5 – 9 May 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 ended slightly down 0.50% amidst signs of tariff de-escalation hopes.
- US and China temporarily reduced tariffs for 3 months — US lowered to 30%, China to 10% — as both sides seek to negotiate a broader deal.
- The Fed held rates steady in its May FOMC meeting, but struck a hawkish tone, citing economic resilience.
- The US 10-year Treasury yield rose to 4.45%, with markets now pricing in only 2 rate cuts for 2025.
- US PMI softened but stayed in expansion. Key data releases this week include CPI, PPI, and retail sales.

- MSCI Asia ex-Japan rose 0.50%, lifted by easing US-China tensions. Hong Kong gained 1.60%, and CSI 300 rose 2.00%.
- Geopolitical tensions between India and Pakistan eased following a US-brokered truce.
- We marginally increased exposure to Taiwan on improving sentiment as tensions between US and China ease.
- Similarly, high-yield bonds continued to sustain its positive performance as markets turned risk-on.

- The FBM KLCI rose 0.26%, recovering above pre-tariff levels. Property, Utilities, and Construction led gains, while Healthcare and Finance lagged.
- Focus shifting to oversold sectors including Construction, Oil & Gas, and Financials.
- BNM kept the OPR unchanged at 3.00% and cut the SRR from 2.00% to 1.00%, releasing RM19 billion in liquidity.
- The MGS curve rallied, with the 10-year yield down 13 bps to 3.54%.

GLOBAL & REGIONAL EQUITIES

United States

US equities marched higher last week on signs of tariff de-escalation before paring gains slightly. The S&P 500 briefly surged on optimism that the US and China were stepping back from the brink of a trade war, to end the week down 0.50%.

Both sides announced a temporary reduction in tariffs, granting a 3-month window to negotiate a broader trade agreement. US tariffs on Chinese goods were lowered to 30%, while China cut tariffs on US imports to 10%. Treasury Secretary Scott Bessent described the discussions as “very productive,” reinforcing hopes that a more constructive tone could emerge in the months ahead.

Adding to the more positive trade narrative, the US and UK also reached an agreement to reduce tariffs, particularly in the automotive and steel sectors. While narrow in scope, the deal was seen as a further signal of easing trade tensions, contributing to improved sentiment across markets.

On the policy front, the US Federal Reserve (Fed) kept interest rates unchanged during its May FOMC meeting. Overall, the tone was interpreted as hawkish where the Fed highlighted resilience in the US economy, citing stable sales figures, continued payroll growth, and a low unemployment rate. This backdrop of positive data gave confidence to Fed Chair Jerome Powell, where he reiterated confidence in the outlook, suggesting there was no urgency to adjust rates yet.

Bond market pricing for 2025 rate cuts have now moderated from 3 to now 2, with the first cut possibly coming as early as September. Reflecting this shift, the US 10-year Treasury yield climbed from 4.3% to 4.45% over the week, while the US Dollar Index (DXY) strengthened in response to the Fed’s stance and firming yields.

Economic data was relatively light last week, with US PMI figures coming in slightly below expectations, but still remaining in expansionary territory. Attention this week will turn to a slate of macro releases, including CPI, PPI, retail sales, and industrial production.

Asia

In Asia, the MSCI Asia ex-Japan index closed 0.50% higher similarly buoyed by tentative signs of a trade truce between US and China. Hong Kong’s Hang Seng index rose 1.60%, while the Shanghai Shenzhen CSI 300 index also gained 2.00%.

Turning to India, a recent military flare-up with Pakistan added a layer of geopolitical noise, following an attack in Kashmir that led to retaliatory actions by both sides. However, tensions appear to have cooled following a US-brokered truce over the weekend, where the Indian market staged a recovery.

While we expect the Indian market to hold its gains in the near term, relative upside may be more compelling in other Asian markets that had previously corrected more sharply due to trade concerns. In terms of positioning, we are slightly overweight in India and are comfortable with our level of exposure.

Other portfolio actions include adding exposure to Taiwan, where we had previously been underweight. Cooling of US-China tensions may reduce the geopolitical risk premium that has weighed on Taiwan which has been an overhang on sentiment.

