

Global Outlook¹

In February 2025, global equity markets were generally lower. Gainers were H-shares, Europe and Shanghai at 14%, 3.3% and 2.2% respectively. Indonesia, Thailand and Japan dropped 11.8%, 8.4% and 6.1% respectively. Bond indices rose by 1.4-1.8%.¹

The Fed maintained the Fed Fund rate at 4.50% during the January 2025 FOMC meeting. The Fed also guided that there could only be two 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 Asian equities. Our ideas include beneficiaries of Emerging Technologies, selective Chinese domestic consumption and selected cyclicals, industrial names with infrastructure and defence capex exposure, and strong consumer and banking franchises in Southeast Asia. There is a possibility of Asian markets broadening in the second half should economic conditions improve, currencies stabilise, and exports grow.³

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

Region: Developed economies

Fixed income

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

Equities

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate at 4.50% during the Jan 2025 FOMC meeting. The Fed also guided that there could only be two cuts in 2025.⁴
- Maintained US at slight Overweight. Reduced EU to slight Underweight and cut Japan to Neutral. Increased exposure to off-benchmark assets, including gold ETF, Treasury ETF & Asian stocks.

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 remained positive on Asian equities underpinned by cheap valuation & China's continued execution of more friendly policies.⁷
- Our ideas include AI, selected Chinese domestic consumption and cyclical, infrastructure and defence capex, and strong consumer and banking franchises in Southeast Asia.³

Region: China

Fixed income

- Our view: **Neutral**.
- Net credit bond supply in Jan 2025 rose to RMB296bn from RMB42bn. Non-financial bonds underpinned the increase. LGFVs saw net redemption, and non-LGFV SoEs and PoEs posted net increases.⁸
- The default rate for Jan 2025 eased to 0.1% from 0.12% as of Dec 2024.

Equities

- Our view: **Positive**.
- China continued to announce policies to support the economy after the tariffs imposed by the US. The policies include a higher budget deficit, larger issuances of bonds and larger consumption support.
- Manufacturing PMI for Feb 2025 recovered to 50.2 from 49.1 previously. The Services PMI improved to 50.4 from 50.2 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
- Aimed to take profit on the rich tenors and reduce some duration risk amid the heavy duration supply in the near term. Continue to take profit on overvalued credits but will remain OW on credits.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. We stay focused on sectors such as utilities, construction, property, and financials.

Investment Implications:³

Global: We have adjusted the stance on the US to Slight Overweight, reduced Japan to Neutral, increased Europe to Slight Underweight and increased exposure to off-benchmark assets including Gold ETF, Treasury ETF and stocks. The US economic dominance remains intact, in contrast to weakness in Europe and China. However, uncertainty around the US policies – particularly regarding tariffs, immigration, tax cuts and deregulation – could impact inflation dynamics and the fiscal deficit. The rise of China’s DeepSeek raises questions about the sustainability of high capex spending and expensive valuations in major U.S. tech firms. As technology continues to evolve, it will shape equity market leadership, reinforcing the need for diversification within and outside the US. Within the US, attractive opportunities may arise in economically sensitive sectors, such as financials and small-mid-cap stocks. In Europe, economic challenges persist. However, relatively low-tech sector weight, modestly positive earnings forecasts, and attractive valuation provide a temporary case for diversification. In Japan, the fundamental themes of reflation and ongoing corporate governance reforms remain intact, with monetary policy staying accommodative as real interest rates stay negative to support economic growth.

Asian Equities: We have a constructive view of Asian equities. The greatest market risk is the uncertainty in the trade policy, which is leading to heightened market volatility. Hence, diversification is key. We are invested in factors such as AI, improving domestic consumption in Asia, rising capex spent, which benefits industrial names, etc. We like companies with a clear growth path, strong cashflows, and those with clear or improving shareholder return policies, strong consumer and banking franchises in Southeast Asia, and selective Indian companies reasonably valued for growth.

Malaysian Equities: The Malaysian market continued to fall, driven by a disappointing earnings season, concerns over potential new US tariff threats, and index rebalancing at the end of the month following MSCI’s Feb review. Volatility is expected to continue in the short term due to external headwinds, especially about the Trump administration and policies. Given the current macro environment, we have made no changes to our portfolio strategy. We seek ongoing opportunities in companies with defensive profiles that provide stable dividend payout and value-beaten down names, especially in domestic-driven sectors and potential direct beneficiaries of the NETR. We stay focused on sectors such as utilities, construction, property, and financials. Key risks are the derailment of Malaysia’s macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risks.

Malaysian Fixed Income: We are mindful of the external headwinds due to US trade policy, tariff actions, and intensified geopolitical tensions, thereby leading to a risk-off sentiment. Market volatility will persist in the coming months. Given that the local market has been well supported for the first two months of the year, we aim to profit from the rich tenors and reduce some duration risk amid the heavy supply in the near term. We will continue to look for opportunities to buy on weakness. Similarly, we will take profits on the overvalued credits and cherry-pick primary issuances for the credit segment as more issuers are seen tapping the market with credit spreads at near-record lows. Overall, we remain overweight in the credit segment for better yield pickup. We prefer issuers with strong financial metrics and fewer exposures to external trade shocks.

Investors need to remain vigilant to changes in trade and tariff policies. As we navigate 2025, the interplay between the shifting policy landscapes and evolving market conditions calls for active and diversified portfolio construction. Our strategy emphasizes quality growth and income attributes.

- ✓ **Quality Income:** Quality income and bonds can help protect against market volatility and sustain performance in a range-bound market.
- ✓ **Quality Growth:** An investment style which has historically outperformed, with the highest relative returns during volatile markets.

Sources:

Footnotes:

- 1 Bloomberg, 28 February 2025
- 2 Federal Reserve Board, 28 February 2025
- 3 Principal, 28 February 2025
- 4 European Central Bank, 28 February 2025
- 5 Federal Open Market Committee (FOMC), 28 February 2025
- 6 JP Morgan Research, 28 February 2025
- 7 Bloomberg, 28 February 2025
- 8 BofA Securities, 28 February 2025
- 9 National Bureau of Statistics of China, 28 February 2025
- 10 Bank Negara Malaysia, 28 February 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.

