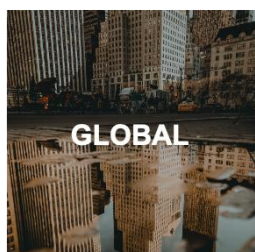


MAY 2025

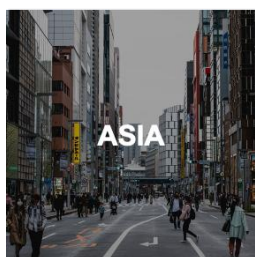
MONTHLY MARKET REVIEW

A brief on global markets and investment strategy

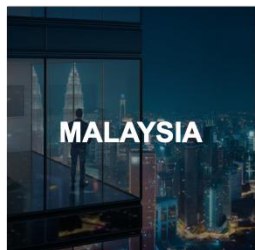
Key Highlights



- S&P 500 index rose 6.20%, as easing trade tensions and improving sentiment drove broad-based gains across risk assets.
- Progress in US trade negotiations with EU and China, alongside a temporary delay in planned tariff hikes that helped alleviate fears of a global recession.
- The Fed held interest rates steady at its May FOMC meeting, though its tone leaned hawkish.
- US 10-Year Treasury yields rose to 4.40%, driven by Moody's US credit rating downgrade and Trump's proposed "Big Beautiful Bill" tax-and-spending package.



- Asian equities rallied, with the MSCI Asia ex-Japan index up 5% in May, led by strong tech-driven gains in Korea and Taiwan, and easing geopolitical tensions in India.
- Regional manufacturing PMIs dipped below 50, signalling contraction amid ongoing external headwinds.
- However, falling oil prices expected to support consumption and real incomes across the region.
- Monetary policy turns supportive, with central banks like Indonesia cutting rates, signalling a shift toward accommodative measures to cushion slowing growth.



- KLCI declined 2.1% in May, as a mixed corporate earnings season and cautious outlook weighed on investor sentiment.
- Earnings broadly met expectations, with 50–60% of companies reporting in-line results, but only 10%–20% exceeding forecasts.
- BNM held OPR steady at 3.00%, but surprised markets with a 100 bps cut in the SRR to 1.00%, its lowest in 14 years.
- Liquidity boost expected, with the SRR cut injecting ~RM19 billion into the system to support credit flow and interbank stability.

GLOBAL

US equities surged in May, with the S&P 500 index climbing 6.20%, as easing trade tensions and improving sentiment drove broad-based gains across risk assets. The sharp rebound was fuelled by progress in US trade negotiations with major economies, including the European Union (EU) and China, alongside a temporary delay in planned tariff hikes that helped alleviate fears of a global recession.

A significant breakthrough came when the US and China jointly announced a temporary reduction in tariffs, granting a three-month window to negotiate a broader trade agreement. Under the new terms, US tariffs on Chinese goods were lowered to 30%, while China cut tariffs on US imports to 10%.

Adding to the positive trade narrative, the US and UK reached an agreement to reduce tariffs in key sectors such as automotive and steel. While narrow in scope, the deal was interpreted as another sign that tensions may be moderating, helping to further support risk appetite.

On the policy front, the US Federal Reserve (Fed) held interest rates steady at its May FOMC meeting. The Fed's tone leaned hawkish, highlighting continued resilience in the US economy. Key indicators such as retail sales, job growth, and a historically low unemployment rate underpinned Fed Chair Jerome Powell's confidence in the economic outlook, with no immediate need to cut rates yet.

However, bond markets were volatile in May as US Treasury yields moved higher with the 10-Year yield reaching 4.40%. Yields were pushed higher by the downgrade of US sovereign credit rating by Moody's as well as the announcement of a sweeping tax and spending package unveiled by former President Trump, dubbed the "Big Beautiful Bill". The proposal stoked concerns about the fiscal deficit and the government's ability to service rising interest costs, adding upward pressure on long-end yields.

Despite the move higher in bond yields, the US dollar continued to weaken, marking a divergence from previous cycles. Growing unease over fiscal discipline and the expanding deficit has weighed on confidence in the greenback, contributing to its decline even as rates remain elevated.

ASIA

Asian markets also closed May on a strong note, with the MSCI Asia ex-Japan index rising 5% on the back of improved risk sentiment. Korea and Taiwan led gains, with their respective benchmark indices climbing 5.50%, supported by a rally in technology stocks. India's Sensex also rebounded as geopolitical tensions with Pakistan eased, following the announcement of a ceasefire.

Despite the relief rally, the underlying economic data across Asia to reflect the weight of external headwinds. Manufacturing activity has slowed significantly, with most regional PMI readings falling below the 50-point threshold, indicating contraction.

One tailwind helping to offset some of this pressure is the decline in oil prices, which have fallen 15% year-to-date to USD 60 per barrel. Lower energy costs are expected to ease inflationary pressures across the region, supporting real incomes and underpinning domestic consumption.

To bolster growth, several Asian central banks have maintained an easing bias in their policy stance. Notably, Indonesia cut interest rates in response to a softer global growth outlook and moderating inflation. These conditions are providing central banks with greater flexibility to support economic activity through more accommodative monetary measures.

MALAYSIA

Back home, the FBM KLCI slipped 2.10% in May, weighed down by a lacklustre corporate results season. While the latest round of earnings delivered fewer negative surprises, overall sentiment remained muted. Around 50% to 60% of companies reported earnings in line with expectations, while 20% to 30% missed forecasts, and only 10% to 20% exceeded them.

From a sector perspective, banks posted steady results, though forward guidance remained cautious amid a subdued macroeconomic outlook. The property and construction sectors recorded stable performance, supported by order book realisation and normalising activity.

In the local fixed income market, the 10-year Malaysian Government Securities (MGS) yield fell by 12 bps to close the month at 3.53%. As widely expected, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 3.00%. However, in a surprise move, BNM announced a 100-basis-point cut in the Statutory Reserve Requirement (SRR), reducing it from 2.00% to 1.00%, its lowest level in 14 years.

The reduction is expected to inject approximately RM19 billion into the banking system, aimed at enhancing financial system liquidity, supporting interbank stability, and facilitating continued credit intermediation.

MONTHLY INDEX PERFORMANCE

Developed Markets	YTD	1M
Dow Jones Industrial Index	-0.64	3.94
Nasdaq Composite Index	-1.02	9.56
S&P 500 Index	0.51	6.15
FTSE 100 Index	7.33	3.27
Tokyo Stock Price Index	0.60	5.03

Regional Markets	YTD	1M
MSCI AC Asia (ex-Japan) Index	7.05	5.00
FTSE Straits Times Index	2.83	1.62
Hang Seng Index	16.10	5.29
Shanghai Composite Index	-0.13	2.09
Shanghai Shenzhen CSI300 Index	-2.41	1.85
MSCI China Index	13.10	3.52
Hang Seng China Enterprise Index	15.67	4.41
Taiwan Stock Exchange	-7.33	5.50
Korean Stock Exchange	12.43	5.52
S&P BSE Sensex Index	4.24	1.51
Ho Chi Minh Stock Index	5.20	8.67
Thailand Stock Exchange Index	-15.49	-3.43
Jakarta Composite Index	1.35	6.04
Philippines Composite Index	-2.87	-0.21

Domestic	YTD	1M
FMBKLCI	-8.16	-2.07
FBM Small Cap	-14.05	0.69
FBM EMAS Shariah	-10.60	-0.16
FBM Top 100	-9.82	-1.10

Index Chart: Bloomberg as at 30 May 2025. Quoted in local currency terms.

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