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16 – 20 June 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- US S&P 500 closed 0.15% lower last week on the back of rising geopolitical risks.
- Tensions in the Middle East flared as the United States conducted targeted airstrikes on Iran.
- Current base case remains that a full-scale ground invasion is unlikely. While some form of Iranian retaliation is expected, the conflict is anticipated to remain contained.
- Key risk to monitor include Iran's decision to attempt a blockade of the Straits of Hormuz which is a critical choke point for global oil supply.

- The MSCI Asia ex-Japan index closed broadly flat last week, inching up by just 0.06%.
- Korea's KOSPI index gained 4.40% driven by optimism over the government's proposed capital market reforms.
- Thailand's country index fell 4.90% jolted by political uncertainty after the ruling coalition's second-largest party exited the government.
- While Thailand's Prime Minister has not resigned and is reshuffling the cabinet to stabilise the government, its slim majority leaves it in a fragile position.

- KLCI index declined by approximately 1.0% last week but managed to stay above the psychological 1,500-level.
- Announcement of a new electricity tariff structure signals a more market-reflective pricing, which supports the government's long-term fiscal sustainability agenda.
- The 3-year MGS rose by 3 bps to 3.20%, while the 7-year and 10-year MGS climbed to 3.49% and 3.59%, respectively.
- Total foreign holdings of MGS reached a record high of RM302 billion, surpassing the previous peak of RM289 billion recorded in September 2024

MARKET PULSE | QUESTION OF THE WEEK

US Strikes Iran's Nuclear Sites

Tensions in the Middle East flared as the United States conducted targeted airstrikes on Iran. The strikes targeted 3 nuclear research sites—Fordow, Natanz, and Isfahan which were carried out using the B-2 Spirit bomber, a long-range stealth aircraft capable of delivering deep-penetrating ordnance.

The Fordow facility, in particular, is significant as it houses Iran's deeply buried nuclear enrichment infrastructure, which required the use of the US's military arsenal, one of the few weapons in the world capable of breaching such heavily fortified sites.

In the hours that followed, reports emerged that Iran's parliament had voted to block the Straits of Hormuz, though the ultimate decision rests with Iran's executive leadership. A full blockade remains unlikely, but the potential for disruption, particularly via small-scale attacks on oil tankers or increased harassment in the straits cannot be dismissed.

The intervention of US signals a more strategic phase in the conflict. Trump has since declared on social media that the attack was "very successful" and "now is the time for peace", but he has also made clear that any retaliation by Iran against US assets would trigger a significantly harsher response.

What's Next?

The current base case remains that a full-scale ground invasion is unlikely. While some form of Iranian retaliation is expected—most likely targeting US military bases in the region—the conflict is anticipated to remain contained to aerial strikes, missile exchanges, or limited special operations.

Several key constraints will also limit the scale of the conflict. Chief among them is the growing political fatigue within the US over sustained military entanglements. There is little public appetite for another protracted conflict in the Middle East, particularly among President Trump's voter base.

This is especially relevant in the context of the midterm elections next year, where domestic political interests are likely to take precedence over any prolonged overseas engagement.

Key Risks to Monitor

The Straits of Hormuz remain a critical choke point for global energy markets, with roughly 30% of seaborne crude oil and 20% of liquefied natural gas passing through this passage. Any escalation that threatens shipping lanes would have material implications for energy prices and risk sentiment.

Market reaction has been relatively contained thus far. Oil prices briefly spiked above USD 80 per barrel but have since settled lower, reflecting market scepticism over the likelihood of a sustained disruption.

It is also worth noting a key mitigating factor to the risk of a blockade in the Straits of Hormuz. Saudi Arabia has developed the East-West Crude Oil Pipeline, providing an alternative route that bypasses the Straits. While this pipeline is not a perfect substitute, it does offer a critical backup in the event of severe disruption. Additionally, Iran itself relies heavily on the Straits of Hormuz for its own oil exports.

