

## Kenanga Investors

# Market Review and Outlook

As of May 2025

### Equity Market Review

Markets were volatile in April in the wake of President Trump's Liberation Day, which saw a minimum 10% tariff announced on imports from 60 specific countries based on a combination of their tariffs, VATs or government support, triggering uncertainty and concerns for global trade. Equity markets sold off at the start before recovering after as additional reciprocal tariffs that were supposed to become effective from 9 April was then put on hold for 90 days except for China, which was imposed a higher tariff at 145%. News on tariffs and their market impact was global and daily, as reactions to rumours, commentary and actions were at historically high levels. Sentiment was supported by better-than-expected earnings reports from several large-cap tech companies, though this was dampened at month-end by the announcement of the US's 1Q25 GDP contracting at -0.3% year-on-year ("YoY") for the first time since 2022, due to a monumental pre-tariff import surge. Overall, the S&P 500 and Dow Jones fell -0.8% and -3.2% respectively, while the Nasdaq rose slightly at 0.9%.

Over in Asia, the MSCI Asia Ex Japan rose slightly at 0.5%, as China/HK dragged due to the tariff announcement, with the Hang Seng and Shenzhen declining by -4.3% and -3.0% respectively. This came on the back of the 145% import tariff placed on China, which was met with a 125% reciprocal tariff on American imports by China. China's economy posted stronger-than-expected growth in 1Q25, with GDP expanding 5.4% YoY outperforming forecasts thanks to a surge in exports. In other Asian markets, gainers were Indonesia, India and Australia which grew 3.9%, 3.7% and 3.6% respectively, while Singapore declined by -3.5% due to the combined impact of Trump's reciprocal tariff threat coinciding with earnings missed by Singapore banks.

Domestically, the KLCI rebounded, rising 1.8% reaching its highest level of 1,540 points since before the US reciprocal tariffs announcement. Markets were volatile with the KLCI plunging 7.5% to a low of 1,400 points on 9 April (the effective date of the reciprocal tariffs), before rallying sharply after Trump paused the implementation of steep tariffs for 90 days on 10 April and signalled willingness to negotiate on trade. Foreign net selling declined -59% month-on-month ("MoM") to RM1.89 billion in April, down from a record RM4.6 billion in March, bringing the 4M25 cumulative foreign outflow to RM11.8 billion – 2.8x higher than the RM4.2 billion recorded for the entirety of 2024. By sector, the telecommunications, consumer, and healthcare indices were the top gainers, while energy, transport, and technology underperformed.

Amongst commodities, Brent Crude Oil plunged -11.5% MoM to USD63.1 per barrel, as escalating trade tensions between the US and China stoked fears of a recession that would reduce demand for crude. Sentiment was further dampened by planned production increase by OPEC+ in its upcoming May meeting. Meanwhile, crude palm oil (CPO) declined -11.5% MoM to RM3,911 per tonne, largely attributed to expectations of rising production and

weakening soybean oil prices. Gold was the largest beneficiary, driven by its appeal as a safe haven during global uncertainty, marking a new all-time high at \$3,500 on 22 April.

## Equity Market Outlook & Fund Strategy

While the exact tariff policies are still being negotiated, the overall rise in tariffs will be a drag to global trade and growth. Additionally, the uncertainty ahead of actual implementation could cause a slowdown in business activity and spending. Hence, the US GDP growth has been downgraded by analysts, with current consensus at +1.4% for 2025 from 2.8% last year. While actual impact on inflation is still uncertain, analysts also expect that core PCE could rise by 100-150bps to 4.7% by year end.

The focus in the near term will shift to bilateral negotiations and retaliations, with the escalation between the US and China a key factor to watch. In the near-term, the Federal Reserve (Fed) is likely to monitor the situation before making any moves, as it has to balance between higher inflation in the short term and anticipated weaker growth from the tariff shock.

In light of the increased external uncertainties, Malaysia's GDP growth and corporate earnings are subject to likelihood of downward revision. Particularly, the export-oriented sectors are expected to bear the brunt of the direct US tariffs and stronger Ringgit, as well as the spillover effects from escalating tensions and second-order demand destruction. On the other hand, domestic-oriented sectors are relatively more insulated.

Given the growth outlook, we are focused more on stock picking going forward. We still like sectors such as financials, construction, property, new energy, utilities and healthcare.

## 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.

The **Morningstar Awards 2025** has recognised the Kenanga Blue Chip Fund as Best Malaysia Large-Cap Equity Fund. The **Bursa Excellence Awards 2024** awarded KIB's exchange-traded funds' arm, Eq8 Capital Sdn Bhd with the Special Award – Thought Leadership for launching Eq8WAQF, the world's first Waqf-featured Exchange Traded Fund. Introduced under a newly established category, the award highlights innovations that are reshaping the investment landscape.

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.

Kenanga SyariahEXTRA Fund ("KSEF") was also recognised under the Mixed Asset MYR Balanced – Malaysia (10 years) category at the **LSEG Lipper Fund Awards (Global Islamic) 2025**.

The Hong Kong-based Asia Asset Management's **2025 Best of the Best Awards** awarded KIG 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.

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