

June 2025

Monthly MARKET OUTLOOK

Market Review | Equities | Fixed Income as at 31 May 2025

Over the
month

Equities

Global

- Moody's downgraded the United States (US) from AAA status to AA1, the last major credit rating agency to do so following Standard & Poor's (S&P) and Fitch downgrades in 2011 and 2023.
- Moody's cited the increase in government debt and rise in interest costs as reasons for the adjustment.
- The immediate market reaction saw stocks sell off and long-term interest rates rise with the 30-Year US Treasury (UST) yield jumping to over 5%.

Asia Pacific

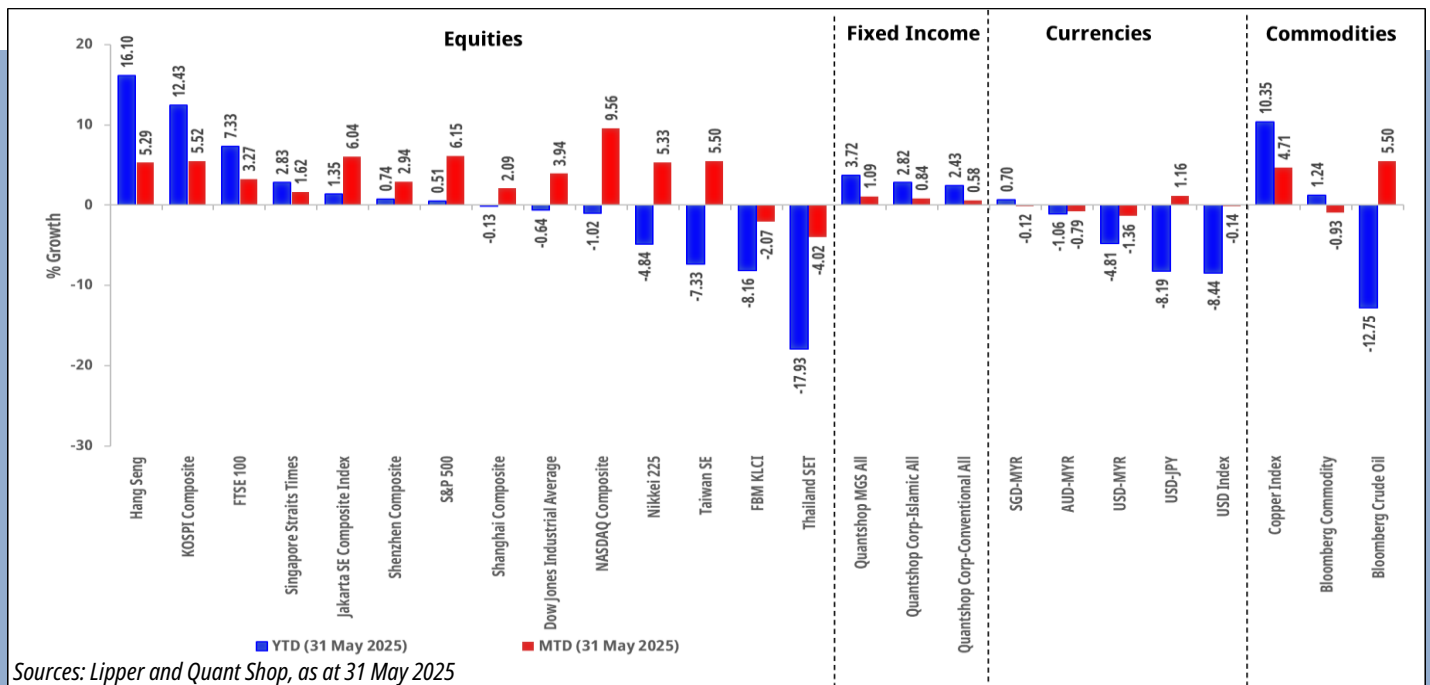
- Despite the broader global challenges, several Asian economies continued to demonstrate notable resilience, underpinned by robust domestic demand and, in some cases, surprisingly strong trade performance.
- This suggests an ability to absorb external shocks better-than-anticipated. On 12 May 2025, yet another twist to Trump's global trade war there has finally been some positive news on the US-China front.
- The US will cut the additional tariffs of 145% imposed on China so far this year to 30% while China will lower new tariffs imposed from 125% to 10%, while keeping existing sectoral tariffs on steel/aluminium and autos at 25%.

Malaysia

- Bank Negara Malaysia's (BNM) decision to maintain the Overnight Policy Rate (OPR) at 3.00% signals the central bank's confidence in Malaysia's domestic growth trajectory and its assessment of manageable inflation.
- This provides a stable monetary backdrop for economic activity.
- Foreign institutions re-enter the Malaysian market soon after the tariff announcements, with outflows reversing towards the end of April 2025.

Fixed Income

- In the May 2025 Federal Open Market Committee (FOMC), the Federal Reserve (Fed) kept interest rates unchanged at 4.25%-4.50% range amid stabilised low levels of unemployment, still solid labour market and cooler inflation data. The US Trump administration's tariff war with China saw a temporary agreement in mid-May to reduce tariffs for 90 days. However, trade tensions escalated as ongoing negotiations take place during the hold off period, prolonging market uncertainty. In addition, Moody's downgraded the US sovereign rating to AA1 from AAA, citing rising debt concerns and widening deficits, which resulted in 30Y USTs yield peaked at 5.09% before retreating back to 4.93% at month-end. 2Y and 10Y UST yields rose 30 basis points (bps) and 24 bps month-on-month (MoM) to 3.90% and 4.40% respectively as the market continues to assess the trade war developments and seek out hard economic data.
- Malaysia's headline inflation in April 2025 stayed put at 1.4%, though marginally lower from February's 1.5%. BNM maintained the OPR at 3% but lowered Statutory Reserve Requirement (SRR) ratio by 100 bps from 2% to 1% effective 16 May 2025. We continued to see the bond market extended its rally on the back of investors' confidence on the strong domestic economic data and market also priced in a potential OPR cut by BNM in the second half of the year. 3Y, 5Y and 10Y Malaysian Government Securities (MGS) yields moved downwards to 3.16% (-10 bps), 3.21% (-12 bps) and 3.52% (-14 bps) respectively.



Equities : Outlook & Strategy

Global

- The intensification of US tariffs by the Trump administration has amplified global trade frictions.
- This policy shift is poised to exert upward pressure on inflation through increased import costs and disruptions to global supply chains, presenting a significant challenge for consumers and businesses alike.
- Major central banks, notably the Fed, maintained a cautious and data-dependent stance on monetary policy.
- Their decision to hold interest rates steady reflects a "wait-and-see" approach, aiming to balance inflation concerns with the need to support economic stability amidst global uncertainties.

Asia Pacific

- Despite the broader global challenges, several Asian economies continued to demonstrate notable resilience, underpinned by robust domestic demand and, in some cases, surprisingly strong trade performance.
- This suggests an ability to absorb external shocks better-than-anticipated.

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

- We expect UST yields to remain volatile and to stay elevated in the near term amid uncertainties surrounding ongoing trade negotiations, federal spending policies and rising US government debt concerns.
 - On the local front, the bond market should continue to be supported given the lingering downside risk to growth.
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- 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 shall look for trading opportunities on both government and corporate bonds.

Note: Y = Year

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