10 – 14 February 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 rose 1.5% and the Nasdaq gained 2.6%, despite higher-than-expected CPI inflation data. However, weaker PCE inflation components suggest inflation will continue to ease further.
- U.S. retail sales fell 0.9%, reinforcing expectations for a more dovish Fed stance, leading to a rally in U.S. Treasuries and pushing the 10-year yield down to 4.5%.
- Trump ordered a review of reciprocal tariffs on key trading partners, with studies to be completed by 1 April. Markets largely discounted the immediate impact, as tariff changes will take time to materialise.
- Germany's elections this Sunday will be closely watched, though polls suggest the Christian Democratic Union (CDU) will retain a majority.

- The MSCI Asia ex-Japan Index gained 1.6%, led by a 7% rally in Chinese equities, fueled by renewed optimism in AI and tech, following DeepSeek's emergence.
- Taiwan underperformed (-1.3%), with TSMC facing concerns over U.S. pressure to support Intel's chip technology. Reports suggest TSMC may take a controlling stake in Intel's factories or break up Intel with Broadcom.
- Korea's KOSPI jumped 4%, while India and Indonesia lagged on growth concerns.

- The KLCI Index edged up 0.04%, with gains in Sunway, YTL Corp, and Sime Darby offsetting declines in MR DIY (-8%), 99 Speedmart (-8%), and PETRONAS Chemicals (-7.4%).
- Dialog Group plunged 17% on Friday, following its first-ever quarterly loss, weighing on sentiment.
- MSCI announced the removal of Genting Malaysia and Inari Amertron from the MSCI Malaysia Index, potentially triggering foreign outflows due to index rebalancing.
- Malaysia's Q4 2024 GDP was revised higher to 5.0%, up from 4.8%, driven by stronger domestic demand and resilient private consumption.

Global & Regional Equities

US markets posted gains last week, with the S&P 500 rising 1.5% and the Nasdaq up 2.6%, as investors digested a raft of economic data releases. Inflation, as measured by the Consumer Price Index (CPI), accelerated by 0.5% on a seasonally adjusted basis.

Similarly core CPI—excluding food and energy—rose 0.4% for the month, bringing the annual rate to 3.3%. These figures came in higher than expected, as consensus estimates had projected 0.3% and 3.1%, respectively.

However, a closer look at the data showed that key Personal Consumption Expenditures (PCE)-linked components—rent, owner's equivalent rent, medical services, and financial services—came in weaker than expected. As a result, PCE inflation is now projected to rise just 0.2-0.3% month-on-month, compared to 0.5% a year ago.

If this trend holds, PCE inflation should continue to ease toward the low-2% range, reinforcing expectations that the Fed can maintain a dovish stance for the rest of the year. This shift in sentiment spurred a rally in US Treasuries, bringing the 10-year yield back down to around 4.5%.

Adding to the recalibration of market expectations, US retail sales data came in significantly weaker than anticipated, with retail sales slipping 0.9% in January, reversing from an upwardly revised 0.7% gain in December. This further bolstered the case for a more accommodative Fed stance, as signs of slowing consumer demand pointed to softer economic conditions ahead.

Meanwhile, US President Donald Trump has ordered his administration to explore reciprocal tariffs on key trading partners, escalating concerns over a potential trade war. The directive, signed last week, tasks the US Trade Representative (USTR) and Commerce Department with proposing new country-specific tariffs, a process expected to take months. Trump's nominee for Commerce Secretary, Howard Lutnick, indicated that studies should be completed by 1 April.

Despite these tariff threats, markets have shown signs of fatigue over Trump's frequent trade-related announcements. Investors appear to be discounting the near-term impact, as any potential tariff changes will take time to materialise.

Looking ahead, the key event this week will be Germany's elections on Sunday, though polls suggests that the Christian Democratic Union (CDU) is expected to remain the dominant political party.

In Asia, the MSCI Asia ex-Japan index gained 1.6% last week, with Chinese equities leading the charge. The Hang Seng China Enterprise Index (HSCI) surged 7%, driven by strong performance in China's tech and communication services sectors. Much of this rally was fuelled by renewed optimism in China's AI and tech capabilities, particularly after DeepSeek's emergence reignited interest in the tech sector.

Global & Regional Equities *(cont')*

However, Taiwan lagged behind, with the Taiwan Stock Exchange Weighted Index falling 1.3%, primarily weighed down by index heavyweight Taiwan Semiconductor Manufacturing Co. (TSMC).

TSMC's shares declined amid reports that the US government may ask the chipmaker to support Intel in advancing its chip technology. Initial investor concerns were that that TSMC could be potentially ppressured into supporting a potential competitor.

According to Bloomberg, TSMC is considering taking a controlling stake in Intel Corp's factories at the request of Trump administration officials, as the president looks to boost domestic manufacturing and maintain US leadership in critical technologies. Separately over the weekend, additional reports surfaced suggesting that TSMC and Broadcom may explore deals to break up Intel, adding further uncertainty.

