March 2025

Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 28 February 2025

Over the month

Equities

Global

- MSCI Europe Index led major equity markets in February with a 3.5% month-on-month (MoM) gain, bolstered by optimism surrounding Russia-Ukraine peace talks and expectations of further interest rate cuts from the European Central Bank (ECB).
- Conversely, United States (US) S&P 500 Index declined 1.4% MoM, partially reversing January's gains, as investors digested a busy earnings season and NVIDIA Corporation's (NVDA) forward guidance.

Asia Pacific

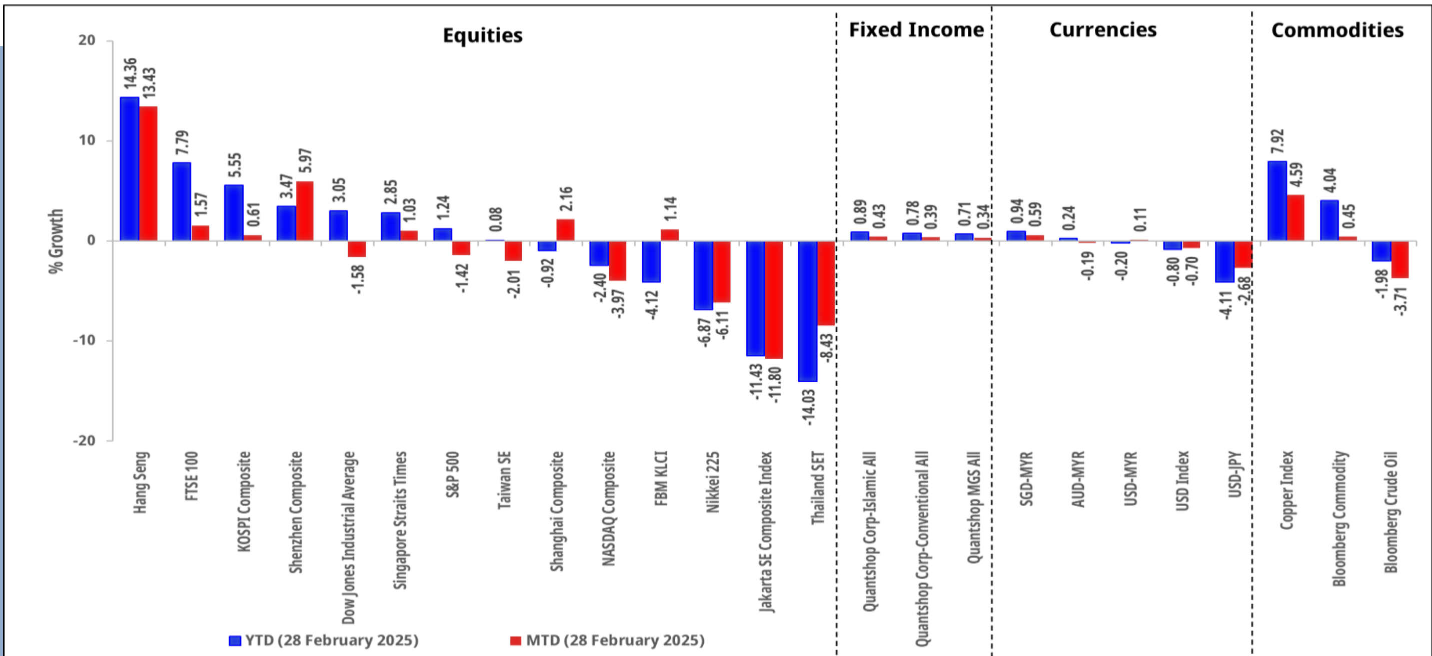
- Hang Seng Index jumped 13% MoM in February with DeepSeek's technological breakthrough improving market sentiment, specifically on tech firms.
- Conversely, Jakarta Stock Exchange Composite Index, Nikkei 225 and NIFTY 50 Index fell 6% to 12%, impacted by Indonesian budget cuts, sluggish growth and persistent foreign outflows respectively.

Malaysia

- FTSE Bursa Malaysia (FBM) KLCI gained 1.1% MoM in February, supported by financials and plantation sectors with the former led by healthy loan growth and the latter benefited from rising Crude Palm Oil (CPO) prices.
- Additionally, construction sector saw a relief rebound, driven by the progressing development of ongoing Data Centre (DC) jobs and the emergence of new DC tenders, offering some assurance on near-term DC development prospects in Malaysia.

Fixed Income

- In the month of February, US bond market extended its rally momentum as investors were probably unwinding some inflation fears (at least temporarily) from Trump policy with the back-and-forth negotiations on tariffs and shifting goal posts. The market was also buoyed by the weak economic data and the risk off sentiment driven by a sell-off in US equities towards the end of month on growing concerns about the economy growth. Overall, US Treasury (UST) 2Y and 10Y yields declined 21 basis points (bps) MoM and 33 bps MoM to 3.99% and 4.21% respectively.
- Back home, Malaysia's final 4Q Gross Domestic Product (GDP) report came in at 5.0% year-on-year (YoY), above the advance estimate and Bloomberg consensus of 4.8% YoY. Headline inflation maintained at 1.7% YoY in January, slightly below Bloomberg consensus of 1.8% YoY. Looking ahead, 2025 inflation is likely to remain benign, although upside risk could come from the government's subsidy rationalisation plans, demand-led price pressure from higher wages and external factors.
- The domestic bond market was a tad stronger for the month, tracking the direction of US market albeit at a smaller magnitude. All four government bond auctions, 30Y Malaysian Government Securities (MGS) reopening, 7Y Government Investment Issue (GII) reopening, 20Y MGS reopening and 5.5Y new GII issue garnered healthy bid-to-cover ratios of 2.4x, 2.9x, 3.0x and 3.2x respectively. Overall, 3Y, 5Y and 10Y MGS yields declined 2-3 bps MoM to 3.43%, 3.58% and 3.79%.



Sources: Lipper and Quant Shop, as at 28 February 2025

Equities : Outlook & Strategy

Global

- Reflecting Moore's Law, DeepSeek's innovations propel Artificial Intelligence’s (AI) continuous advancement.
- Although the innovation could be potentially disruptive in the near-term, these breakthroughs ultimately expand AI's reach.
- Consequently, the long-term demand for crucial infrastructure, such as DCs and hardware, remains robust, ensuring a strong growth trajectory for AI.

Asia Pacific

- Asian software application and internet names, especially Chinese large caps and selected Korean internet companies, are anticipated to receive near-term support through sector rotation.

Malaysia

- Financials and utilities remain our core portfolio sectors, and we are adding healthcare to diversify against near-term volatility arising from external trade policy uncertainties.

Fixed Income : Outlook & Strategy

Malaysia

- We remain mindful that UST market direction could change abruptly depending on economic data and the unpredictable nature of Trump policy.

- However, we expect domestic bond market to continue to trade with low beta versus the UST given support from ample domestic liquidity.

- We maintain expectation that Overnight Policy Rate (OPR) would remain unchanged and government bond supply would be lower this year on fiscal consolidation.

- These domestic factors should continue to provide support to the bond market.

- We maintain our strategy to overweight high credit quality corporate bonds over government and government guaranteed papers for yield pickup.

- We will selectively participate in primary issuances and continue to look for trading opportunities on both government and corporate bonds.

Notes: Y = Year
Q = Quarter

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