9 – 13 June 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 slipped 0.39% amid rising geopolitical tensions and tariff uncertainty.
- Israel launched coordinated military strikes across Iran, triggering a retaliatory missile attack; markets reacted with higher oil prices and a risk-off tone.
- US Treasury yields ended at 4.4%, rebounding from 4.3% after soft CPI and PPI data.
- Treasury Secretary Scott Bessent signalled a likely extension of the 9 July tariff pause.
- The Fed is expected to maintain a cautious stance at the upcoming FOMC meeting, with markets pricing in two 25 bps cuts by year-end.

- MSCI Asia ex-Japan was steady as markets awaited clarity from US-China trade talks in London.
- China agreed to ease rare earth export controls for civilian use; Trump clarified US import tariffs would total 55%.

- The KLCI inched up 0.09%, while small caps underperformed, dragged by Mideast tensions.
- YTD foreign outflows hit RM11 billion, more than double the whole of 2024.
- The government announced expanded SST to include higher-income groups and non-citizens starting 1 July, targeting RM5 billion in revenue.
- BNM is expected to cut the OPR by 25 bps in 2H 202.

MARKET PULSE | QUESTION OF THE WEEK

Geopolitical Spotlight: Israel–Iran Conflict – What It Means for Markets

Israel recently launched a large-scale military campaign, named "Operation Rising Lion," targeting Iran's nuclear infrastructure. The coordinated strikes — involving both fighter jets and drones — reportedly hit over 100 sites across Iran.

Key targets included:
- Uranium enrichment facilities in Natanz and Fordow, central to Iran's nuclear programme.
- Several missile bases.
- The headquarters of the Islamic Revolutionary Guard Corps (IRGC).

The operation also resulted in the deaths of several high-ranking Iranian military officials, including top commanders, and at least nine nuclear scientists.

Iran responded by launching hundreds of missiles and drones toward Israeli cities. While most were intercepted by Israel's Iron Dome defence system, the strikes still resulted in 14 reported fatalities and injuries to hundreds of civilians.

The United States distanced itself from the attacks, with Secretary of State Marco Rubio stating that Israel acted unilaterally, though observers continue to monitor the extent of indirect support or coordination.

Why It Matters

Markets responded swiftly to the developments:
- **Crude oil prices surged over 7%,** with Brent crude briefly reaching USD 76 per barrel on fears of supply disruption.
- **Global equities declined**, with the Dow Jones Industrial Average down 1.8% and the S&P 500 Index falling 1.1%.
- **Safe-haven assets rallied**, including gold, the U.S. dollar, and defence-related stocks, as investors sought protection amid rising geopolitical risk.

While concerns remain elevated, the likelihood of a full-scale war seems unlikely. Israel and Iran are separated by over 1,000 kilometres, with multiple countries in between — making direct, sustained military confrontation challenging.

A key focus for markets is the **Strait of Hormuz**, a strategic chokepoint through which nearly 30% of global seaborne oil passes. Although it remains a potential risk, Iran is unlikely to disrupt the waterway due to its own reliance on the route for oil exports.

Our View

While markets may remain volatile in the short term, history shows that they often stabilise once uncertainty is priced in — as seen during the early stages of the Russia–Ukraine conflict in 2022.

At this stage, we are not making significant changes to portfolio positioning. We continue to monitor developments closely, with a focus on maintaining portfolio resilience through diversification, quality exposures, and a disciplined long-term strategy.

Investors are encouraged to remain calm and focused on long-term goals. While the headlines are unsettling, the broader market impact is likely to normalise unless the conflict escalates materially.

GLOBAL & REGIONAL EQUITIES

United States (U.S.)

U.S. equities ended the week lower, with the S&P 500 closing down 0.39% on Friday. Despite escalating geopolitical tensions, US Dollar and US Treasuries did not benefit from the typical flight-to-safety trade. Week on week, USD had a mixed performance where most G10 strengthened against the US dollar such as Norwegian and Danish Krone, Euro, Swiss Franc among others, while emerging market (EM) currencies such as Philippine Peso, Indian Rupee and South Korean Won weakened.

