Allianz

Market Review and Outlook

January 2025

Market Review

Global equity markets generally started off 2025 on solid footing with the MSCI World Index rebounding +3.47% mom after falling in the last month of previous year. The Dow Jones Index surged +4.70% mom as the market hailed the return of President Trump for his second term in office alongside his America First overarching policy. In addition, the President also unveiled a series of tariffs hikes for Canada, Mexico and China that were slated to begin in February 2025 and appeared to foreshadow his election campaign pledges of selected protectionist policies. From an economic standpoint, based on advanced real Gross Domestic Product (GDP) estimates, the US economy grew by +2.3% qoq, spurred by increased consumer and government spending which helped to mitigate a dip in investments. Nevertheless, the US and broader technology equity market segments then experienced a degree of volatility due to the emergence of a new artificial intelligence (AI) company DeepSeek which was seen to pose a threat to US' technology sector seeming dominance. As a result, the Nasdaq Index ended the month under review 1.86% lower versus its intra – month peak. Nvidia, the largest constituent of the S&P500 Index, saw almost USD600b of its market capitalization lost on 27 January 2025, which was the largest one – day equity loss in US history. On the interest rate front, the Federal Reserve opted to keep its overnight borrowing rate steady 4.25 – 4.50% after 3 rate cuts since September 2024. The Fed Chair noted that he would need to see "real progress on inflation or some weakness in the labour market" before they would consider making further adjustments.

Over in Europe, the Stoxx 50 Index rocketed by +7.98% mom, continuing its uptrend from the previous month. The significant jump in its equity performance was somewhat predicated on its Eurozone macroeconomic data. The Preliminary HCOB Flash Eurozone Composite Purchasing Manager's Index (PMI) edged up to 50.2 in Jan, its highest reading in 5 months and a signal of the first rise in Euro business activities since August 2024. Apart from that, Eurozone November 2024 retail sales grew +2.1% yoy, marking its 5th month of consecutive growth.

On the other hand, China's Shanghai Composite Index fell 3.02% mom despite, on the face of it, less aggressive tariff threats from US as compared to what had been espoused during the election campaigning period. While the Chinese government had taken steps to bolster its economy by cutting interest rates and announcing some broad stimulus plans, investors appeared to be waiting for more fiscal support which might potentially kick in after its annual parliamentary meeting in March 2025. The Chinese economy had yet to meaningfully be on the mend as December 2024 consumer price index (CPI) only edged up +0.1% yoy and consumer spending remained lacklustre whilst December 2024 producer price index (PPI) dipped 2.3% yoy.

In January, Brent oil price continued its upward ascent by +2.8% mom to USD76.76/ bbl as the outgoing US President Biden increased sanctions on Russian oil production and exports to choke Russia's funding for the Ukraine war. After its 9.28% mom drop in December 2024, crude palm oil price managed to stabilize and only dipped slightly by 0.3% mom in January 2025 as output slowed as evinced by an approx. 10% mom drop in Malaysian CPO shipments.

Closer to home, in the ASEAN region, Singapore's Straits Times Index (STI) rose +1.80% mom as its December 2024 Non – Oil Domestic Exports (NODX) shot up +9.00% yoy after rising by +3.40% yoy in November 2024, due to a recovery in exports to US. Indonesia's Jakarta Composite Index climbed up +0.41% mom after dipping last month, as Bank Indonesia (BI) unexpectedly lowered its benchmark interest rate by 25 bps to 5.75% in January 2025, being prompted by its low inflation forecast for 2025 – 2026 of 2.5%, +/- 1 ppt. The BI governor further noted that the rupiah exchange rate remained stable and the rate reduction was expected to help maintain inflation within their target range. However, the Stock Exchange of Thailand experienced a 6.12% mom collapse in January 2025 which was in part due to strong selling pressure by foreign investors and very high outflows from Long – Term Funds (LTF) and tax – deductible funds whose holding periods had reached their 5 – year thresholds. In January 2025 alone, LTF redemption amounted to THB19b, which was already 50.0% of 2024's full year redemption of THB38b. To revitalise the nation's tourism sector, the government took a significant step in legalizing casinos by approving the draft Entertainment Complex Bill. Lastly, Malaysia too started 2025 on poor footing with the FBMKLCI sliding 5.20% mom in January. A plethora of developments such as the new Framework for AI Diffusion which would limit advanced AI and Graphic Processor Units (GPU) sales to a host of countries including Malaysia, the launch of the USD500b Stargate Initiative for AI infrastructure and the aforementioned launch of DeepSeek had all negatively impacted our market sentiment. The reason was that they would threaten to dampen one of Malaysia's growth cornerstones, which aims to position Malaysia as a leading data centre hub in the region. These developments could potentially jeopardize the construction and utility sectors' prospects in terms of data centre construction as well as resource supply. In terms of foreign equity participation, January 2025 saw a continued net foreign investment exodus to the tune of RM3.1b, +8.5% mom.

