

Global Outlook¹

In March 2025, global equity markets retreated. Gainers were Indonesia, Singapore, and H-share, which were 3.8%, 2%, and 1.2%, respectively. Taiwan, S&P500 and Europe dropped 10.2%, 5.8% and 4.2% respectively. Bond indices ranged from -0.1 to 0.6%.¹

The Fed maintained the Fed Fund rate at 4.50% during the March 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025. The ECB cut interest rate by 0.25% to 2.50% in March 2025 based on weak economic fundamentals and better-behaved inflation.

We are a Buyer of bonds. Increased volatility with continuous tariff announcements and risk-on, risk-off sentiments in the market presents a good opportunity to profit with yields bottomed. Stay nimble while re-investing the cash into new primary issuance with a relatively more attractive spread—any correction in government bond yields presents an opportunity to accumulate. However, with the view of still loose fiscal policy in the US, we remain cautious and will opportunistically accumulate whenever there is a sell-off.

Global Outlook of the two capital markets: Fixed Income & Equities

Region: Developed economies

Fixed Income

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate at 4.50% during the Mar 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.⁴
- We're looking to buy UST after the recent sell-off. We will take profit on secondary and switch to new credit issuances offering wider spreads. Stay nimble while re-investing the cash into new issuances with a more attractive spread.⁵

Equities

- Our view: **Neutral**.
- The Fed maintained the Fed Fund rate at 4.50% during the Mar 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.⁴
- Neutral weighting across US, EU and Japan. Reduce off-benchmark exposure while keeping Gold and Treasury ETF as a hedge against tariff and recession risks.

Region: Regional (Asia-Pacific ex-Japan)

Fixed Income

- Our view: **Neutral**.
- Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.⁶
- We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.⁶

Equities

- Our view: **Positive**.
- We turn cautious on Asian equities as Asia will be in the spotlight due to the US trade surplus.
- We are invested in value and high dividend yielders across telcos, consumer staples, materials, real estate and financials. Selected companies in tech, healthcare, industrials and internet platforms.³

Region: China

Fixed Income

- Our view: **Neutral**.
- The net credit bond supply in February 2025 was flat at RMB298bn. The flat number resulted from redemptions for non-financial, non-LGFV and SoEs.⁸
- The default rate for Feb 2025 rose to 0.12% from 0.1% as of Jan 2025.

Equities

- Our view: **Neutral**.
- Prefer domestic-oriented companies with growth and strong cash flow, such as selected names in technology, domestic consumption, cyclical, infrastructure and defence, communications, and financials.
- Manufacturing PMI for Mar 2025 recovered to 50.5 from 50.2 previously. The Services PMI improved to 50.8 from 50.4 over the same period.⁹

Region: Domestic (Malaysia)

Fixed Income

- Our view: **Positive**.
- BNM maintained the OPR at 3.00% during the Mar 2025 MPC meeting. The move was well anticipated.¹⁰
- Given the widening credit spreads, take profit on government bonds and redeploy them into credit. We are selective as the overall credit environment appears to be weakening. We prefer a credit segment for better yield pickup.³

Equities

- Our view: **Positive**.
- The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.³
- Seek opportunities in companies with defensive profiles that provide stable dividend payout and value-beaten-down names. Focus on domestic-driven sectors and potential direct beneficiaries of the NETR.

Investment Implications:³

Global: Neutral Equity vs Cash. Neutral across all markets while keeping a slight below benchmark weight for Japan. Reduce off-benchmark exposure while keeping Gold and Treasury ETF as a hedge against tariff and recession risks. Equities will likely remain in a risk-off environment until a catalyst for change emerges. While markets had priced in tariff risks, the announced reciprocal tariffs are more severe than anticipated, and future actions remain uncertain. Until a credible resolution emerges, the market is expected to adopt a defensive stance. The reform of Germany's debt brake and the introduction of an additional infrastructure fund are expected to benefit the defence sector and provide cyclical support to the economy. However, successful implementation will be crucial. Europe must also address other structural challenges, including the regulatory burden and labour market flexibility, to enhance its long-term growth prospects. The market faces the added risk of reciprocal tariffs and a global economic slowdown in the near term.