In the US Treasury market, the 10-year yield initially declined to around 4.30% following weaker-than-expected Consumer Price Index (CPI) and Producer Price Index (PPI) releases midweek. However, yields reversed course by Friday, climbing back to approximately 4.4% as investors reassessed the geopolitical landscape and in anticipation of FOMC meeting in the coming week.

Adding to the policy backdrop, Scott Bessent, U.S. Treasury Secretary, stated last week that with just over 20 days remaining before the 9 July tariff deadline, there is a high likelihood that the US will extend the current tariff pause. He noted that several countries, including the European Union, are negotiating in good faith, and even if a final agreement is not reached by the deadline, the existing terms may be rolled forward. Bessent added that ongoing trade discussions with key partners are expected to continue under the current framework in the interim.

Looking ahead, markets will be focused on the upcoming Federal Open Market Committee (FOMC) meeting on 17–18 June. Investors are keen to see whether the US Federal Reserve (Fed) will revise its economic projections, particularly in light of recent tariff announcements and potential cost passthrough. While economic activity has shown signs of softening, many Fed officials have continued to sound cautious due to inflation concern.

The Fed's last economic projection was released in March and did not fully account for the potential inflationary effects of tariffs. As such, the market expects potential tweaks to the dot plot in the upcoming meeting. Current market pricing still anticipates two 25 basis point (bps) rate cuts by December 2025, though this remains highly data-dependent.

In Europe, following 25bps rate cut by the European Central Bank (ECB), bringing total cuts to 200 bps from the peak, ECB members have struck a more cautious tone in recent remarks, signalling that further cuts would require stronger justification. Supporting this view, ECB Chief Economist Philip Lane and other officials reiterated last week that the rate path ahead would remain data-dependent. Consequently, eurozone markets have revised their expectations lower, now anticipating only one more rate cut by year-end.

Asia

Markets were closely watching the outcome of the U.S.–China trade talks held in London. Both sides agreed to a framework aimed at de-escalating tensions. China announced it would remove some export restrictions on rare earth minerals for civilian use, though military-grade exports remain tightly controlled. President Trump also clarified that U.S. duties on Chinese imports would total 55%—a combination of the existing 25% tariffs on select goods and a new 30% across broader categories. Despite the progress on trade, investors remained cautious amid ongoing global uncertainties. Cash levels are around 1–2%.

UPDATES ON MALAYSIA

Last week, the domestic equity market remained relatively flat, with the KLCI inching up by just +0.09%. However, small caps took a hit, declining sharply due to rising geopolitical risks stemming from tensions in the Middle East. Year-to-date, the KLCI is down -7.6%, while the small-cap index has fallen by double that, at -14.6%.

Foreigners returned as net sellers over the past few weeks. Year-to-date foreign outflows now total nearly RM11 billion—more than double the RM4.2 billion recorded whole of last year.

In terms of news flow, the key headline locally was the government's announcement to broaden the Sales and Service Tax (SST). Effective 1 July, the expansion will target higher-income groups, non-citizens, and large businesses, with an estimated revenue contribution of RM5 billion. While essential goods and services remain zero-rated, premium and non-essential items will be subject to a 5–10% tax. The service tax will also be extended to cover commercial building rentals, construction, financial services, healthcare, education, and beauty-related services.

On the portfolio front, there was minimal trading activities. Some selective buying was seen in the REIT space, with additions to names such as Paradigm REIT and Pavilion REIT. Overall, cash levels remain steady in the mid-teens range.

REGIONAL FIXED INCOME

Asia credit delivered another positive return of +0.2% last week, supported by a rally in US Treasuries and continued spread tightening across both the investment grade (IG) and high yield (HY) segments, despite heightened geopolitical tensions.

