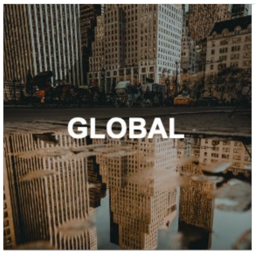
23 – 27 June 2025

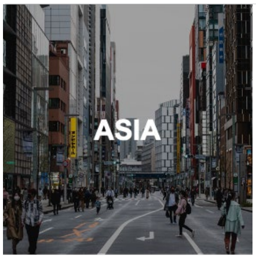
WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

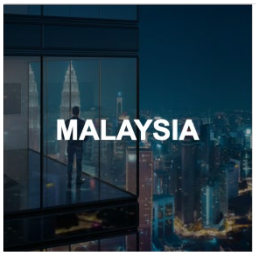
Key Highlights



- The S&P 500 jumped 3.4%, lifted by Fed rate cut hopes and positive trade talk momentum.
- May PCE data showed no major inflation risk, with core PCE at 2.6% and headline at 2.3%.
- US GDP contracted -0.5% in Q1; University of Michigan 1-year inflation expectations fell to 5%.
- Bond markets now pricing in 2+ rate cuts by year-end; Trump's "Big Beautiful Bill" adds USD 3.3 trillion debt concerns.



- MSCI Asia ex-Japan climbed 3.3%, led by Hang Seng (+3.2%) and Taiwan Weighted Index (+2.4%).
- Only 9 days left to US tariff deadline; no formal deal yet, but China may resume rare earth exports.
- Ceasefire between Iran and Israel lowered oil prices by 12%, settling at USD 67 per barrel.
- Japan and EU trade talks face hurdles, but market hopeful for phased agreement.



- KLCI rose 1.7%, driven by renewed interest in utilities linked to LSS5+ and TNB capex plans.
- KPJ announced RM240m leaseback deal with Al-Aqar REIT; exposure trimmed due to near-term earnings drag.
- IGB REIT to acquire Southkey Mall for RM2.65b; shares up 12%, yields compressed to 5%.
- CPI eased to 1.2% in May; MGS yields fell, with 10Y closing at 4.01%.
- Market expects BNM to cut OPR by 25 bps in the 2H'25.

GLOBAL & REGIONAL EQUITIES

US

US equities rallied, with the S&P 500 climbing 3.4% to close at 6,173 points, marking a 23% rebound from its April low and bringing the YTD return to 5.6%. The rally was supported by renewed optimism over potential US Federal Reserve (Fed) rate cuts and positive trade talks, even though concrete developments are not yet firm.

Last week, saw a slight uptick in the US Personal Consumption Expenditures (PCE) price index which is the Fed's preferred inflation gauge. While headline PCE rose to 2.3% and core PCE came in at 2.6%, the data remains within a comfortable range and does not point to a meaningful acceleration of inflation. Importantly, the May PCE reading also incorporates some early tariff effects, a factor the Fed has flagged as a potential source of upside inflation risk.

Additionally, the University of Michigan's 1-year inflation expectation survey declined to 5%—a significant improvement from its previous highs, which had hovered closer to 7%. Meanwhile, the revised Q1 GDP print showed a contraction of -0.5% which was softer than expected. The drag was primarily due to weaker personal spending, pointing toward a gradual economic slowdown.

Against this backdrop, monetary policy expectations have shifted meaningfully. Two FOMC members voiced support for a July rate cut, which catalysed a rally across the Treasury curve. The US 10-year Treasury yield fell close to 4.25% before retracing higher by the end of the week as Fed Chair Jerome Powell struck a more neutral tone. Currently, bond markets are pricing in a full 25 basis point cut by July, and roughly 65 basis points of cumulative cuts by year-end, suggesting over 2 rate cuts are now anticipated by the market.

Looking ahead, key data releases such as nonfarm payrolls will be closely watched for any signs of softening in the labour market, particularly whether the unemployment rate begins to tick higher. Additionally, attention will be on the fiscal front, with Trump aiming to push through his "Big Beautiful Bill" by 4th of July. The proposed bill is expected to add approximately USD 3.3 trillion in additional debt, intensifying concerns over the US fiscal deficit.

Asia

Asian equities tracked gains, with the MSCI Asia ex-Japan index climbing 3.3% over the week. Notable outperformers included the Hang Seng Index (+3.2%) and the Taiwan Weighted Index (+2.4%), both benefiting from improved sentiment.

On the trade front, while only 9 days remain until the July 9 tariff deadline, no formalised agreement has been announced. The US administration has suggested that a broad framework has been signed off with China, however the framework remains vague and lacking in substantive detail. Despite the lack of clarity, China may resume rare earth exports to the US which is an important product input across several key industries in the US such as electronics.

