

Kenanga Investors

Market Review and Outlook

As of February 2025

Equity Market Review

January 2025 kicked off with cautious optimism in global equity markets, with the Dow Jones, S&P 500 and Nasdaq rising 4.7%, 2.7% and 1.6% month-on-month (MoM) respectively. However, technology and related stocks came under pressure due to a knee-jerk reaction following the Biden administration's release of the Interim Final Rule (IFR) on Artificial Intelligence (AI) Diffusion. Global stocks rose as investors reacted positively to US President Trump's inauguration on 20 January 2025, who hinted at a potentially softer approach toward tariffs on China. Subsequently towards the end of the month, stock markets retreated following the release of DeepSeek, an open-source large language model (LLM) developed by a Chinese quant fund. DeepSeek's strong performance against other LLMs raised concerns about the need for large global AI capex. Meanwhile, the US Federal Reserve (Fed) held its policy rate steady at 4.25%-4.50% during its first Federal Open Market Committee (FOMC) meeting of the year on 28-29 January. Europe emerged as the best performing market with Euro STOXX 50 gaining 8% MoM as investors reallocated funds from high-valued US technology stocks to European equities, attracted by comparatively lower valuations and a more diversified sector exposure. Additionally, the Bank of England's steady policy stance and expectations of rate cuts later in the year contributed to the positive market momentum.

In Asia, the MSCI Asia ex-Japan index recorded a marginal 0.6% MoM gain supported by strong performances in South Korea (KOSPI: +4.9% MoM), Australia (ASX 200: +4.6% MoM), Taiwan (TWSE: +2.1% MoM), Singapore (STI: +1.8% MoM), Hong Kong (HSCEI: +1.3% MoM, HSI: +0.8% MoM), and Indonesia (JCI: +0.4% MoM), offset by declines in the Philippines (PCOMP: -10.2% MoM), Thailand (SET: -6.1% MoM), China (SHCOMP: -3.0% MoM, SHSZ300: -3.0% MoM), India (SENSEX: -0.8% MoM) and Japan (Nikkei 225: -0.8% MoM). The Chinese market experienced a selloff after the US added Tencent/CATL to its list of Chinese firms allegedly aiding Beijing's military. However, the market rebounded from mid-January onwards driven by several positive developments including less-than-feared tariff decisions announced by President Trump, China's 4Q24 GDP growth of 5.4% year-on-year (YoY) which exceeded the consensus estimate of 5.0% and the release of DeepSeek R1 which boosted sentiment toward China's AI competency.

January 2025 marked Malaysia's worst start to a year since 1995, with the FBM Small Cap/KLCI/FBM 100/FBM Shariah declining 5.1%/5.2%/5.6%/6.8% MoM respectively, making Malaysia one of the worst-performing markets in ASEAN. Rising external risks triggered a sharp selloff in Malaysia's data centre-related stocks and AI-linked proxies. Malaysia's advance 4Q24 GDP growth moderated to +4.8% YoY (3Q24: +5.3% YoY), below the consensus estimate of +5.2% YoY. Meanwhile, Malaysia recorded the largest net foreign outflows among emerging ASEAN markets in January totalling -US\$702 millions, marking the fourth consecutive month of outflows. Foreign ownership of Malaysian equities currently stands at 19.4% (vs 19.7%/23.1% in end-2024/2019).

Equity Market Outlook & Fund Strategy

Among commodities, Brent crude prices rose 2.8% MoM to USD 76.8 per barrel, driven by heightened expectations of oil supply disruptions following the latest US sanctions on Russian energy trade. Meanwhile, crude palm oil (CPO) declined 3.6% MoM as sluggish demand from top buyer India and the premium pricing of palm oil over soy oil led many buyers to opt for the latter.

Investors will focus on the Trump administration's stance on trade, fiscal policies, and immigration, as well as potential shifts in the regulatory framework, which will emphasise the 'America First' philosophy. This approach could come at the expense of other nations, particularly those with large trade surpluses with the US, such as China. On monetary policy, the Fed is turning hawkish and has halved the interest rate cut expectations for 2025 to 50bps, bringing the Fed funds rate to 3.9%. Any further cuts would likely require real progress on inflation or signs of weakness in the labour market. In Malaysia, we continue to remain optimistic on growth going into 2025, driven by rising investment in infrastructure and property, energy transition roadmap, and strong foreign direct investment (FDI) inflows.