GLOBAL & REGIONAL EQUITIES *(CONT')*

Asia

As for China, our portfolios are already either in line or overweight. Our initial take is that if Chinese equities continue to rebound sharply from here, we may use that strength as an opportunity to lock in gains and trim exposure.

UPDATES ON MALAYSIA

The FBM KLCI rose by 0.26% over the week, closing above levels observed prior to the recent tariff liberalisation. This reflects continued resilience in the domestic equity market, supported by broader regional stability and improving investor sentiment. For the week, the Property, Utilities, and Construction sectors were the top gainers while Healthcare, and Finance sectors the major laggards.

Semiconductors led the rally on Tuesday 13 May after the trade ceasefire between the US and China, with the Bursa Technology Index advancing by 5.5% in the morning session. While we continue to maintain a degree of defensive positioning, we have begun to incrementally increase risk exposure in a measured and selective manner. Regional flows were buoyed by stabilising US rate expectations, easing inflationary pressures, and greater policy clarity from global central banks—factors that have collectively renewed investor interest across ASEAN markets.

Local institutional funds remain relatively cashed up, with allocations still hovering around 20–25%. In light of more favourable market conditions, we are looking to reduce this buffer by deploying up to 5%, primarily into large-cap, liquid names. That said, we remain cautious on the technology sector, given ongoing uncertainties around semiconductor and AI-related policy announcements that may influence market direction.

Our tactical focus is shifting towards oversold sectors such as construction, oil & gas, and financials, where valuations appear more compelling. While our deployment pace remains gradual, we intend to maintain elevated cash levels as a buffer against potential volatility from upcoming macroeconomic data releases or renewed policy-related risks.

REGIONAL FIXED INCOME

On the fixed income front, the key strategic move last week was to further increase our US dollar exposure by reducing ringgit hedges. Recall, our portfolios were fully hedged on USD/MYR. Since then, we have been gradually reopening the exposure, in line with our view that the US dollar has further room to appreciate. This tactical shift reflects recent developments, including the hawkish tone from the latest FOMC meeting, resilient US macro data, and the easing of trade tensions — all of which reinforce the dollar's near-term strength. Duration positioning remains steady in the 4.5 to 5-year range, with a slight bias toward extension following the recent uptick in yields.

For credits, we continue to maintain a preference for investment-grade (IG) issuers. While high-yield bonds have performed strongly in recent weeks on the back of improved sentiment and a risk-on tone, we remain cautious. Business and consumer sentiment indicators remain subdued, making it difficult to see a sustained pickup in private sector investment or capital expenditure, especially with tariff uncertainty still lingering in the background.

DOMESTIC FIXED INCOME

The key highlight in the domestic bond market last week was the Monetary Policy Committee (MPC) meeting held on 8 May. As widely expected, Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 3.00%. However, the central bank surprised the market with 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 new SRR rate will take effect from 16 May 2025 and is expected to release approximately RM19 billion of liquidity into the banking system. The move is aimed at ensuring sufficient liquidity in the financial system, supporting interbank market stability and financial intermediation.

Following the announcement, the Malaysian Government Securities (MGS) market rallied strongly, particularly at the belly of the curve. While yields had been relatively stable in the early part of May, the SRR cut acted as a catalyst, driving a broad-based decline in yields. The 5-year MGS yield fell by 8 basis points to 3.26%, while the 10-year yield dropped sharply by 13 basis points to 3.54%. The long end of the curve remained more anchored, with the 30-year MGS yield easing by 2 basis points to 4.05%.

Market interpretation of the monetary policy statement was mixed. While some viewed the language as neutral, others interpreted the SRR cut as a pre-emptive easing signal. Historical precedent suggests that SRR cuts have occasionally preceded OPR reductions, as seen during the 2008–2009 Global Financial Crisis and again in 2020 during the COVID-19 pandemic. This has led some market participants to anticipate the possibility of a rate cut in the second half of the year, particularly in 3Q2025.

From a strategy standpoint, we had already positioned for a potential easing cycle by extending portfolio duration over the past month. Our current duration stands in the 6.7 to 6.9-year range across several funds. We took profits on selected corporate Private Debt Securities (PDS) holdings where spreads had compressed, and yields declined meaningfully. On the government side, we increased exposure to the long end of the curve, particularly in the 20- and 30-year MGS segments, to further lengthen the funds' durations.

