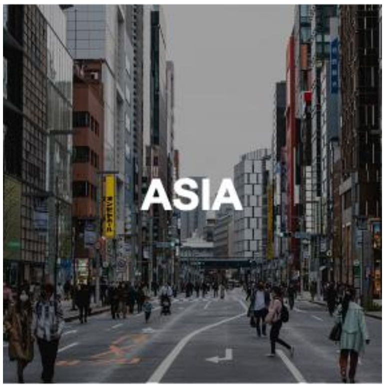
MONTHLY MARKET REVIEW

February 2025

Key Highlights

- The S&P 500 fell 1.40% in February amid economic jitters, while the Nasdaq plunged 4.00% on concerns over AI and semiconductor capex cuts.
- US consumer confidence dropped to its lowest since 2021, with real personal spending contracting 0.5%, adding to growth concerns.
- Trump's proposed tariffs on Canada, Mexico, and China stoked fears, with manufacturers front-loading imports, widening the trade deficit to USD 153 billion.
- Slowing growth drove a sharp rally in US Treasuries, sending 10-year yields down to 4.21%, with markets now pricing in 2–3 Fed rate cuts in 2025.

- MSCI China surged 11.50%, driven by renewed AI and tech optimism, while global hyperscalers raised AI capex forecasts above 30% for 2025.
- Developer sales stabilised in China, but are still 65% below the 4-year average, keeping investors cautious.
- All eyes on the National People's Congress (NPC) with speculation over potential stimulus amid tariff concerns.
- Indonesia tumbled 11.8%, nearing bear market territory, weighed by global trade tensions, a slowing economy, and concerns over the government's social spending plans.



- The FBM KLCI gained 1.10%, despite foreign outflows as investors rotated into China.
- Tech stocks struggle as optimism dimmed after Microsoft's decision to cancel a significant number of data center leases.
- The Johor-Singapore Special Economic Zone (JS-SEZ) was signed, with RM28 billion allocated for development.
- Bonds remain resilient with the 10-year MGS held steady at 3.79%, despite US Treasury yield fluctuations.
- 4Q'2024 GDP was revised higher to 5.0%, supported by strong domestic demand and exports, with 2025 growth expected to stay resilient.

After a strong start to the year, US equities took a breather in February as economic jitters resurfaced. The S&P 500 fell 1.40% amid uncertainty over the economic impact of the US administration's tax and tariff policies. The Nasdaq plunged 4.00% on concerns about reduced capital expenditure in the artificial intelligence (AI) and semiconductor sectors.

Consumer sentiment also weakened, with the Conference Board's Consumer Confidence Index dropping 7 points to 98.3—its lowest level since 2021. Additionally, real personal spending contracted by 0.5%, reversing the previous month's 0.4% gain. These data points contributed to the Atlanta Fed's GDPNow tracker turning negative, signaling softer economic expectations for Q1 2025, though the indicator remains volatile and subject to revisions.

Adding to market angst were renewed trade tensions. Trump proposed a 25% tariff on Canadian and Mexican imports and a 10% tariff on Chinese goods, set to take effect in March. The US trade deficit widened sharply to USD 153 billion in January, up from USD 122 billion in December, as manufacturers front-loaded imports ahead of the tariff implementation. On the inflation front, the core personal consumption expenditures (PCE) index— the Fed's preferred inflation gauge—rose 0.3% in February, in line with expectations, bringing the y-o-y rate to 2.6%.

Concerns over slowing growth triggered a sharp rally in US Treasuries. The 10-year yield fell from 4.54% to 4.21% (bond prices move inversely to yields) fuelling a flight to safety to bonds. With growth expectations softening, market pricing for Fed rate cuts has now shifted to 2–3 cuts this year, up from the previous expectation of 1–2.

Asian equities rose 1.00% in February, driven by strong gains in China. The MSCI China Index surged 11.50%, fuelled by renewed optimism in the country's AI and tech sectors, particularly after DeepSeek's emergence reignited investor interest in the space. Major global hyperscalers reaffirmed their commitment to capex spending for AI, with the forecast for 2025 expected to grow over 30%—well above the initial street projections of 20%.

However, onshore Chinese equities lagged, with the Shanghai Composite Index trailing behind by 2.20%. Concerns over the real estate sector's recovery remain, despite some encouraging property data. Sales among the top 100 developers were flat y-o-y in the first 2months of 2025, suggesting some stabilisation. Though, it is still 65% below the 4-year average.

Investors will be paying close attention to the upcoming National People's Congress (NPC) slated to take place in March. Expectations are low, but that may work in the market's favor. Given the tariff concerns, there is speculation that Beijing may announce further stimulus measures to boost domestic consumption.

Indonesia was the region's worst-performing market, with the Jakarta Composite Index tumbling 11.8% in February, nearing technical bear market territory. A confluence of factors weighed on sentiment, including global trade tensions, a weakening domestic economy, and concerns over President Prabowo planned spending on social programs. Banking stocks also came under pressure following disappointing earnings.

Back home, the local market navigated a volatile month, contending with a barrage of headwinds, including trade tariff concerns and persistent foreign outflows. Foreign investors continued to rotate out of ASEAN markets to fund positions in a resurgent China, adding further pressure. Despite this, the FBM KLCI managed to close the month with a modest gain of 1.10%.

Technology stocks remained under pressure, struggling to find firm footing despite some tentative gains throughout the month. Sentiment took another hit after Microsoft announced plans to cancel a significant number of data center leases, dampening optimism in the sector.

In contrast, the local fixed income market remained calm, largely unfazed by fluctuations in US Treasury yields. The 10-year Malaysian Government Securities (MGS) held steady, closing the month at 3.79%, barely changed from the previous month. Malaysia's final Q4 2024 GDP print was revised higher to 5.0%, up from the initial estimate of 4.8%. The upward revision was primarily driven by stronger domestic demand and net exports, marking a more gradual moderation from the 5.3% growth recorded in Q3 2024. Looking ahead, we expect economic growth to remain resilient in 2025, underpinned by sustained household spending, supported by continued employment gains and wage growth.

Monthly Index Performance

Developed Markets	YTD	1M
Dow Jones Industrial Index	3.05	-1.58
Nasdaq Composite Index	-2.40	-3.97
S&P 500 Index	1.24	-1.42
FTSE 100 Index	7.79	1.57
Tokyo Stock Price Index	-3.69	-3.82

Regional Markets	YTD	1M
MSCI AC Asia (ex-Japan) Index	1.58	0.96
FTSE Straits Times Index	2.85	1.03
Hang Seng Index	14.36	13.43
Shanghai Composite Index	-0.92	2.16
Shanghai Shenzhen CSI300 Index	-1.14	1.91
MSCI China Index	12.59	11.54
Hang Seng China Enterprise Index	15.47	14.02
Taiwan Stock Exchange	0.08	-2.01
Korean Stock Exchange	5.55	0.61
S&P BSE Sensex Index	-6.32	-5.55
Ho Chi Minh Stock Index	3.05	3.19
Thailand Stock Exchange Index	-13.51	-7.88
Jakarta Composite Index	-11.43	-11.80
Philippines Composite Index	-8.13	2.31

Domestic	YTD	1M
FMBKLCI	-4.12	1.14
FBM Small Cap	-11.39	-6.64
FBM EMAS Shariah	-9.36	-2.77
FBM Top 100	-6.27	-0.69

Index Chart: Bloomberg as at 28 February 2025. Quoted in local currency terms.