Elsewhere, trade negotiations with Japan and the European Union appear more complex and continue to face structural hurdles. Nonetheless, market expectations are gravitating towards the eventual announcement of a broad agreement, possibly a first-phase deal with lower tariff commitments followed by continued negotiations.

Asia *(cont')*

Geopolitical tensions in the Middle East have also eased modestly following a ceasefire between Iran and Israel. Markets appear to be pricing in a low probability of further escalation for now, as reflected in brent crude prices, which fell 12% to settle at USD 67 per barrel.

In terms of portfolio action, we added Hong Kong Stock Exchanges Ltd to our regional funds, as the stock exchange operator enjoys rising trading volumes. Additionally, we added exposure to TSMC, which continues to benefit from AI-related demand. At the same time, the funds took profit on Hyundai Rotem, a Korean industrials and defence company, following strong performance. Cash levels across regional strategies are currently maintained at 2–4%.

UPDATES ON MALAYSIA

On the local front, the FBM KLCI tracked regional markets, gaining approximately 1.7% last week. We are beginning to see renewed investor interest in the utilities sector, underpinned by the upcoming Large Scale Solar 5 + (LSS5+) project awards and anticipated capital expenditure plans by Tenaga Nasional Berhad (TNB).

Among corporate developments related to our portfolio holdings, KPJ Healthcare announced a sale and leaseback deal involving 2 of its hospitals to Al-Aqar REIT for RM240 million. The transaction is expected to be earnings-dilutive in the near term, with a projected 8–9% drag on earnings due to increased leasing expenses. In light of this, we have selectively trimmed exposure to KPJ in portfolios with a higher weightage.

Separately, IGB Berhad confirmed plans to inject Southkey Mall in Johor into IGB REIT for RM2.65 billion, to be settled via a mix of cash and shares. The deal will raise IGB's stake in the REIT from 54% to 57%, with a capitalisation rate of approximately 5.5%. Earnings per share are estimated to also rise by around 15%. Since the announcement, IGB REIT's share price has rallied 12%, compressing forward yields to 5%.

Gamuda's recent results came in below market expectations, although its management reaffirmed its order book guidance of RM40–45 billion, suggesting visibility remains intact despite the earnings miss.

In terms of portfolio action, we were relatively quiet over the week. A few portfolios took the opportunity to re-enter selected oversold names such as Axiata. Overall, cash levels remain in the mid-teens, as we continue to maintain a cautious stance pending clearer macroeconomic signals.

REGIONAL FIXED INCOME

It was a strong week for Asian credit markets, with spreads remaining stable across both investment grade (IG) and high-yield (HY) segments. The new issuance pipeline remained active across currencies, with Asia ex-Japan recording close to USD 2 billion in supply last week. Most of the issuance was driven by Korean corporates and Chinese local government financing vehicles (LGFVs), reflecting continued funding appetite.

Japan also saw a surge in primary market activity, led by financial and automotive names. Total supply reached USD 7.8 billion, with deals generally well absorbed by the market. We participated in the USD-denominated Additional Tier 1 (AT1) issuance from Nomura—a non-call 5.5-year structure priced at 7%.

REGIONAL FIXED INCOME *(cont')*

The bond traded up by roughly 1 point post-listing, with spreads compressing more than 25 basis points in the secondary market.

We also took part in the USD 10-year Tier 2 issuance from Resolution Life, priced at 6.75%. The company is a global life insurer specialising in acquiring and managing existing life insurance policy portfolios and also providing reinsurance solutions. The bond performed steadily, gaining around 30 to 40 cents.

In the Singapore dollar space, we participated in a 20.5-year senior note from Sembcorp Industries, which was priced at 3.55%. The bond traded strongly, rising by approximately 2.5 points. We also subscribed to the SGD perpetual issued by Frasers Centrepoint Trust, a non-call 5-year structure priced at 3.98%.

The AUD market was relatively quiet, with just four private issuers raising a cumulative AUD 2.3 billion. Credit spreads widened slightly over the week, as Australian rates declined towards year-to-date lows, with the 10-year Australian Government Bond (ACGB) yield falling back to 4.1%, levels last seen in April.

In secondary markets, we continued to rotate selectively, taking profit on certain US Treasury positions and financial papers, while maintaining a disciplined approach to credit selection.

DOMESTIC FIXED INCOME

Malaysia's local bond market saw a constructive tone last week, with government bonds rallying on the back of weaker-than-expected inflation data. The MGS yield curve bull-steepened, with yields declining by 2 to 10 bps across the short to belly segments, while the 30-year MGS remained unchanged. The 3-year, 5-year, and 10-year MGS ended the week at 3.14%, 3.48%, and 4.01% respectively.

In terms of new issuances, last week saw an auction of a 10-year MGS. The RM5 billion issuance, garnered robust demand with total bids exceeding RM15 billion and a bid-to-cover (BTC) ratio of 3 times. The auction cleared at an average yield of 3.48%, reflecting healthy appetite for duration. There were no new corporate bond issuances recorded during the week.