The US Treasuries (UST) yields decreased by 2 – 5 bps mom except for the 30y tenor which rose by 1bp mom, amidst stronger – than – expected jobs report and weaker – than – anticipated core inflation. December 2024's nonfarm payrolls rose by +256k mom (Survey: +165k mom, November 2024 revised: +212k mom), mainly attributable to the increase in employment in the health care, retail, leisure and hospitality segments while the unemployment rate declined to 4.1% (Survey and November 2024: 4.2%). Core CPI expanded by +3.2% yoy, which was lesser than expectation of +3.3% yoy (November 2024: +3.3% yoy).

Malaysian Government Securities (MGS) yields for 3y, 7y and 10y tenors moved between -2 bps to +2 bps mom while the rest of the tenors were unchanged. GDP growth and inflation moderated while overnight policy rate (OPR) maintained at 3.00% as expected in the January 2025 Monetary Policy Committee (MPC) meeting. Going into 2025, Bank Negara Malaysia (BNM) has expected inflation to be manageable following the moderating global cost conditions and absence of excessive domestic demand pressures. The advanced estimates of 4Q24 GDP growth were lesser – than – anticipated at +4.8% yoy (Survey: +5.2% yoy, 3Q: +5.3% yoy) mainly due to the slower growth in the manufacturing segment as well as contraction in the agriculture and mining segments. Meanwhile, December's CPI was below consensus at +1.7% yoy (Survey and November 2024: +1.8% yoy) primarily due to the continued decline in the Information and Communication segment.

Foreign funds turned net buyers in January 2025 with net inflows of RM1.2b (December 2024: -RM1.4b). The foreign share of MGS was maintained at 32.3% (December 2024: 32.3%) while the foreign share of MGS+MGII lowered marginally to 21.1% (December 2024: 21.2%). Malaysia's foreign reserves rose by USD0.2b to USD116.4b as of end – January 2025 (December 2024: USD116.2b).

Market Outlook

The world is now bracing for the potential volatility from a brewing global trade war as President Trump embarks on his tariff tirade in which Canada, China and Mexico have been the first countries to be hit by the tariff salvos. Not surprisingly, the move has elicited measured retaliatory tariffs from the afflicted countries. That said, it cannot be ruled out that the President could be using tariffs as leverage in his negotiation strategies for better trade terms for the US. On the global geo – politic stage, there have been some improvements as the conflict in Gaza reached a ceasefire whilst President Trump has been vocal about his determination to seek a resolution for the Ukraine war. It would also be noteworthy to follow the developments of generative AI and its game – changing impact on the global economy. Locally, investors would keenly observe 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.

As we navigate the volatile equity market environment of 2025, we remain steadfast to investing in fundamentally good investments over long – term investment horizons. As always, we will opportunistically engage in 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.

Going into 2025, bond market volatility is expected to persist as tariffs jitters would continue to dominate headlines after the inauguration of Trump in January 2025. 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, BNM is expected to maintain the OPR at 3.00% in 2025, barring any substantial external shocks. In its latest Monetary Policy Statement, BNM maintains its view for sustained economic activities in 2025 driven by resilient domestic demand from both the consumption and investment fronts. 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 favorable valuations while prioritizing good quality names.