 8.43% mom. By sector, IT, Materials and Industrials were among the worst performers. Elsewhere, the Bank of Thailand (BoT) voted in a 6-1 decision to lower the policy rate by 25bps to 2.0% and this was against consensus expectations for a hold. Lastly, after a sluggish start for Malaysia's FBMKLCI, it rebounded +1.1% mom in February (January 2025: -5.2%); largely propped up by the banks post decent results showing. Foreign investors were net sellers for the fifth consecutive month having recorded RM2.2bn net outflow in February 2025 (YTD 2025 RM5.3bn outflow).

The US Treasuries (UST) yields decreased by 27 – 33bps mom as weaker – than – expected economic data drove yields to lower levels YTD. ISM Services Index for January 2025 slipped to 52.8 (Survey and December 2024 revised: 54.0), reflecting uncertainty as businesses braces for potential tariff impacts. January 2025's Conference Board's gauge of confidence decreased to 98.3 (Survey: 102.5, December 2024 revised: 105.3) with the largest mom declined since August 2021 on concerns about the broader economy with Americans increasingly worried about their economic future from President Trump's policies. Fed Chair Powell in the congressional testimony on Feb 11 – 12 told Congress that the Fed is still in no rush to lower rates and reiterating that reducing policy restraint too fast or too much could hinder progress on inflation.

Malaysian Government Securities (MGS) yields were lower by 1 – 4bps mom except for the 20y tenor which was higher by 2bps mom. Malaysia's economy surpassed expectations in the last quarter of 2024 with a growth of +5.0% yoy (Survey and 4Q24: +4.8% yoy), fueled primarily by household spending and business investments, alongside an increase in exports. Overall, Malaysia's economy expanded by +5.1% yoy in 2024, marking a significant increase compared to the +3.6% yoy growth

recorded in 2023. Inflation meanwhile remained at +1.7% yoy in January 2025 (Survey: +1.8% yoy, December 2024: +1.7% yoy).

Foreign funds turned net sellers in February with net outflows of RM1.1bn (January: +RM1.2b inflows). The foreign share of both MGS and MGS+MGII reduced to 31.8% (January: 32.3%) and 20.6% (January: 21.1%) respectively. Despite the outflows, Malaysia's foreign reserves climbed by USD1.9bn to USD118.3bn as of end – February (January: USD116.4bn).

Market Outlook

While there have been positive geopolitical developments, such as Trump's commitment to resolving the Ukraine conflict and a ceasefire in Gaza, the world however is now bracing for the volatility stemming from a worsening global trade war as President Trump launches his tariff campaign. Elsewhere, it is crucial to monitor the developments in generative AI and its transformative effects on the global economy. Domestically, investors will closely watch the implementation of some important policies such as RON95 fuel subsidy rationalization, rollout of the Johor – Singapore Special Economic Zone (JSSEZ) and National Energy Transition Roadmap (NETR) and to assess their potential impacts on the market.

Against that backdrop, we remain committed to investing in fundamentally good investments over long – term investment horizons. Furthermore, we might partake in a modicum of trading activities to capitalize on any prevailing market volatility. All the same, we will keep vigil over any potential geopolitical and other risks that may necessitate the gravitation towards new strategies to adjust to the ever – volatile market conditions.

Bond market volatility is expected to persist in 2025 as tariffs jitters would continue to dominate headlines. The Fed appears to have tempered its future rate cut trajectory as its policy stance now seems considerably less restrictive and any additional rate cuts would depend on further progress on inflation and labour market conditions. This cautious approach would also provide some maneuvering room for the Fed to respond to any changes in economic data and policies as needed in the coming year. On local monetary policy, Bank Negara Malaysia (BNM) is expected to maintain the OPR at 3.00% in 2025, barring any substantial external shocks. In the Monetary Policy Statement dated 22 January 2025, BNM maintained its view for sustained economic activities in 2025 driven by resilient domestic expenditure. There would also be no change to its assessment on inflation, which is expected to remain manageable going into 2025, in the wake of easing global cost conditions and absence of excessive domestic demand pressures. All said, we would continue accumulating bonds at favourable valuations while prioritizing good quality names.

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