27 - 31 January 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 declined by 1.00% last week, though it remains up 2.7%YTD.
- DeepSeek's AI breakthrough triggered concerns over AI hardware demand, leading to a 16% drop in Nvidia's share price and a broader tech sell-off. However, lower AI deployment costs could drive wider adoption, sustaining long-term GPU demand.
- President Donald Trump imposed 25% tariffs on Mexico and Canada and 10% tariffs on China, reigniting trade tensions and strengthening the U.S. dollar. Emerging markets remain vulnerable as retaliation from trading partners looms.

- The MSCI Asia ex-Japan Index saw a modest gain of 0.2%, supported by Microsoft and Meta reaffirming their AI investment plans, which could sustain regional data centre demand.
- China's AI expansion gained attention with DeepSeek's AI model, raising speculation over potential shifts in semiconductor demand. However, large-scale AI deployments may still require advanced computing power, limiting immediate hardware demand risks.
- Renewed U.S.-China trade tensions weighed on sentiment, with China evaluating potential countermeasures against Trump's new tariffs. While broader economic implications remain unclear, China has diversified its supply chains to mitigate risks.

- The KLCI Index fell by 1.07% last week as pre-Chinese New Year selling persisted, alongside concerns over data centre demand and DeepSeek's AI model developments.
- Utilities were the worst-performing sector, falling over 3%, primarily due to weakness in YTL Power and YTL Corporation. The construction and technology sectors also faced selling pressure, while REITs and transportation stocks showed resilience.
- Foreign investors continued to sell off Malaysian equities, with RM500 million in outflows last week, bringing year-to-date foreign outflows to over RM1 billion.

Global & Regional Equities

The S&P 500 declined by 1.00% last week, though it remains up 2.7% year-to-date (YTD). Meanwhile, the MSCI Asia ex-Japan Index saw a modest gain of 0.2%. Market sentiment was shaped by two key developments: the emergence of DeepSeek's AI model and newly imposed tariffs by the U.S.

DeepSeek's AI Breakthrough: Disruptive or Overblown?

On 20 January 2025, Chinese AI firm DeepSeek launched its first free chatbot app, which is reportedly more powerful than ChatGPT while requiring less Nvidia AI GPUs to operate. This has triggered concerns that AI model training may shift towards software-based efficiency improvements, reducing the need for high-end AI hardware.

Following this, tech hardware stocks saw significant selling pressure, with the Nasdaq falling 1.7% week-on-week and Nvidia plunging 16% as investors weighed the potential impact on semiconductor demand.

However, we believe the market reaction may have been premature. Lower AI deployment costs could drive broader adoption, supporting overall AI hardware demand over the longer term. If enterprises can access AI solutions at a lower cost, it could lead to greater implementation across industries, ultimately benefiting the sector.

Moreover, questions remain over the true cost structure of DeepSeek's model. While its efficiency claims are significant, they do not fully account for scaling and infrastructure costs. Advanced AI hardware may still be essential for training, refining, and deploying large-scale AI models, sustaining long-term demand for GPUs and computing power.

Recent earnings reports from Microsoft and Meta reinforce this view, as both companies reaffirmed their elevated capital expenditure (CapEx) plans for FY25, which suggest continued data centre investments in Malaysia. They acknowledged DeepSeek's innovation but noted that it is too early to assess its full impact. Instead, they view cheaper computing as an enabler of AI expansion, rather than a constraint on hardware spending.

U.S. Tariffs: Renewed Trade Tensions and Market Implications

Over the weekend, former President Donald Trump announced new tariffs, imposing **25% duties on imports from Mexico and Canada** and **10% tariffs on Chinese goods**. The move, aimed at addressing illegal immigration and drug smuggling concerns, has already sparked retaliatory measures from Canada and Mexico, while China weighs its response.

The immediate market reaction has been a stronger U.S. dollar, driven by concerns that tariffs could be inflationary in the short term. Emerging markets and risk assets remain vulnerable to these shifts, given the potential for prolonged trade disputes.

Global & Regional Equities *(cont')*

However, the broader economic implications remain uncertain. In past tariff cycles by Trump, markets initially reacted negatively, only to see strategic trade negotiations follow. This time, global economies appear better prepared, with China having diversified its supply chains and U.S. trade groups lobbying for industry-specific exemptions, particularly in sectors such as aluminium and energy.

If the tariffs lead to higher inflation and slower growth, it could set the stage for future rate cuts and a weaker U.S. dollar, balancing some of the near-term headwinds.

Portfolio Strategy & Outlook

Portfolio activity last week was relatively unchanged, with no major adjustments made. We continue to hold on to our core positions in Asian tech stocks, but our tech allocation in Asian funds is underweight to neutral.

Updates on Malaysia

The KLCI Index declined by 1.07% last week, reflecting sustained selling pressure ahead of the Chinese New Year break. The market experienced consecutive declines on Monday and Tuesday, before staging a slight rebound on Friday. The overall downtrend was driven by lingering concerns over data centre demand and the latest developments on DeepSeek, a Chinese AI startup that has introduced a highly efficient AI model, potentially impacting global technology investments.