Investment grade spreads tightened by 4 basis points (bps), while high yield spreads tightened by 15 bps. Although spreads widened by 2–3 bps this morning, market conditions appear to be stabilising.

On the portfolio front, we participated in three Australian dollar (AUD)-denominated Kangaroo bond issuances last week:

- Emirates NBD Bank PJSC's 10-year senior unsecured bond
- Barclays PLC's 11 non-call 10 senior note
- NextEra Energy Capital Holdings, Inc.'s 30-year non-call 5 subordinated hybrid

All three issues were priced in the 5.90% to 6.10% yield range, with order books oversubscribed by 2 to 4 times. Post-issuance, the bonds are trading 40 to 70 cents in the money, reflecting solid market reception.

In the secondary market, we took profits on select AUD bonds following the rates rally and reallocated proceeds into newer issuances. Among the names exited were Qantas, Nestlé, HSBC, and NBN, with bonds yielding 5.0% to 5.5%. We also realised gains on the newly issued Prudential Singapore dollar (SGD) Tier 2 bond, selling at around 103.6 cash price.

DOMESTIC FIXED INCOME

Sentiment in the Malaysian bond market was slightly weaker last week, amid cautious investor positioning. This was driven by headlines surrounding the expanded Sales and Service Tax (SST) and an uptick in

DOMESTIC FIXED INCOME *(CONT')*

long-tenure government bond supply.

Yields for shorter-dated Malaysian Government Securities (MGS)—specifically those with maturities of seven years and below—rose by 2 to 6 bps, while longer-tenure yields remained relatively stable, with the 10-year up by only 1 bp and the 30-year unchanged. As of last Friday:

- 3-year MGS: 3.17%
- 7-year MGS: 3.46%
- 10-year MGS: 3.55%
- 30-year MGS: 4.01%

On the fiscal front, the expanded SST is projected to raise an additional RM5 billion annually, helping to offset a RM3 billion shortfall in petroleum income tax due to lower oil prices. According to a recent CIMB report, fuel subsidy savings of around RM6.3 billion are also expected. Taken together, these developments suggest that the government remains on track to meet its 2025 fiscal deficit target of 3.8% of gross domestic product (GDP).

Revenue collection also appears healthy, with RM97 billion collected as of April, representing 29% of the full-year target, in line with the same period last year.

In terms of market reaction, local bonds adopted a more defensive tone amid inflation concerns, contributing to the rise in shorter-dated yields. However, the impact is expected to be minimal due to the highly targeted nature of the SST. Updates on fuel subsidy rationalisation indicate implementation in the second half of 2025, focused primarily on the top 10% income group (T10) and foreigners.

Given the manageable inflation outlook and uncertain external backdrop, we continue to see room for monetary policy easing in Malaysia. We reiterate our view that Bank Negara Malaysia (BNM) may cut the Overnight Policy Rate (OPR) by 25 bps in the second half of 2025, potentially as early as the July Monetary Policy Committee (MPC) meeting, in line with market expectations.

Lastly, two long-tenure government bond auctions were conducted last week, both of which were well received:

- The 15-year MGS (RM4 billion total issuance, including RM1 billion via private placement) saw a bid-to-cover ratio of 2.85 times and an average yield of 3.71%.
- The 30-year Malaysia Government Investment Issue (MGII) benchmark (RM5 billion total issuance, including RM2 billion via private placement) attracted strong demand, with a bid-to-cover ratio of 3.3 times and an average yield of 4.01%.

Both auctions demonstrated continued investor interest in ultra-long-tenure bonds.

