

Global Outlook¹

In May 2025, global equity markets experienced a rally. The largest gainers were S&P500, Indonesia and Korea at 6.2%, 6.0% and 5.5%, respectively. Thailand and Malaysia dropped 4.0% and 2.1% respectively. Bond indices ranged from -0.3 to +0.6%.¹

The Fed maintained the Fed Fund rate at 4.50% during the May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments. The ECB cut interest rate by another 0.25% to 2.40% in April 2025 based on weak economic fundamentals and better-behaved inflation.

We have a balanced preference between Equity and Cash in Asia. We expect uncertainties over trade policy to remain; but both the US and China have incentives to reach a compromise on the tariff issue. Should the USD weakness persist, it could lead to increased flows into Asian equities. Our portfolios are balanced between growth and cyclical, complemented by dividend yielders. Exposure is via semiconductor tech, internet platform tech, financials (stock exchanges, banks), consumer tech (EV autos), selective domestic consumption, and industrial names with exposure to infrastructure and defence capex. Dividend yielders are spread across communications, financials and consumer sectors.

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 May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.⁴
- The de-escalation of trade tensions between the US and China reduces the risk of inflation persistence in the US. Continue to 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.⁵

Equities

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate at 4.50% during the May 2025 FOMC meeting. The Fed guided that the uncertainties from the proposed tariffs do not provide leeway for rate adjustments.⁴
- Marginal Overweight for US & Japan. EU remained Neutral. 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: **Positive**.
- 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
- Markets are anticipating further monetary policy relaxation in the Philippines, Thailand, and Indonesia.

Equities

- Our view: **Positive**.
- We are cautiously optimistic about Asian equities as the US & China are incentivised to reach a compromise on the tariffs.
- Invested in dividend yielders across telecoms, real estate and financials. Focus on companies with visible growth in technology, consumer tech (EVs), industrials and internet platforms.³

Region: China

Fixed Income

- Our view: **Positive**.
- Net credit bond supply in Mar 2025 dropped to RMB193bn from RMB298bn previously. This came from redemptions for LGFVs, non-LGFVs and SoEs. PoE saw redemption, too.⁸
- Default rate for Mar 2025 edged lower to 0.10% from 0.12% as at Feb 2025.

Equities

- Our view: **Positive**.
- 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

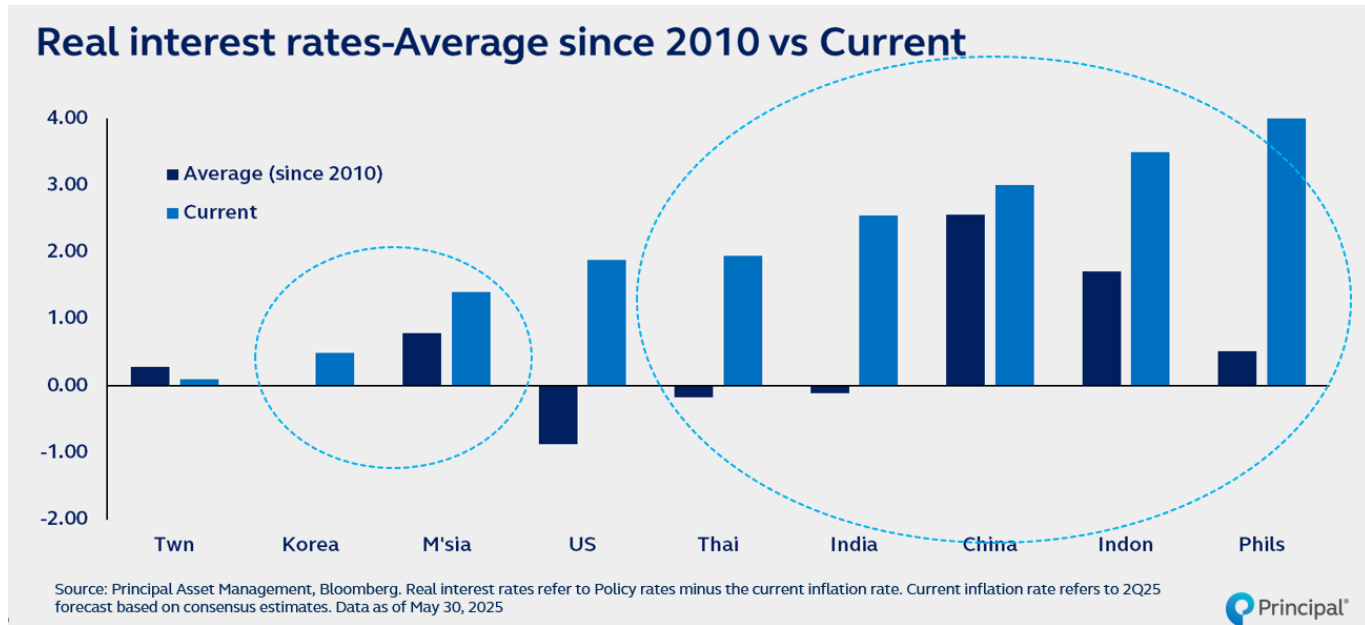
- Our view: **Positive**.
- BNM maintained the OPR at 3.00% during the May 2025 MPC meeting. They, however, cut the SRR to 1.00% from 2.00% previously. The move released RM19bn liquidity into the system.¹⁰
- Look to lock in gains on govies that have priced in the 25bps cut while continuing to have some tactical positions in anticipation of a possible curve correction or repricing. Preference remains for corporate bonds, as recent widening of credit spreads offers a more attractive carry compared to government bonds.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
- Adopt a barbell strategy by pairing high-dividend, big-cap, defensive stocks with selective exposure to undervalued laggards and domestic demand names. Looking for opportunities in sectors such as Construction, Property, Utilities and selective Banks.