Given the growth outlook, we remain positive but focused more on stock picking for 2025. We still like sectors such as financials, construction, property, new energy, utilities, healthcare and consumption. We are selective in the technology space, as despite near term headwinds, it is the key beneficiary of long-term secular growth trends such as automation, EVs and supply chain relocation.

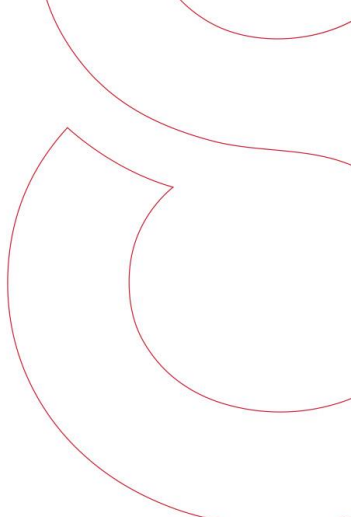
About Kenanga Investors Berhad

We provide investment solutions ranging from collective investment schemes, portfolio management services, alternative investments, as well as wills and trusts for retail, corporate, institutional, and high net worth clients via a multi-distribution network.

At the **LSEG Lipper Fund Awards Malaysia 2025**, KIB received awards for the Kenanga DividendExtra Fund ("KDEF") under the Best Equity Malaysia Diversified – Malaysia Funds over 3 years, Kenanga Malaysian Inc Fund ("KMIF") under the Best Equity Malaysia Diversified – Malaysia Provident Funds over 10 years, Kenanga Balanced Fund ("KBF") under the Best Mixed Asset MYR Balanced – Malaysia Provident Funds over 10 years, Kenanga Managed Growth Fund ("KMGF") under Best Mixed Asset MYR Flexible – Malaysia Provident Funds over 10 years, and Kenanga SyariahEXTRA Fund ("KSEF") under the Best Mixed Asset MYR Balanced – Malaysia Islamic Funds Awards over 10 years.

The Hong Kong-based Asia Asset Management's **2025 Best of the Best Awards** awarded KIB under the following categories, Malaysia Best Impact Investing Manager, Best Impact Investing Manager in ASEAN, Malaysia Best Equity Manager, Malaysia CEO of the Year (Co-Winner), Malaysia CIO of the Year, Malaysia Best House for Alternatives, Malaysia Best ESG Engagement Initiative, Malaysia Fund Launch of the Year, and Malaysia Best Retail Asset Management Company.

The **FSMOne Recommended Unit Trusts Awards 2024/2025** has awarded the Kenanga Growth Fund Series 2 with the "Sector Equity – Malaysia Focused" award for the third consecutive year since 2022. **We were also recognised at The BrandLaureate BestBrands Awards 2024 - Brand of the Year under the category Wealth Management & Investment Solutions.** For the eighth consecutive year, KIB was affirmed an investment manager rating of IMR-2 by Malaysian Rating Corporation Berhad, since first rated in 2017. The IMR rating on KIB reflects the fund management company's well-established investment processes and sound risk management practices.



Disclaimer: Investors are advised to read and understand the Master Prospectuses (“MPs”), the Supplemental Master Prospectus (“SMP”) (if any), Information Memorandums (“IM”) (if any), Schemes’ Disclosure Documents (“DD”), Supplemental Disclosure Documents (“SDD”) (if any), Product Highlights Sheets (“PHS”) as well as consider the fees, charges and risk factors involved before investing. The MP, SMP (if any), IM (if any), DD, SDD (if any) and PHS have been registered and/or lodged with the Securities Commission Malaysia (“SC”), who takes no responsibility for its contents and related advertisement or marketing materials, and does not indicate that the SC has recommended or endorsed the product/service. The advertisement has not been reviewed by the SC. Investors have the right to request for a copy of PHS and other relevant product disclosure documents which are available at our office, at any authorised distributors and our corporate website before making investment decisions. If you are in doubt when considering the investment or any of the information provided, you are advised to consult a professional adviser. A Fund’s track record does not guarantee its future performance. Kenanga Investors Berhad is committed to prevent conflict of interest between its various businesses and activities and between its clients/director/shareholders and employees by having in place procedures and measures for identifying and properly managing any apparent, potential and perceived conflict of interest by making disclosures to Clients, where appropriate.

Kenanga Investors Berhad

Company No: 199501024358 (353563-P)
Level 14, Kenanga Tower,
237, Jalan Tun Razak,
50400 Kuala Lumpur, Malaysia
Toll Free: 1-800-88-3737