Sector Performance

- **Utilities** emerged as the worst-performing sector, falling more than 3%, primarily due to weakness in YTL Power International Berhad and YTL Corporation Berhad.
- **Construction and technology** sectors also faced selling pressure, reflecting cautious sentiment regarding data centre uncertainty.
- **Real Estate Investment Trusts (REITs)** and the **transportation** sectors were the only ones to post slight gains, offering some resilience against the broader downturn.

Foreign Fund Flows

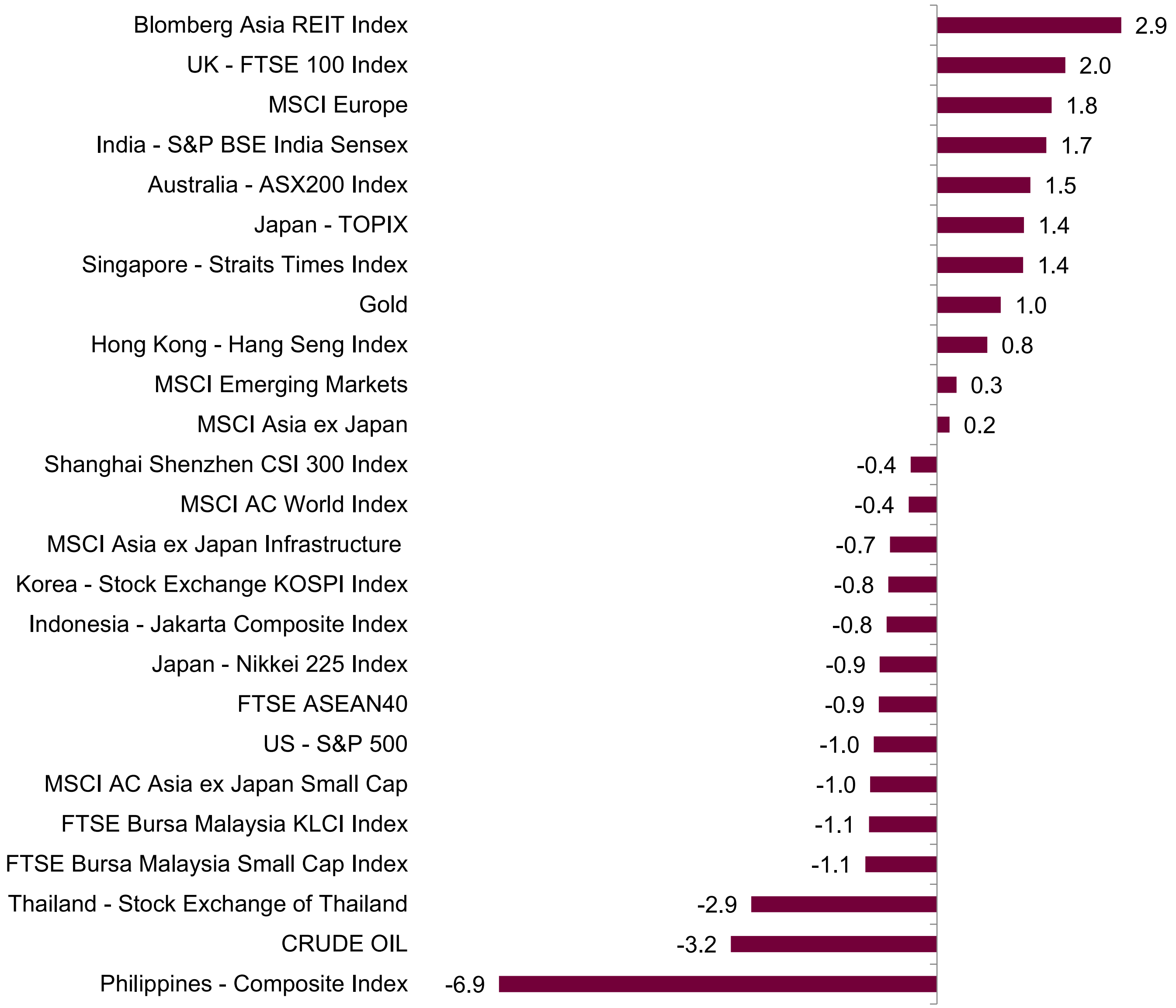
Foreign investors remained persistent nett sellers, offloading Malaysian equities daily throughout the week. Total foreign outflows hit RM500 million, bringing year-to-date outflows beyond RM1 billion.

- The largest foreign outflows were seen in Tenaga Nasional Berhad, YTL Corporation Berhad, YTL Power International Berhad, and Gamuda Berhad.
- In contrast, local institutional investors and retail participants continued to absorb these sell-offs, with nett buying of RM1.2 billion each on a year-to-date basis.

Portfolio cash levels are maintained between 7% and 10%. Given current market uncertainties, we have adopted a measured approach, avoiding significant portfolio adjustments. Selling at this stage could mean locking in losses at a low point, while increasing exposure may introduce unnecessary risk.

- END -

Index Performance | 27 January – 31 January 2025



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