Cash levels across funds are largely fully deployed, currently ranging between 1% and 3%. There was no government bond auction last week, but this week will see the issuance of a new 5-year MGS benchmark. In the primary corporate bond market, AEON Credit issued RM400 million worth of bonds, priced at approximately 4.01% or around +45 basis points over equivalent MGS.

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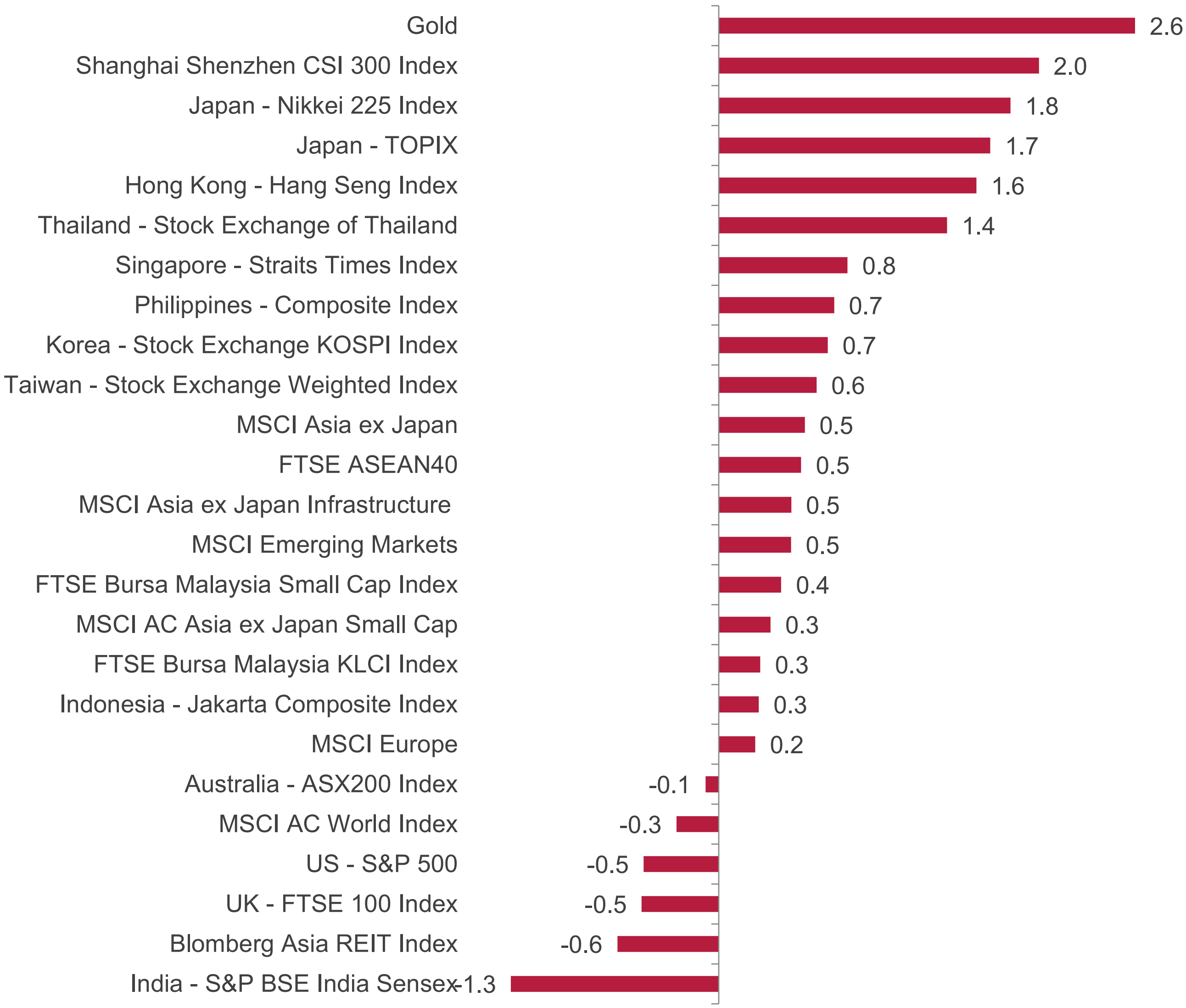

Index Chart: Bloomberg as at 9 May 2025. Quoted in local currency terms.