Market Review and Outlook

May 2025

Market Review

After global equity markets were shaken last month on the back of the President Trump's 'Liberation Day" tariffs and its commensurate fallout fears, May ushered in a welcomed degree of calm with the MSCI World Index rebounding +5.69% mom. Markets enjoyed a reprieve as US initiated a temporary pause to its planned tariff hikes and began trade negotiations with several of its trade partners. This helped to briefly assuage apprehensions of a global recession and encouraged broad – based investments in risky assets. At the epicentre of the global tariff tensions, US' Dow Jones and its broader S&P 500 Indices rose by +3.94% and +6.15% mom respectively. Its market performance was in part driven by a relatively benign 1Q25 results reporting season. In addition, its markets were further fueled by selected economic data points such as inflation being seemingly under control with April 2025 Consumer Price Index (CPI) coming in +2.3% yoy and May 2025 S&P Global US Composite Purchasing Managers Index (PMI) reading of 53.0 which were both ahead of consensus expectations. Apart from that , US' Federal Reserve kept its interest rate pat at 4.25 – 4.50% whilst it monitors the impact of Trump trade policies on the economy, noting that "uncertainty about the economic outlook has increased further".

In Europe, the Stoxx 50 Index also partook the global equity market rebound climbing +4.00% mom. European stocks benefitted from buoying optimism surrounding US – Europe trade negotiations. Nevertheless, the concerns over Trump's tariffs policies on economic growth drove the Bank of England to cut interest rates by 25 bps to 4.25% which was also hot on the heels of a 25 bps interest rate cut by the European Central Bank in the month prior. From an economic standpoint, its May HCOB Eurozone Manufacturing PMI reading was still contractionary at 49.4, whilst its April 2025 preliminary CPI core was creeping up at +2.7% yoy, +0.3 ppt mom.

China's Shanghai Composite Index too rose by +2.09% mom as both economic superpowers, US and China, agreed to lower reciprocal tariffs for 90 days, with both parties "recognizing the importance of a sustainable, long-term, and mutually beneficial economic and trade relationship". In the country, retail sales momentum eased with April 2025 retail sales growth declining 0.8 ppt mom to +5.1% yoy, which was below consensus expectations. On the other hand, its April 2025 industrial production growth of +6.1% yoy was ahead of consensus expectations. Lastly, the People's Bank of China (PBOC) decided to lower its 1 – year and 5 – year Loan Prime Rates by 10 bps each to 3.00% and 3.50% respectively, which was in – line with market expectations.

During the month under review, Brent oil price held steady at +1.2% mom to USD63.90/ bbl. It held up relatively well due to the aforementioned pause in global tariffs and the fact that OPEC+ had decided to not accelerate the pace of its July 2025 oil production increase over the previous two months. Instead, crude palm oil (CPO) price fell 2.1% mom to RM3888/ MT on account of higher production output leading to an increase in inventory in May 2025.

Unlike their developed market peers, the ASEAN stock markets experienced mixed results in May 2025. The Stock Exchange of Thailand dropped 4.02% mom in part due to concerns over its 36% US reciprocal tariff which was on account of the country having the 11th highest trade surplus against US in 2024. Furthermore, continued discord between Pheu Thai and Bhum Jai Thai political parties muddied market sentiment. Meanwhile, Thailand's 1Q25 GDP growth moderated to +3.1% yoy from +3.3% yoy in 4Q24. The FBMKLCI pulled back 2.07% mom amidst Malaysia's negotiation with US in an attempt to lower the imposed 24% reciprocal tariff imposed on our country. Against the looming threat of a global economic slowdown brought about by the uncertainties surrounding the Trump reciprocal tariffs, it was indeed commendable that the RM managed to continue to appreciate against the USD in May 2025 to RM4.2550: USD1.00 from RM4.3160: USD1.00 a month ago and RM4.4730: USD1.00 at end 2024. The strengthening RM could, to an extent, help to bolster foreign interest in Malaysian equities. It was noteworthy that May 2025 witnessed a net foreign equity inflow into Malaysia to the tune of RM1.0b after experiencing 4 months of consecutive net outflows totaling RM11.9b from January to April 2025. Conversely, Indonesia's Jakarta Composite Index surged +6.04% mom spurred by increased equity investments by domestic institutions, especially BJPS Ketenagakerjaan, Indonesia's USD48b social security fund. Moreover, its market was also lifted by Bank Indonesia (BI) cutting the BI – Rate, Deposit Rate and Lending Facility Rate by 25 bps each to 5.50%, 4.75% and 6.25% respectively, as it resumed monetary easing to support its slowing economy. Lastly, Singapore's Straits Times Index also edged up +1.62% mom with a showing of decent economic data such as its April 2025 Non – Oil Domestic Exports (NODX) rocketing +12.4% yoy surpassing consensus estimates and its April 2025 Electronic Exports which grew +23.5% yoy.