Asian Equities: We have a cautious view of Asian equities. The Asian region is in the spotlight because of the trade surplus with US. It is likely hard for developing Asia to significantly reduce the trade surplus as the US may not be a producer of their main imports or may be selling items of higher value that the Asian countries cannot afford to buy. Hence, diversification is key, and our preference is to balance between "growth" and "value". We are invested in value and high dividend yielders across telecoms, consumer staples, materials, real estate and financials. We are also invested in companies with more visible growth in technology, healthcare, industrials and internet platforms.

Malaysian Equities: The Malaysian market drifted further due to global volatility and heavy foreign outflows. External macro concerns have dented investor sentiment and will remain unsettled due to increasing recession risks in the US economy amid Trump's unpredictable tariff and trade policies. Despite external uncertainties, Malaysia still has opportunities backed by strong domestic catalysts, investment upcycle and rolling out of government policies and initiatives. Given the current macro environment, the situation is fluid for the stock market. We would continue to bargain hunt but stick to liquid, quality names. We continue to seek opportunities in companies with defensive profiles and value-beaten-down names, especially in domestic-driven sectors and potential direct beneficiaries of the NETR. Key risks are the derailment of Malaysia's macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risks.

Malaysia Fixed Income: We are mindful of the external headwinds of US trade policy, tariff actions, and potential geopolitical tensions, thereby leading to a risk-off sentiment. Market volatility will persist in the coming months. When writing, government bonds rallied aggressively following Trump's announcement on Liberation Day, and credit spreads widened. Meanwhile, the markets are pricing in 1 cut within 6 months and two cuts within 12 months in the OPR. Given the widening credit spreads, we are inclined to make some profit from government bonds and redeploy them into credit (both primary and secondary). We must be selective in the credit picks, as the overall credit environment is weakening. We prefer issuers with strong financial metrics and fewer exposures to external trade shocks. Overall, we continue to choose the credit segment for better yield pickup.

Market volatility will likely remain elevated in the weeks ahead as investors assess rapidly shifting tariff developments and consider the potential implications for growth, inflation, central bank policy, and financial markets. Nevertheless, incremental news flow could become more supportive as we approach the year's second half, as clarity emerges with countries beginning negotiation and offering concessions.

Investors should not lose sight of timeless investment principles as markets will likely refocus on fundamentals that should support the equity market rally further. We reiterate the importance of keeping sight of longer-term investing principles that can boost risk-adjusted rates of return through portfolio diversification and emphasising quality growth and income to navigate the volatility ahead. In response to the tariff developments, our strategy has also emphasized focusing on companies that demonstrate the attributes of large-cap defensiveness, with more domestically focused earnings.

We have a slight preference for equities over fixed income. Key themes for 2025 include i) the impact of policy shifts on China's recovery, ii) the US economic outlook, and iii) the influence of tariffs and geopolitical risks on asset prices.

Sources:

Footnotes:

- 1 Bloomberg, 31 March 2025
- 2 Federal Reserve Board, 31 March 2025
- 3 Principal, 31 March 2025
- 4 European Central Bank, 31 March 2025
- 5 Federal Open Market Committee (FOMC), 31 March 2025
- 6 JP Morgan Research, 31 March 2025
- 7 Bloomberg, 31 March 2025
- 8 BofA Securities, 31 March 2025
- 9 National Bureau of Statistics of China, 31 March 2025
- 10 Bank Negara Malaysia, 31 March 2025

Past performance does not guarantee future results. Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.

Glossary of Terms

UW: *Underweight*

OW: *Overweight*

MoM: *Month-over-Month*

YoY: *Year-over-Year*

FOMC: *Federal Open Market Committee*

ECB: *European Central Bank*

UST: *United States Treasury*

PMI: *Purchasing Managers Index*

SoE: *State-Owned Enterprise*

SEZ: *Special Economic Zone*

BNM: *Bank Negara Malaysia*

MPC: *Monetary Policy Committee*

Disclaimer

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