

May 2025

Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 30 April 2025

Over the
month

Equities

Global

- April saw global markets heavily influenced by United States (US) tariff announcements.
- President Trump's initial proposal of reciprocal tariffs on 2 April 2025 sparked stagflation concerns, leading to a significant intra-month equity sell-off.
- However, the subsequent 90-Day pause on these reciprocal tariffs (though the 10% baseline remained) triggered a market rebound, with NASDAQ Composite outperforming at +0.9% while the S&P 500 Index recorded -0.8% and small-caps underperformed at -2.4% due to recessionary fears.

Asia Pacific

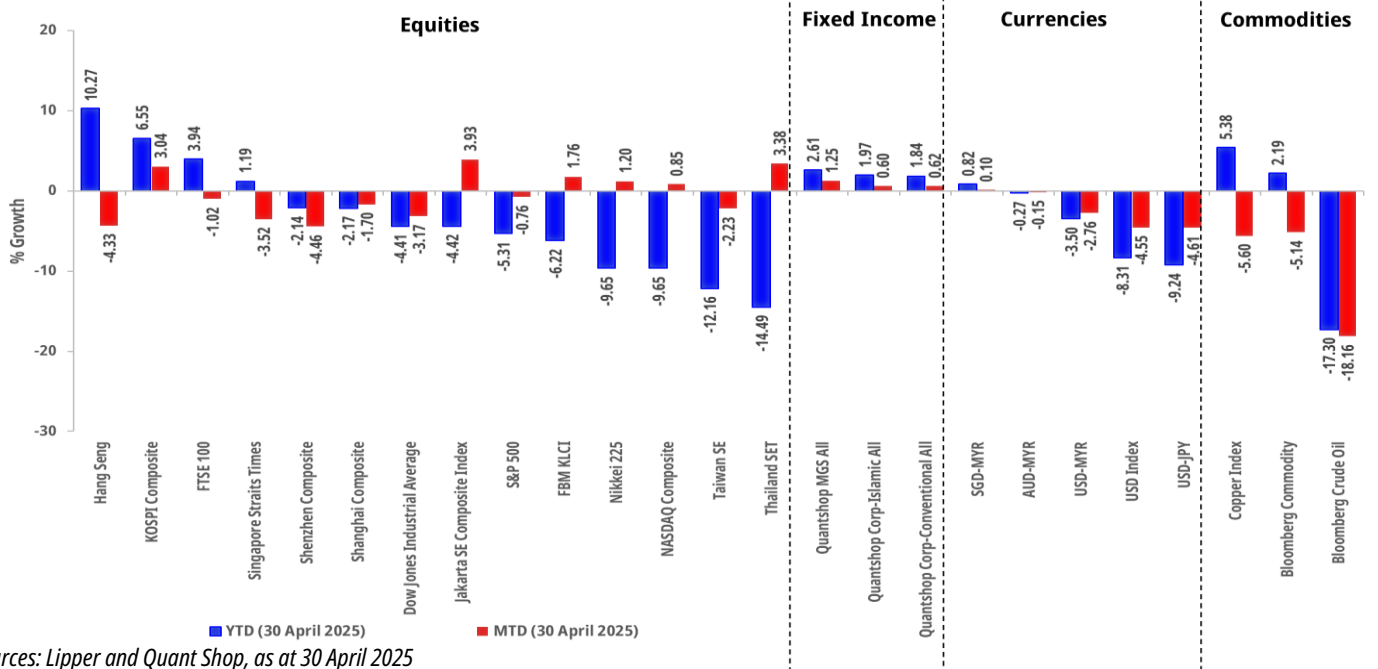
- Within Asia Pacific, performance was volatile and uneven.
- MSCI China Index declined by 4.6% due to escalating trade tensions, and Taiwan SE Weighted Index fell by 2.2% amid semiconductor tariff threats. In contrast, Australia, South Korea and most Southeast Asian markets exhibited more resilience.
- The potential for significant US tariffs is a major concern, effectively implying a trade embargo. Chinese policymakers reaffirmed their supportive stance during the April Politburo meeting, signalling readiness for economic stimulus pending clarity on tariff policies.

