Market Review & Outlook

March 2025

(as of 31 March 2025)

Overview

The United States ("US") Federal Reserve ("Fed") during its Federal Open Market Committee ("FOMC") meeting held on March 18–19, 2025, maintained the Fed Funds Target Rate ("FFTR") at a range of 4.25%-4.50% for the second straight meeting, in line with market expectations. The Fed's dot plot continued to show the median view of the FFTR for year 2025 remained unchanged at 3.90% level (i.e. two 25 basis points ("bps") rate cuts implied in 2025). However, it is notable that the individual projections suggest a more hawkish stance compared to the previous dot plot with the number of cuts (based on individual projections) has been pared back as FOMC committee members awaited the impact of the then yet unannounced tariffs.

US headline Consumer Price Index ("CPI") cooled slightly more than expected after a hot January print, rising by 0.20% Month-on-Month ("MoM") and 2.80% Year-on-Year ("YoY") in February. With core CPI (excluding food and energy prices) also rose at a slower pace, coming in at 0.20% MoM and 3.10% YoY in February, the lowest YoY pace for core CPI since April 2021 (3.00%), back when US inflation started to accelerate. In addition, the Fed's preferred inflation measure - the Personal Consumption Expenditures ("PCE") index rose 0.30% MoM and 2.50% YoY during the corresponding period, in line with forecasts. The core PCE price index, showed a 0.40% MoM increase in February, bringing the 12-month inflation rate at 2.80%.

In terms of US employment conditions, the latest US labour market data released in March painted a somewhat bleak picture, with Bureau of Labor Statistics ("BLS") reported a slightly weaker-than-expected jobs creation at 151,000 in February (below the median estimate of 160,000); while unemployment rate also surprised with an uptick to 4.10% (from 4.00% in January), as the number of unemployed persons rose by 203,000 to 7,052,000 (January: +37,000 to 6,849,000).

As widely expected, the European Central Bank ("ECB") cut interest rates by 25 bps at its March meeting, marking its sixth rate move since June 2024. Accordingly, the interest rates on the deposit facility, main refinancing operations and marginal lending facility were lowered to 2.50%, 2.65% and 2.90%, respectively. At the same time, the European Union has announced a pause on countermeasures to US tariffs of up to 90 days (from 15 April 2025) in response to the US delaying its so-called 'reciprocal tariffs' by 90-days.

Malaysia

While the latest U.S. tariffs are expected to exert a negative drag on both global and domestic growth, consensus expectations have not yet shifted currently. The latest consensus forecast for Malaysian Gross Domestic Product ("GDP") growth stands at 4.70% for 2025 and 4.60% for 2026, following actual growth of 5.10% in 2024.

In its 2024 Annual Report, Bank Negara Malaysia ("BNM") maintained its official GDP growth forecast for 2025 at 4.50% to 5.50% YoY (2024: 5.10% YoY) after considering the positive spillovers from global tech upcycle, which is expected to drive domestic growth and offset the external uncertainties related to a more restrictive US trade policy. BNM also maintained its 2025 inflation rate forecast at 2.00% to 3.50%. This forecast reflects the upside risk to inflation amid ongoing domestic policy reforms measures and price adjustments such as RON95 petrol subsidy rationalisation, electricity tariff review and foreign labour costs.

Inflation averaged a subdued 1.80% in FY2024. Going into 2025, the official inflation estimate is 2.00% to 3.50%. Latest headline inflation prints were 1.70% YoY in January 2025 and 1.50% in February 2025. The labour market remains healthy at this point with the latest unemployment at 3.10% for January 2025 (December 2024: 3.10%), near decade low.

On 6 March 2025, BNM held the Overnight Policy Rate ("OPR") steady at 3.00%, issuing a neutral policy statement as widely expected. BNM continued to maintain its monetary policy stance and believes that the current OPR level remains supportive of the domestic economy amid external headwinds from US trade policy uncertainties.

We believe that as the US tariff and other policies significantly weaken both global and domestic growth outlook, central banks globally including BNM may be compelled to cut interest rates this year to stimulate the economy.

Bond Market Review

As aggressive US trade policies materialised during the first quarter of 2025, the Malaysian bond market rallied, while the US Treasury yield curve steepened as concerns over tariffs, higher inflation expectations and slowing economic growth in US prompted investor to seek refuge in safer assets. The US Treasury curve saw yield declined by 1-10 basis points ("bps") from the front end up to the 10-year segment. Domestically, strong liquidity conditions continued to support demand.

The MGS 3-Year yield rallied 11.90bps Quarter-on Quarter ("QoQ") to 3.3845% and the MGS 7-Year yield rallying 24.70bps QoQ to 3.5580%. Other tenures were also buoyed, with the MGS 5-Year yield down 7.35bps QoQ to 3.5675%, MGS 10-Year yield down 5.25bps QoQ to 3.7720% and the ultra-long MGS 30-Year yield down 5.85bps QoQ to 4.1500%.

Equities Market Review

The FBMKLCI declined -7.8% in the first quarter of 2025, while the broader FBM100 declined -9.4%. The sectors that best withstood the decline of the FBMKLCI were REITS and Plantations, while the worst impacted were Technology and Healthcare. Conversely, MSCI Asia ex-Japan and MSCI Emerging Markets were up 1.40% and 2.40% respectively, driven by large emerging economies such as China and India. The global uncertainties together with flight to safety saw net foreign selling in Malaysia amount to RM10.0 billion.

Equity markets, which were already weak, plummeted post end of quarter after Trump announced the Liberation Day tariffs on 2 April and have been see-sawing with tit-for-tat exchanges between the US and China. A 90-day pause (excluding China) has been announced for reciprocal tariffs, but the broad 10% tariff remains in place.

Strategy

The current US labour market appears to be at full employment and with Trump's inflationary policies, the Fed is likely to be more cautious about cutting interest rates. The Malaysian bond market is expected to remain rangebound in the absence of significant catalysts, with BNM maintaining the OPR at 3.00% throughout 2025.

We are maintaining a slight overweight in duration relative to benchmarks, strategically seeking value opportunities along the yield curve. In terms of security selection, our focus will be on corporate bonds to achieve additional yield pickup while balancing risk and return.

Trump's Liberation Day tariff announcements along with the subsequent 90-day pause for reciprocal tariffs for all countries except China have certainly roiled equity markets with massive swings. World GDP forecasts are being revised downward, and the probability of a US recession rose to 40%, before the 90-day pause announcement. With the US-China trade war, we expect Beijing to implement stepped-up fiscal and monetary policies to mitigate external shocks.

We remain vigilant in this dynamic environment, which is now dominated by tariff announcements and trade negotiations. Our investment focus is on sectors and stocks that benefit from domestic consumption and domestic policies. Tactical opportunities may arise as individual countries negotiate and strike deals with the US.

Despite the heightened tensions, we are cautiously positive on Malaysian equities, as it's supported by dividend yield which provides defensive qualities that can better withstand external uncertainties relative to some regional markets. In addition, the reciprocal tariff of 24% imposed on Malaysia by US is among the lowest in the region, creating a competitive advantage for Malaysia.

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