The US Treasuries (UST) yields rose by 23 – 26 bps mom across the curve amidst better – than – expected jobs report and the announcement on United States (US) and United Kingdom's trade deal over tariffs. Nonfarm payrolls (NFP) in April grew by +177k mom, surpassing expectations of +133k mom (March revised: +185k mom). The unemployment rate remained unchanged at 4.2% (March: 4.2%). In addition, the US - China's 90-day trade deal spurred a return in risk sentiments, contributing to the rise in UST yields. Fed fund futures as of end – May signaled an implied rate cut of 55 bps by end – 2025 compared to 102 bps as of end – April. Meanwhile, investors had also grown cautious of the US fiscal outlook as Moody's Ratings downgraded its sovereign credit rating to Aa1 from Aaa.

In contrast to the UST, Malaysian Government Securities (MGS) yields declined across all tenors by 5 – 16 bps mom due to the continued demand for domestic bonds. In the May Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR) at 3% and announced its decision to reduce the Statutory Reserve Requirement (SRR) Ratio by 100 bps from 2% to 1%, effective 16 May 2025. BNM stated that the SRR decision is part of its ongoing efforts to ensure adequate liquidity in the domestic financial system, which will allow banks to better manage liquidity in an increasingly volatile market and support financial intermediation activities. BNM also emphasized that SRR is only an instrument to manage liquidity and not an indication of the monetary policy stance. Malaysia's 1Q2025 GDP met consensus at +4.4% yoy but was lower than the previous quarter of +4.9% yoy (revised). The GDP growth was mainly supported by consumer demand and capital investment. Meanwhile, April's CPI remained unchanged at +1.4% yoy (Survey: +1.4% yoy).

Market Outlook

The recent US 90 – day pause on most global reciprocal tariffs and its recent agreement with China to suspend several tariffs as well as to engage in dialogue have gifted global equity markets with a much-needed respite. That said, it remains to be seen how most of these trade negotiations pan out and thus far, being halfway into the 90 – day pause, there has yet been any concrete agreements inked. Thus, we opine that policy uncertainty remains somewhat raised and investors would keep a watchful vigil over any new developments that could have impacts on global economic activity. In fact, the recent May 2025 World Economic Forum report suggested that the global economic outlook had worsened since the start of 2025, "as rising economic nationalism and tariff volatility fuel uncertainty and risk stalling long – term decision – making". On the local front, we believe that investors would continue to monitor the implementation of vital policies such as RON95 fuel subsidy rationalisation whilst eagerly awaiting the outcome of our nation's trade negotiation with US.

Amidst the volatility currently permeating markets, we remain cautious and adhere to our dogma of investing in fundamentally good investments over long – term investment horizons. As always, we will seek out opportunities to engage in trading activities to capitalize on any prevailing market volatility. Nevertheless, we will keep constant watch over any potential geopolitical and other risks that may necessitate the gravitation towards new strategies to adjust to the ever – volatile market conditions.

The quantum of expected rate cuts in the US have eased to an expected two rate cuts in the second half of 2025. The FOMC minutes highlighted growing concerns over labour market softness. While the FOMC Committee remains data – dependent, there was a broad agreement that the risks of both elevated unemployment and inflation have increased since the March meeting. On local monetary policy, BNM statement clearly sees the balance of risks to growth as tilted to the downside on trade policy – related uncertainties. Meanwhile, the MPC expects the impact of domestic policy reforms on inflation to be "contained". Demand for RM government bonds have gained traction as investors sought safer assets and central banks globally have increased their probability for rate cut(s). All said, bond volatility will remain as markets remain wary of the economic conditions amid the trade uncertainty. We would selectively accumulate bonds at reasonable valuations while prioritizing good quality names.