For now, the situation remains fluid. The key factors to monitor will be Iran's decision on whether to attempt a blockade of the Straits of Hormuz and the scale and location of any Iranian retaliation against US bases. The trajectory of this conflict will likely shape market direction in the coming weeks, with headline sensitivity expected to remain high.

GLOBAL & REGIONAL EQUITIES

US

US S&P 500 closed 0.15% lower last week, with markets broadly responding to heightened geopolitical risks in the Middle East. In terms of macro updates, we saw a flurry of central bank action, with the most closely watched being the US Federal Reserve (Fed) FOMC meeting.

As expected, the Fed kept interest rates unchanged at 4.25% to 4.50%, in line with market expectations. What markets were particularly focused on was whether the Fed would revise its dot plot projections. Initial expectations were that the Fed might scale back its earlier projection of 2 rate cuts of 25 bps, but the path remained unchanged, reinforcing the Fed's consistent message that they remain firmly data dependent.

The key risks the Fed is monitoring continue to centre on inflation, particularly the potential upside risk from tariff increases. The Fed is also watching the unemployment rate closely. If there is any clear sign of a sustained increase in unemployment, this would likely pave the way for the Fed to cut rates. For now, the current set of data has not provided sufficient confidence to justify a rate cut.

Market pricing remains broadly aligned with the Fed's guidance. Fed fund futures are now pricing in 2 rate cuts by the end of this year and an additional 2 cuts in 2026. US Treasuries initially responded to the broadly dovish central bank tone with yields drifting lower.

However, this quickly reversed over the weekend following the US airstrikes in Iran, which pushed oil prices higher and reignited some inflation concerns. As a result, the US 10-Year Treasury yield opened higher by 3 to 4 bps, currently trading around 4.4%.

Elsewhere, the Bank of England also kept rates unchanged. The Swiss National Bank, however, surprised markets by cutting rates back to 0%, citing persistently low inflation and the need to counter disinflationary pressures—raising the possibility of a return to negative interest rate policy if disinflation persists.

In Japan, the Bank of Japan similarly held rates steady but signalled a future adjustment to its quantitative tightening (QT) programme, announcing plans to taper from April 2026. This appears to be a pre-emptive move, following the recent volatility observed in Japanese Government Bond yields, as the central bank aims to manage expectations carefully.

Asia

In Asia, the MSCI Asia ex-Japan index closed broadly flat last week, inching up by just 0.06%. Hong Kong's Hang Seng index fell 1.5%, while Thailand saw a sharp decline of 4.90%. In contrast, Korea's KOSPI index gained 4.40%.

Korea's market strength was largely driven by optimism over the government's proposed capital market reforms, aimed at addressing the persistent valuation discount of Korean stocks. This fuelled a rally in low price-to-book (P/B) stocks and renewed investor interest in sectors such as defence, artificial intelligence (AI), and shipbuilding.

Asia *(cont')*

Thailand's market weakness was driven by heightened political uncertainty. The ruling coalition's second-largest party, the Bhumjaithai Party, exited the coalition, significantly reducing the government's parliamentary majority from 322 seats to just 253, only slightly above the minimum 247 seats required to retain power. While the Prime Minister has not resigned and is actively reshuffling the cabinet to stabilise the administration, the slim majority leaves the government in a fragile position.

On portfolio positioning, our exposure to Thailand remains minimal across our regional funds, with some funds holding less than 1% allocation. Existing positions are primarily defensive in nature, concentrated in sectors such as telecommunications, healthcare, and consumer goods. Regional cash levels remain steady at around 2% to 3%.

UPDATES ON MALAYSIA

The KLCI index declined by approximately 1.0% last week but managed to stay above the psychological 1,500 level. Despite the FTSE rebalancing on Friday, average daily trading value remained subdued at around RM1.8 billion, reflecting ongoing cautious sentiment.

Broadly, the market remains lacklustre, with limited news flow and investor participation. Most participants are in wait-and-see mode as they assess various macro uncertainties, including global monetary policy directions and geopolitical developments. Foreign flows were mixed to slightly negative, further reflecting the muted investor appetite for risk.

