17 – 21 March 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- S&P 500 closing 0.5% higher after weeks of sharp declines. The Nasdaq also gained 0.3% as investors digested the outcome of the US Fed's FOMC meeting.
- As expected, the Fed held interest rates unchanged but cut its economic forecasts, citing rising downside risks to growth.
- However, the Fed's overall tone remained measured, signalling no urgency to cut interest rates, where it maintained its projection for 2 rate cuts this year.
- Additionally, the Fed announced a slower pace of quantitative tightening (QT), reducing its US Treasuries balance sheet runoff.

- MSCI Asia ex-Japan index gained 1.2% last week, with notable outperformance from India and Korea. The Sensex and KOSPI indices climbed 3.0% and 4.0%, respectively.
- India's market rebound was fuelled by signs of economic stabilisation after months of weakness, along with renewed stimulus optimism by its central bank.
- Indonesian market faced a selloff amid concerns over policy shifts, fiscal discipline, and the formation of its new sovereign wealth fund, Danantara.
- Indonesian IG spreads widened by 6 bps w-o-w, while HY spreads widened by 39 bps, underperforming the broader Asia HY space.

- Benchmark KLCI slipped 0.4% to close at 1,504 points. Sector-wise, energy and technology stocks outperformed, while telco, financials, and construction were key laggards.
- IJM Corp Bhd faced scrutiny after online allegations surfaced against its senior officials, which the company firmly denied. The stock initially fell 10% but later recovered half its losses.
- In Malaysia, the bond market saw strong foreign participation across the curve, driving yields lower by 2 to 5 bps.
- The strong foreign inflows into the bond market were driven by expectations of monetary easing in EMS following a softer USD outlook, coupled with potential index rebalancing.

Global & Regional Equities

US equities staged a mild rebound last week, with the S&P 500 closing 0.5% higher after weeks of sharp declines. The Nasdaq also gained 0.3% as investors digested the outcome of the US Federal Reserve's (Fed) FOMC meeting which held interest rates unchanged.

The key highlight was the Fed's dovish tilt, which led to a decline in the US 10-Year Treasury yield to 4.25% from 4.31% on a w-o-w basis. The Fed maintained its projection for 2 rate cuts this year, despite acknowledging higher near-term inflation concerns. At the same time, it revised GDP growth lower and the unemployment rate higher, signalling a softer economic outlook.

During the press conference, Fed Chair Jerome Powell downplayed short-term inflation concerns, calling them transitory. While he acknowledged rising uncertainty particularly regarding the impact of tariffs on the US economy, his overall tone remained measured, signalling no urgency to cut interest rates. The Fed's decision to maintain its rate cut projections despite higher inflation forecasts was interpreted as dovish by the market.

Additionally, the Fed announced a slower pace of quantitative tightening (QT), reducing its US Treasuries balance sheet runoff from USD 25 billion to USD 5 billion per month. This move came as a slight positive surprise, contributing to lower US Treasury yields

On the data front, US jobless claims ticked slightly higher than expected, possibly reflecting the impact of recent government spending cuts and layoffs by the Department of Government Efficiency (DOGE).

In Asia, the MSCI Asia ex-Japan index gained 1.2% last week, with notable outperformance from India and Korea. The Sensex and KOSPI indices climbed 3.0% and 4.0%, respectively.

India's market rebound was fuelled by signs of economic stabilisation after months of weakness, along with renewed stimulus optimism. The Reserve Bank of India (RBI) further eased monetary policy which is expected to boost bank lending and spur economic growth.

From a technical perspective, both foreign and domestic investor positioning in India had been notably bearish in recent weeks. Historically, such extreme underpositioning has served as a contrarian signal for a potential rebound. Taking into account these positive factors above, we raised our exposure in India, moving it to an overweight position for our Asian funds. Cash levels range around 5% for our portfolios.

Updates on Malaysia

The benchmark KLCI remained under pressure last week, slipping 0.4% to close at 1,504 points, extending its YTD decline to 8.5%. Sector-wise, energy and technology stocks outperformed for the second consecutive week, while telco, financials, and construction were key laggards. Foreign selling persisted, with net outflows of RM1.3 billion last week, bringing total YTD foreign net selling to RM8.8 billion.

Updates on Malaysia *(cont')*

A key corporate development last week was the controversy surrounding IJM Corp Bhd. Online allegations surfaced regarding senior officials, including the chairman and a retired CEO, prompting the company to strongly deny any wrongdoing. IJM has since lodged a report with the Malaysian Communications and Multimedia Commission (MCMC) over the claims. The stock initially fell 10% on the news but later recovered about half of its losses.

Fixed Income Updates & Positioning

The Asian credit market was mostly stable last week, though Indonesia was a key focus due to pressures in the equity market. While Indonesian credits also faced some selling pressure, the moves were relatively orderly.

For instance, Bank Negara Indonesia's (BNI) AT1 bond widened by 20 bps at its peak before retracing to settle at 6.8%. More broadly, Indonesian investment-grade (IG) spreads widened by 6 bps w-o-w, while high-yield (HY) spreads widened by 39 bps, underperforming the broader Asia HY space, where spreads widened by 12 bps.

Sentiment in Indonesian credit largely reflects broader macro concerns, including uncertainty over policy changes, fiscal discipline, and concerns of the formation of the new USD 900 billion sovereign wealth fund, Danantara. We continue to monitor developments in this space.

Elsewhere, Moody's revised its outlook on Indika Energy to negative, citing expectations of deteriorating credit metrics over the next 12 months due to debt-funded capital spending and weaker earnings amid lower coal prices.