Other regional markets saw mixed performances. Korea's KOSPI rose 4%, while India and Indonesia underperformed, weighed down by growth concerns.

On portfolio positioning, we slightly trimmed our China position while maintaining a slight overweight stance. At the same time, we increased exposure in Australia, adding to consumer, healthcare, and iron ore stocks. Cash holdings remain within the 2%-5% range.

Updates on Malaysia

The KLCI Index edged up by 0.04% last week, as gains in Sunway Berhad, YTL Corporation, and Sime Darby Berhad helped offset declines in key heavyweights. However, the broader market was pressured by sharp drops in MR DIY Group (M) Berhad and 99 Speedmart, both of which fell by over 8%, alongside a 7.4% decline in PETRONAS Chemicals Group Berhad (PCHEM). Adding to the drag, Dialog Group Berhad tumbled 17% on Friday following its first-ever quarterly loss, significantly weighing on sentiment.

On a sectoral basis, energy and technology were the key underperformers. The technology sector faced broad-based weakness, while the energy sector was pulled lower by steep declines in PCHEM and Dialog Group Berhad. Meanwhile, Real Estate Investment Trusts (REITs) have been the top-performing sector year-to-date, gaining 1.55%, as investors continued to favour defensive, yield-generating assets amid broader market uncertainties.

On the macro front, Malaysia's final Q4 2024 GDP print was revised higher to 5.0%, up from the advance estimate of 4.8%, reflecting stronger-than-expected domestic demand and resilience in private consumption and net exports.

Adding to market volatility, MSCI announced the removal of Genting Malaysia Berhad and Inari Amertron Berhad from the MSCI Malaysia Index, which is expected to trigger portfolio rebalancing by index-tracking funds and contribute to foreign outflows.

Updates on Malaysia *(cont')*

In terms of portfolio actions, cash levels remain within the 5% to 10% range. While our overall strategy remains unchanged, we have taken a more selective approach by trimming our position in Capital A Berhad amid concerns over potential earnings disappointment in the upcoming quarter. Additionally, we reduced exposure to Dialog Group Berhad following its weaker-than-expected results.

Fixed Income Updates & Positioning

Regional Fixed Income

The investment-grade (IG) credit market continued its strong performance last week, with spreads tightening by another 4 basis points (bps), while high-yield (HY) spreads compressed by 14 bps. This sustained tightening was largely driven by strong technical factors within the Asia credit space, with limited new supply reinforcing demand for existing bonds.

In the first two weeks of February 2025, total new issuances in the Asia credit market amounted to only USD 1.2 billion. However, a notable development was the issuance of the first China property bond in some time. Greentown China Holdings Limited, a quasi-state-owned enterprise (SOE) property developer, successfully priced a three-year USD bond at 8.45%, raising USD 350 million. Investor demand was strong, with the order book reaching USD 1.6 billion—approximately 4.6 times oversubscribed. The bond performed well in the secondary market, with its price rising by one point, while its yield tightened by 40 to 45 basis points, now trading at around 8%.

Another key development in the Chinese property sector was news that the Chinese government is considering a RMB 50 billion funding package for China Vanke Co., Ltd. The package is expected to include measures such as purchasing unsold properties and land from China Vanke, as well as facilitating access to new bond issuances and loans. Following this news, China Vanke's USD-denominated bonds surged by two to ten points last week. The improved sentiment also lifted other sector names, including Longfor Group Holdings Limited and New World Development Company Limited, which saw gains of one to four points.

On portfolio action, we added AUD hybrid securities offering attractive carry, including AusNet Services Ltd. at 6% and Scentre Group at 5.7%. Additionally, we took profit on the SGD Barclays AT1 bond, anticipating increased supply for this issuance in the near future.

Domestic Fixed Income

The Malaysian government bond market remained range-bound over the past week, with the Malaysian Government Securities (MGS) yield curve largely unchanged. However, the 10-year to 20-year segment of the curve saw mixed movements, fluctuating by approximately ±1 basis point (bp) on a week-on-week basis.

Fixed Income Updates & Positioning *(cont')*

A key event last week was the reopening auction of the seven-year Government Investment Issue (GII), with a total issuance size of RM 5 billion. The auction saw strong demand, with the total bids reaching RM 14.5 billion, resulting in a healthy bid-to-cover (BTC) ratio of 2.9 times. The auction cleared at an average yield of 3.785%, slightly higher than pre-auction levels, with a short tail of 0.5 basis points. Post-auction, the sukuk tightened by 0.5 bps, ending the week at 3.78%.

In the corporate bond space, Orkim Sdn Bhd, a Malaysian tanker operator specialising in clean petroleum product transportation, issued five-year and seven-year notes totalling RM 250 million. The relatively small issuance size contributed to strong demand, resulting in spread tightening from an initial guidance of 100 basis points (bps) to 70 bps. We did not participate in this issuance.