The only notable domestic development was the announcement of a new electricity tariff structure, which introduces a shift towards more consumption-based pricing. While earnings impact on Tenaga Nasional is expected to be minimal, the new framework is viewed as cash-flow positive due to monthly cost pass-through mechanisms for fuel and foreign exchange (forex). The move also signals the government's intent to adopt more market-reflective pricing, a step seen as supportive of long-term fiscal sustainability and transparency.

No major changes were made to our portfolios. Cash levels remain at mid-teen percentages.

REGIONAL FIXED INCOME

The Asian credit market remained firm last week, with total returns improving by +0.3%. Investment-grade (IG) spreads were largely unchanged, while high-yield spreads tightened by another 15 basis points (bps), continuing the positive momentum.

On the other hand, cautious tone was more apparent in Thai credits, where spreads widened by 5 to 10 bps following political uncertainty tied to the Constitutional Court proceedings involving Prime Minister Srettha and the potential dissolution of the Move Forward Party.

However, as of 23 June (Monday morning), we are seeing early signs of risk-off sentiment emerging. Asia IG spreads have widened by 2 to 3 basis points (bps), and most high-yield names are down by 25 to 50 cents in price.

On the portfolio front, we participated in three U.S. dollar primary issuances last week:

- Hong Kong MTR: non-call 10.5-year perpetual at 5.625%
- Hanwha Life Insurance: Tier 2 bond at 6.3%
- Saudi National Bank: Tier 2 bond at 6.0%

These bonds are highly rated (ranging from Single A to AA) and saw strong demand, with order books covered about 3 to 9 times, reflecting continued appetite for quality names across both IG and Tier 2 segments. In the secondary market, we took profit on the newly issued Hanwha Life bond after it rallied by around 2 points.

We also trimmed our position in Santos, the Australian oil and gas company, after spreads tightened by 40 to 60 bps. The rally was triggered by a takeover bid from Abu Dhabi National Oil Company (ADNOC), which led a consortium offering a ~28% premium, valuing Santos at approximately AUD 5.76 per share.

Additionally, we added exposure to several Australian dollar (AUD)-denominated names yielding between 5.8% and 6.1% for carry purposes. This included a mix of A-rated Tier 2 bonds and corporate hybrids from issuers such as Melbourne Airport, Scentre Group, and Transurban.

DOMESTIC FIXED INCOME *(CONT')*

Last week, sentiment in the domestic fixed income market remained weak, weighed down by the recent rise in oil prices, which raised concerns among local investors over potential inflationary pressure in the coming months.

As a result, Malaysian Government Securities (MGS) yields rose by 2 to 4 basis points (bps) across tenors ranging from 3 years to 15 years. The 3-year MGS rose by 3 bps to 3.20%, while the 7-year and 10-year MGS climbed to 3.49% and 3.59%, respectively. In contrast, the 30-year MGS remained supported and traded unchanged at 4.00%, suggesting demand remained resilient in the ultra-long end of the curve.

There was no new primary auction last week. However, for the current week, the market anticipates the issuance of a new 10-year MGS benchmark maturing in April 2035, with an estimated issuance size of RM5 billion.

On the foreign flows front, ringgit bond markets saw robust inflows in May 2025, totalling RM13.4 billion—a continuation of the RM10.2 billion inflow recorded in April 2025. As a result, total foreign holdings have reached a record high of RM302 billion, surpassing the previous peak of RM289 billion recorded in September 2024. Foreign ownership of MGS has risen to 35.6% as of May 2025, up from 32.3% in December 2024.

In terms of portfolio positioning, we continue to rebalance without making any major strategy shifts. As previously shared, we are recycling cash by taking profit on corporate bonds that have appreciated and reinvesting into new primary issues or secondary market bonds that offer attractive yield pickup. Portfolio duration remains between 6.5 to 7 years, with cash levels maintained below 3%.