Malaysia

- FTSE Bursa Malaysia (FBM) KLCI rebounded by +1.7% in April, led by the telecommunications and consumer-related sectors, which are less exposed to the proposed reciprocal tariffs.
- Local buyers are expected to continue providing liquidity, suggesting relatively lower downside risk for the Malaysian market.

Fixed Income

- On 2 April 2025, Trump announced his "Liberation Day" reciprocal tariffs for the world that was deemed significantly more punitive than market expectation. The tariffs coupled with retaliation from China sent global stock markets crashing and bond yields collapsing. However, investors subsequently sowed doubts over the haven status of US government debt, triggering a spike in long-end US Treasuries (UST) yields before a gradual recovery approaching month end. Overall, UST yield curve bull steepened, with 2Y and 10Y yields declining 28 basis points (bps) and 5 bps month-on-month (MoM) to 3.60% and 4.17%.
- Back home, the domestic bond market was also spooked by the outsized US tariff on Malaysia, causing sharp moves in bonds during the month. The start of the month saw an aggressive bond rally as market swiftly priced in Overnight Policy Rate (OPR) cut by Bank Negara Malaysia (BNM) in response to tariff escalation and global economic uncertainties. The bond market then unwound some rate cut positions following BNM's comments that the policy rate is not the right tool to mitigate tariffs. However, subsequent release of a lower-than-expected Malaysia 1Q 2025 Gross Domestic Product (GDP) print at 4.4% year-on-year (YoY) (vs 4.8% consensus) and softer inflation at 1.4% (vs 1.6% consensus), again raised market conviction for a potential rate cut by BNM this year.
- All three government auctions in April garnered healthy demand, with 20Y Government Investment Issue (GII) and 5Y Malaysian Government Securities (MGS) reopening registering bid-to-cover ratios of over 3.00x. However, the new issue of 10Y GII was relatively softer at 1.98x as yields had declined sharply on auction day. Overall, MGS market closed the month strong, with 3Y, 5Y and 10Y yields declining by 12 bps, 24 bps and 11 bps to 3.26%, 3.33% and 3.66% respectively.



Sources: Lipper and Quant Shop, as at 30 April 2025

Equities : Outlook & Strategy

Global

- While recessionary fears persist in the US, the National Bureau of Economic Research (NBER) data indicates ongoing economic expansion with continued job growth.
- Policy uncertainties, including potential government employee cuts and immigration policies, are weighing on business and household confidence.
- The Federal Reserve (Fed) maintained interest rates but lowered GDP forecasts and raised inflation forecasts, with the dot plot still indicating two rate cuts in 2025, considered more hawkish.

Asia Pacific

- China's leadership reiterated its commitment to supporting the domestic economy during the late April Politburo meeting, although specific policies were not announced.
- Increased fiscal support for tariff-impacted sectors and spending plans to boost consumption are anticipated.
- Central banks in the region have also been easing monetary policy to buffer growth.

Malaysia

- A defensive strategy is advised amidst market uncertainties, focusing on large-cap stocks with attractive dividend yields.
- Selectively considering beaten-down sectors like consumer and construction, due to their attractive yields and stable earnings, could also be prudent.

Fixed Income : Outlook & Strategy

Malaysia

- Looking ahead, UST would remain volatile with uncertainties around Trump's policies and responses from its trading partners.
 - Domestically, the bond market should continue be supported given the lingering downside risk to growth.
-
- We continue 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*

Disclaimer: This market commentary has not been reviewed by the Securities Commission Malaysia. This publication shall not be copied, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment products, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, Hong Leong Asset Management Bhd and its employees cannot be held liable for any errors, inaccuracies and/or omissions, howsoever caused, or for any decision or action taken based on views expressed or information in this publication. The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available as at the date of this document and reflects prevailing conditions and our views as of the date of the document, all of which are accordingly subject to change at any time without notice.

Hong Leong Asset Management Bhd does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any errors, inaccuracies or omissions. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. The investor may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment products. Should the investor choose not to seek such advice, the investor should consider whether the investment in question is suitable for the investor. Investors shall also be aware of risks associated with the investment before making any investment decision. Hong Leong Asset Management Bhd, its associates, directors, connected parties and/or employees may from time to time have interest and/or underwriting commitments in the investment mentioned in this document.