On the primary front, we participated in Bank Mandiri's 3-year USD bond issuance at 5.1%. The bond initially traded higher earlier in the week before facing some de-risking in the amid a sharp equity market selloff. At the start of trading this week, spreads have tightened by 5 bps, with the bond up about 30 cents from issuance.

Other primary deals included Tier 2 bonds from Bangkok Bank at 6.06% and HSBC's SGD AT1 issuance at 5%. The HSBC AT1 performed well, rallying 70 cents and now trading around 4.8%, while Bangkok Bank's bond remained relatively flat but still in-the-money, supported by rates.

In the secondary market, portfolio action was largely to make room for new primary deals, by locking in gains from positions that have done well.

In Malaysia, the bond market saw strong foreign participation across the curve, driving yields lower by 2 to 5 bps. The 30-year GII led the rally, declining 5 bps from its auction average of 4.17% to 4.12% by the end of the week.

Fixed Income Updates & Positioning *(cont')*

The inflows appear to be driven by two key factors. First, expectations of monetary policy easing in emerging markets (EM), following a softer USD outlook, likely encouraged foreign investors to extend duration in EM bonds. This narrative gained traction after a Bloomberg headline suggested potential easing across EM economies.

Second, technical factors, including potential index rebalancing, played a role. With an increase in duration supply from MGS and GII over the past 4 weeks, index weightings have shifted slightly towards the longer-end, prompting rebalancing flows into longer-duration bonds.

We extended our portfolio duration in the first half of the month while fully deploying our cash holdings. Looking ahead, we may take profit on some positions in anticipation of higher tariff risks in April. Portfolio duration currently stands between 5.8 to 6.5 years, with cash levels close to 0%.

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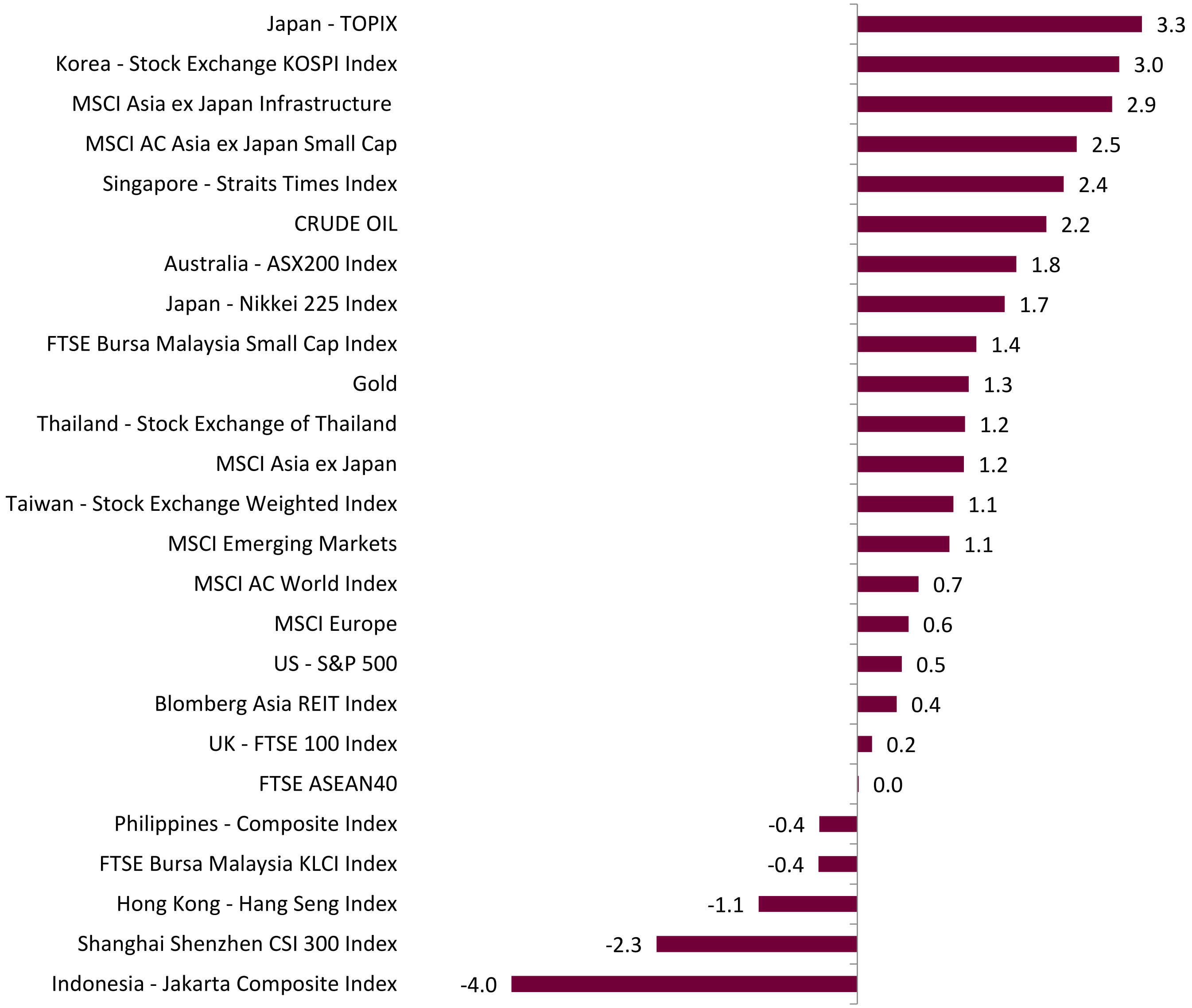

Index Chart: Bloomberg as at 21 March 2025. Quoted in local currency terms.