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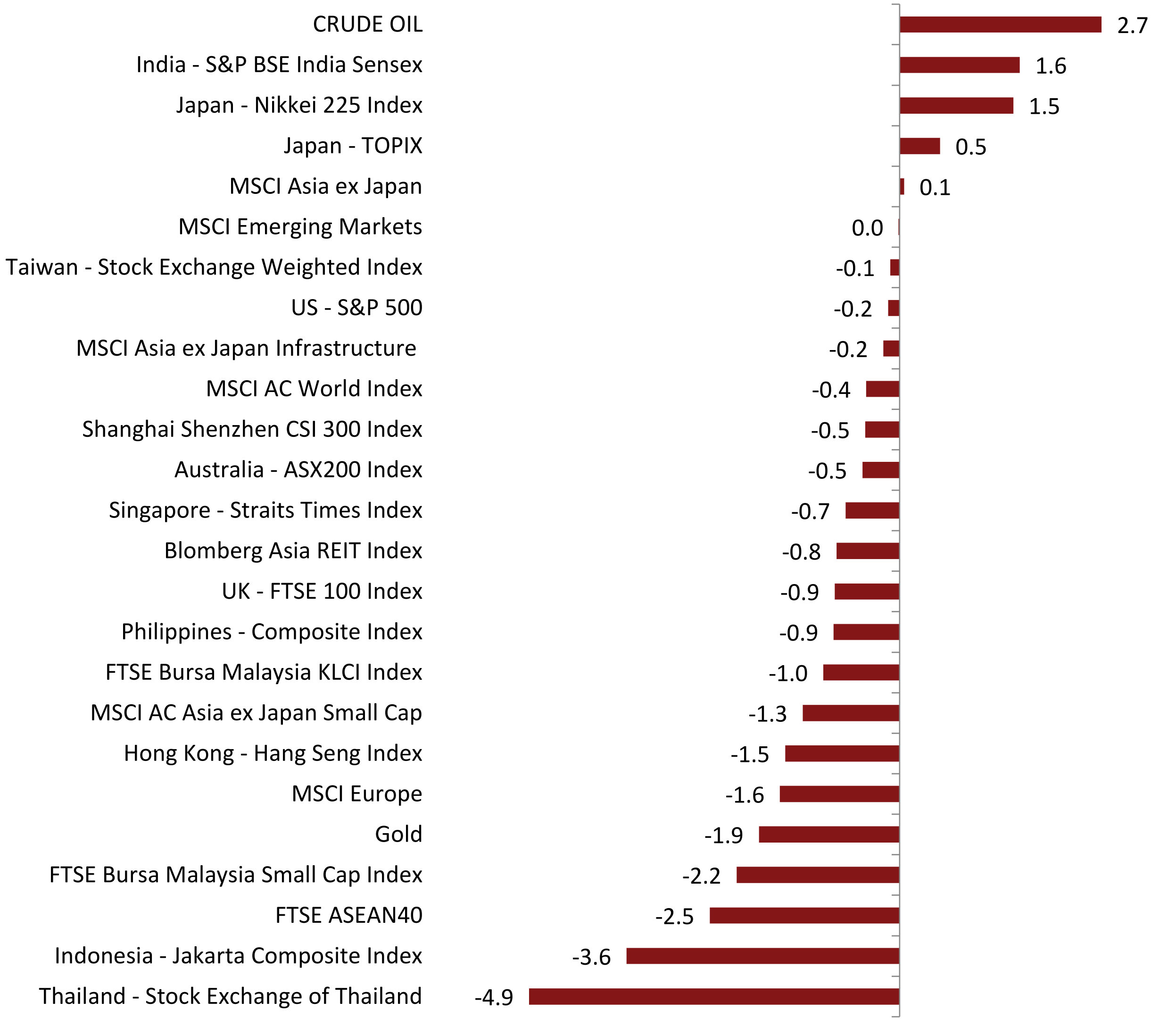
Index Performance | 16 – 20 June 2025



Index Chart: Bloomberg as at 20 June 2025. Quoted in local currency terms.