As such, we maintain our current strategy for the domestic fixed income portfolio. We are comfortable keeping our portfolio duration between 6.5 to 7 years, while maintaining low cash levels to maximise return potential

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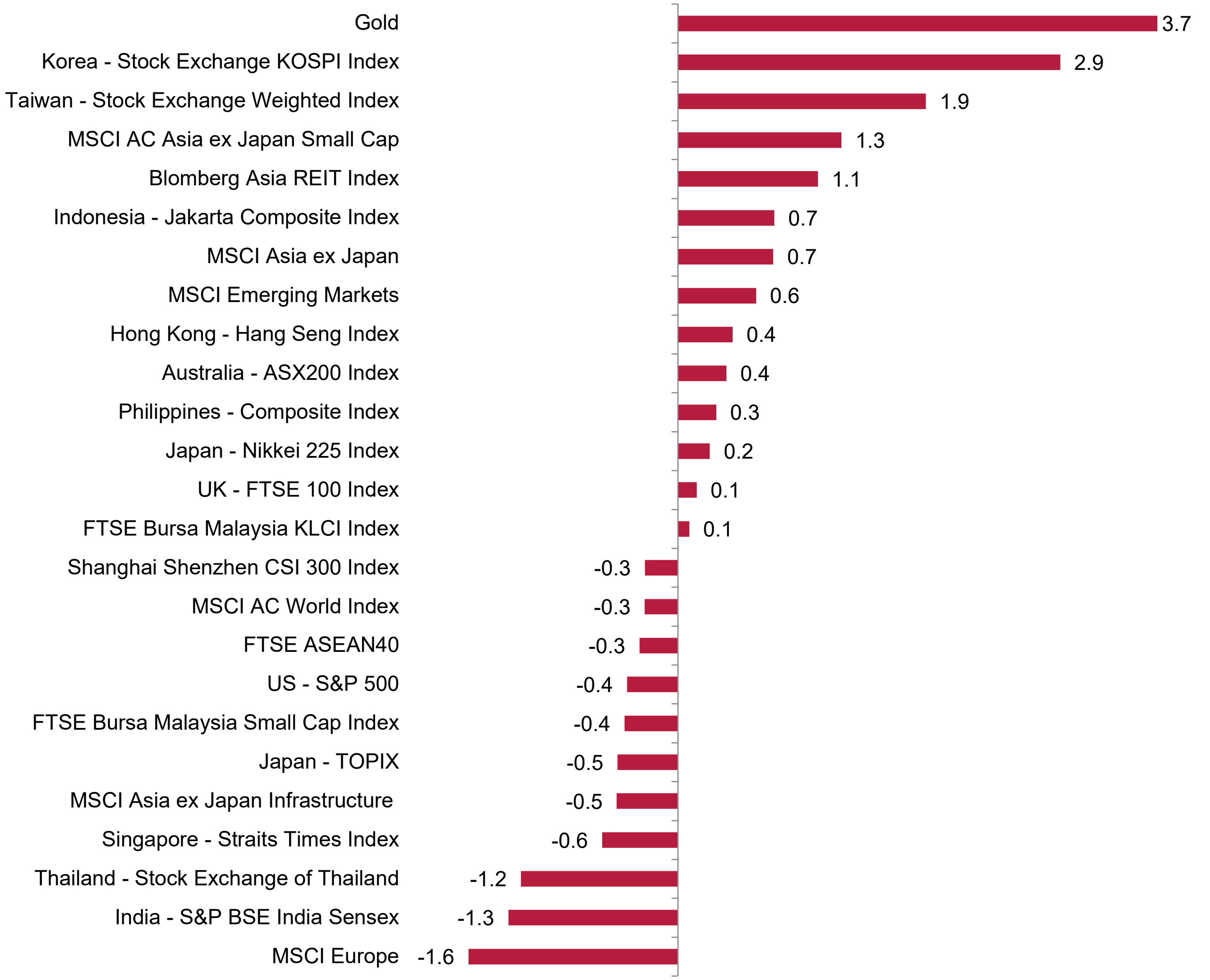

Index Chart: Bloomberg as at 13 June 2025. Quoted in local currency terms.