On the macro front, headline CPI eased further to 1.2% y-o-y in May, below consensus expectations of 1.4%, marking the lowest reading in over 4 years. The decline was primarily driven by softer food and utility prices. Core CPI also moderated, falling to 1.8% from 2.0% in April—adding to evidence that price pressures continue to subside.

With inflation on a downtrend and exports still under pressure, we maintain our base case for Bank Negara Malaysia (BNM) to cut the Overnight Policy Rate (OPR) by 25 basis points in the second half of the year to support domestic demand.

From a portfolio perspective, we continued our strategy of rotating into the primary market, taking profit selectively in the secondary space. Cash levels remain low at around 2–3%, while our duration positioning remains extended in the 6.5 to 7-year range.

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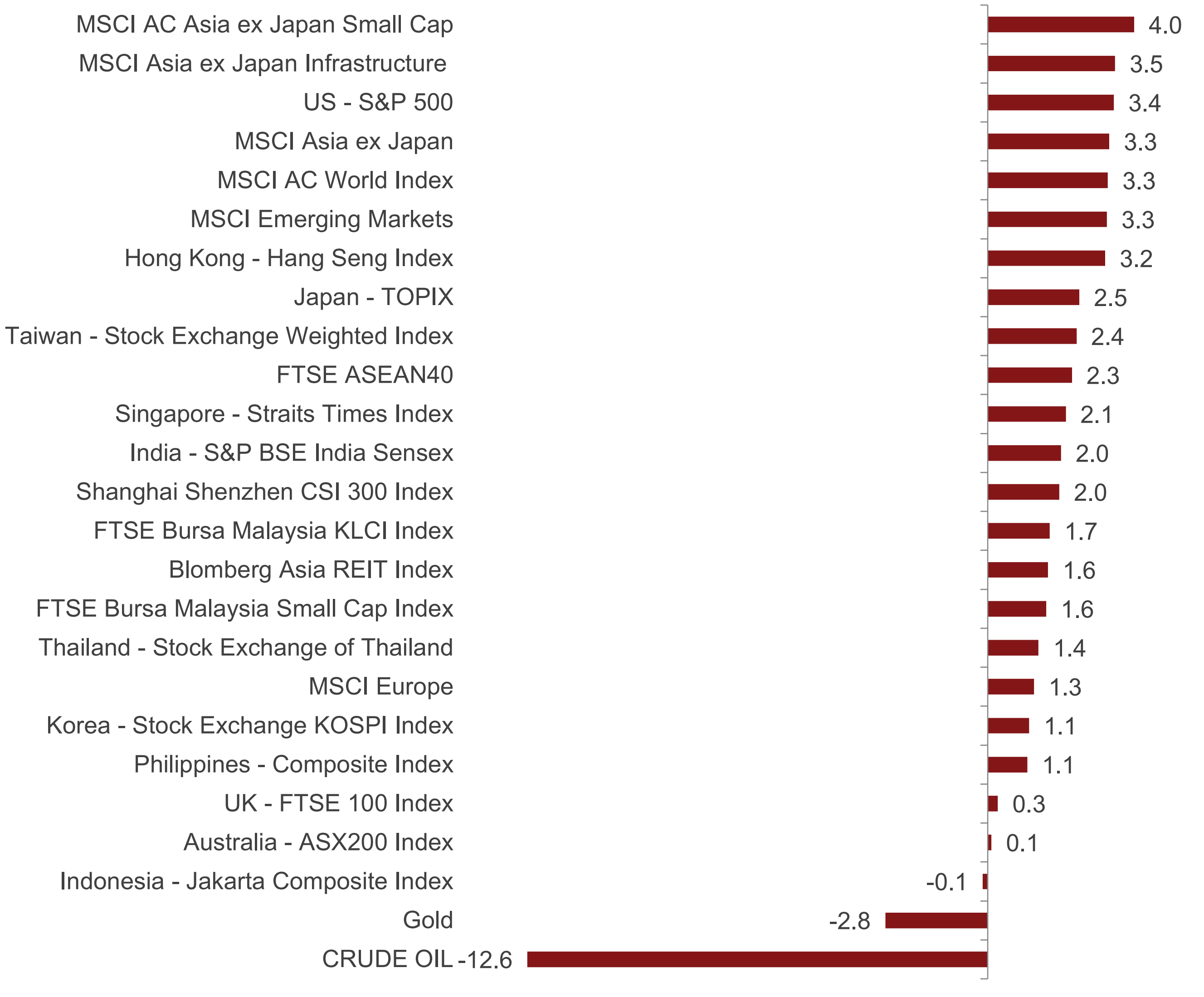
Index Performance | 16 – 20 June 2025



Index Chart: Bloomberg as at 27 June 2025. Quoted in local currency terms.