Recent key takeaway:

- **Weaker USD → room for rates cuts:** Asia central bankers have room to cut rates in the event of an economic growth slowdown especially countries with high real interest rates.
- Markets are anticipating further monetary policy relaxation in the Philippines, Thailand, and Indonesia.



Investment Implications:³

- **Global:** Slight Overweight US & Japan, Neutral Europe and Underweight Cash. US PMIs remain strong, with earnings revisions over the next 12 months being modestly positive, and both consumer demand and the labour market remain healthy. Additionally, recent tech sector earnings have been solid, reinforcing a constructive outlook for US equities. Japan will continue to be supported by structural tailwinds, including the ongoing corporate governance reforms and improving shareholder returns. The domestic economy continues to show resilience, underpinned by solid wage growth. A further moderation in rice prices would provide support for household spending and consumption. Neutral on Europe. While Germany has introduced fiscal stimulus measures, broader regional support remains limited. Many other European countries continue to face fiscal constraints, reducing the likelihood of a coordinated fiscal response. As such, a more constructive stance on Europe would require not only successful implementation of Germany's fiscal plans but also more substantial and coordinated fiscal support across the region.
- **Malaysian Equity:** Malaysia has almost fully recovered from the sell-off triggered by Liberation Day tariffs in April. We advocate a barbell strategy by pairing high-dividend, big-cap, defensive stocks with selective exposure to undervalued laggards and stocks with domestic-focused demand. We believe there are still pockets of opportunities to invest primarily in sectors such as Construction, Property, Utilities and selective Banks. Key risks include a further escalation of global trade tensions which could affect business and investment conditions.
- **Malaysia Fixed Income:** We will stay cautious ahead of the tariff deadline on 9 July and avoid adding risk early. We expect some profit-taking activities ahead of BNM's MPC meeting in July. We will look to lock in gains on government bonds that have priced in the 25bps cut while continuing to have some tactical positions in anticipation of a possible curve correction or repricing. Preference remains for corporate bonds, as recent widening of credit spreads offers a more attractive carry compared to government bonds. We will continue

to focus on primary issuance for more attractive pricing and better allocations while rotating out of selective tighter names where upside is limited.

- Market volatility is likely to 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 second half of the year, as clarity emerge with countries beginning negotiation and offering concessions.
- We reiterate the importance of keeping sight of longer-term investing principles that can boost risk-adjusted rates of return through portfolio diversification and an emphasis on quality growth and income to navigate the volatility ahead. Our strategy has also emphasized focusing on companies that demonstrate the attributes of large-cap defensiveness, with earnings that are more domestically focused. Additionally, quality bonds have historically provided portfolio stability, especially during times of uncertainty.
- We now prefer both fixed income and equities. Key themes for 2025 include: i) the impact of policy shifts on China's recovery; ii) the U.S. economic outlook; and iii) the influence of tariffs and geopolitical risks on asset prices.

Sources:

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

We have based this document on information obtained from sources we believe to be reliable, but we do not make any representation or warranty nor accept any responsibility or liability as to its accuracy, completeness or correctness. Expressions of opinion contained herein are those of Principal Asset Management Berhad only and are subject to change without notice. This document should not be construed as an offer or a solicitation of an offer to purchase or subscribe or sell Principal Asset Management Berhad's investment products. The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to

predict or depict performance of any investment. We recommend that investors read and understand the contents of the funds' prospectus and product highlights sheet available on the Principal website, which have been duly registered with the Securities Commission Malaysia (SC). Registration of these documents does not amount to nor indicate that the SC has recommended or endorsed the product or service. There are risks, fees and charges involved in investing in the funds. You should understand the risks involved, compare, and consider the fees, charges and costs involved, make your own risk assessment and seek professional advice, where necessary. 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. This article has not been reviewed by the SC.