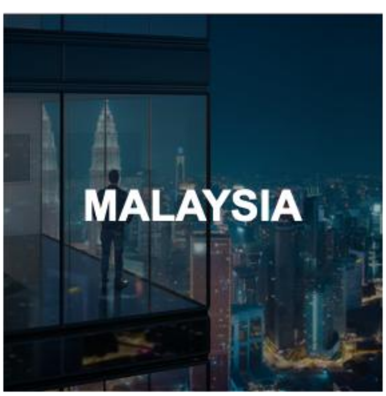
MONTHLY MARKET REVIEW

January 2025

Key Highlights

- US equities rose 2.70% in January, supported by strong job growth and economic optimism.The economy added 256,000 jobs in December, with broad gains in retail and hospitality.
- Trump's return and promises of deregulation and tax cuts further lifted sentiment.
- China's AI firm DeepSeek sparked concerns over the future of AI hardware demand due to its more efficient, low-cost models.
- Despite near-term pressure, lower AI deployment costs could drive broader adoption across industries, ultimately supporting hardware demand over the long-term.

- The MSCI Asia ex-Japan index edged up 0.62% in January, with China providing support.
- China's 4Q GDP grew 5.40%, surpassing expectations, alongside strong retail and industrial output.
- Trump imposed a 10% tariff on Chinese goods, lower than the 60% he had threatened. Beijing responded with 15% levies on US coal and LNG, and an antitrust probe into Google.
- So far, market reaction has been more measured than past trade wars, as global economies are now better prepared.



- The FBM KLCI fell 5.20%, weighed down by selling pressure in the data centre theme.
- US chip export restrictions dampened sentiment, hitting construction and property stocks.
- The Johor-Singapore Special Economic Zone (JS-SEZ) was signed, with RM28 billion allocated for development.
- The MGS 10-year yield closed at 3.80%, supported by domestic institutional demand.
- Bank Negara held the OPR at 3.00%, citing steady growth but flagged downside risks due to trade restrictions.

Global

It was a steady start to 2025 for US equities supported by robust economic data and market optimism following President Trump's return to the White House. However, late-month volatility, particularly in the technology sector, weighed on sentiment where the S&P 500 closed 2.70% in January.

The US economy continued to display strength, adding 256,000 jobs in December, with broad-based gains across retail and hospitality. Trump's promise of deregulation and tax cuts under his 'America First' agenda further helped lift investor optimism.

However, the rally lost steam towards month-end due to significant developments in the artificial intelligence (AI) space. The emergence of China's DeepSeek, an AI company capable of producing efficient, low-cost models, sparked concerns over AI hardware demand. This weighed heavily on semiconductor stocks, particularly Nvidia—the S&P 500's largest constituent— which plunged 17%, erasing nearly USD 600 billion in market capitalisation.

Despite near-term pressure, lower AI deployment costs could drive broader adoption across industries, ultimately supporting hardware demand over the long-term. Enterprises gaining access to AI solutions at reduced costs could accelerate integration, benefitting the broader technology sector over time.

Asia

The MSCI Asia ex-Japan index inched up 0.62% in January, with China's equities providing a degree of support. The MSCI China index gained 0.94%, underpinned by stronger-than-expected economic data. China's fourth-quarter GDP expanded 5.40%, exceeding expectations, while retail sales and industrial output also surpassed forecasts.

In a widely anticipated move, President Trump announced a 10% tariff on Chinese goods. While this represented an escalation in trade tensions, it was notably lower than the 60% tariff he had previously threatened during his re-election campaign. At the time of writing, Beijing said it would retaliate by imposing levies of 15% for US coal and LNG, while also start anti-monopoly investigation into Google.

So far, market reaction to the tariffs this time has been more tempered compared to previous cycles. Lessons from Trump's first term have left global economies better prepared, with China having diversified its supply chains and US industry groups lobbying for trade exemptions. If tariffs ultimately contribute to higher inflation and slower growth, it could pave the way for future rate cuts and a softer US dollar, offsetting some of the near-term headwinds for Asian equities.

Malaysia

The Malaysian market struggled in January, with the benchmark FBM KLCI falling 5.20%. Stocks tied to the data centre investment theme faced selling pressure due to tighter US chip export restrictions, which raised concerns over future demand. Construction and property stocks linked to the sector bore the brunt of the downturn, although valuations have since moderated, offering some degree of support. Greater policy clarity will be needed to drive a meaningful recovery.

Meanwhile, policy momentum continued with the signing of the Johor-Singapore Special Economic Zone (JS-SEZ) agreement. The initiative earmarks RM28 billion for infrastructure development across nine flagship zones, focusing on key industries such as finance and oil & gas. This agreement is expected to enhance cross-border economic integration and drive long-term investment inflows.

The local fixed income market remained steady despite fluctuations in US Treasury yields. The 10-year Malaysian Government Securities (MGS) closed the month at 3.80%, supported by sustained demand from domestic institutional investors. Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00%, citing steady growth and manageable inflation. However, it flagged downside risks, including potential trade restrictions and weaker-than-expected commodity output, which could influence future policy decisions.

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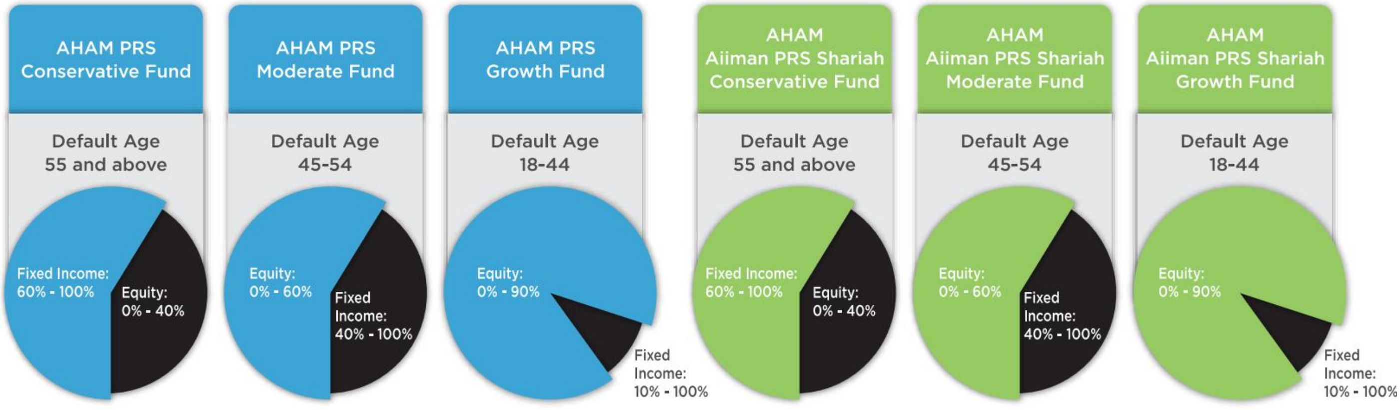

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