On the economic front, Malaysia's final Q4 2024 GDP print was revised higher to 5.0%, up from the advance estimate of 4.8%. The upward revision was primarily driven by stronger domestic demand and net exports. This represents a slower-than-expected moderation from the 5.3% growth recorded in Q3 2024. Looking ahead, we expect economic growth to remain resilient in 2025, supported by household spending, which will benefit from the continued employment and wage growth.

Portfolio duration currently stands between 4.5 and 6.5 years, with cash levels below 5%. Last week, we were nett buyers, deploying cash realised in previous weeks. However, we continued to take profit on bonds with tight valuations, capitalising on the ongoing tightening in credit spreads.

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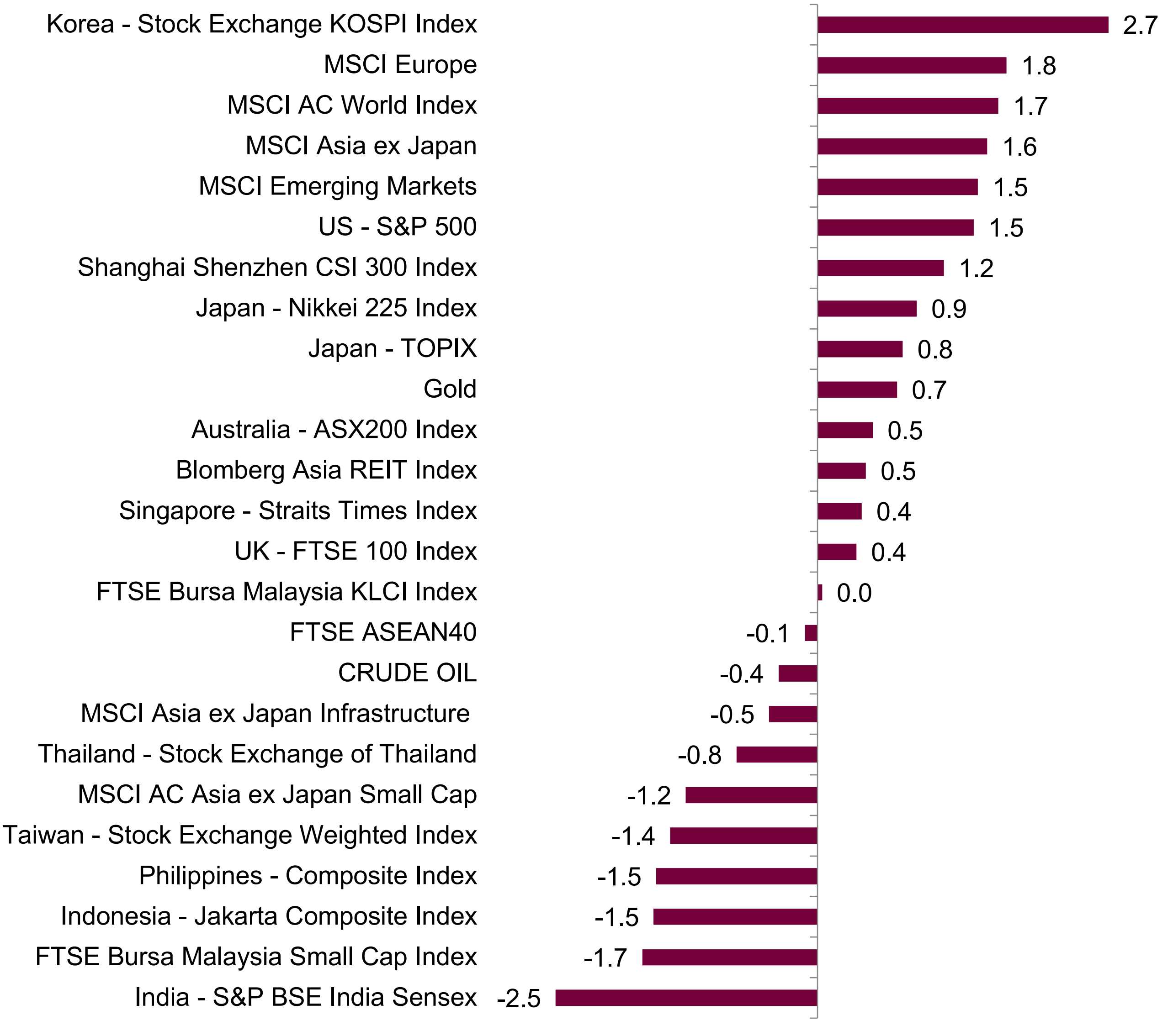
Index Performance | 10 February – 14 February 2025



Index Chart: Bloomberg as at 31 January 2025. Quoted in local currency terms.