

March 2025

Monthly Market Outlook

Sentiments Fall Off the Cliff

Summary

- **Global economic expansion eased for the second month in a row in Feb-25.** Although the global service sector outperformed its manufacturing counterpart again in Feb-25, it was to the least marked extent since services first overtook manufacturing in Jan-23. The JPM Global Composite PMI fell to a 14-month low of 51.5 in Feb-25 (Jan-25: 51.8). Notably, manufacturing picked up pace with the JPM Global Manufacturing PMI rising to 50.6 (Jan-25: 50.1), an improvement for the second straight month. There was some suggestion that the recent resilience of manufacturing partly reflected front loading of output and new orders ahead of tariffs.
- **APAC market review – The MSCI Asia Pacific Index declined 0.3% in Feb-25, reflecting a divergence in performance across regional markets.** China and Hong Kong emerged as the top-performing markets, rising 12% and 9%, respectively, driven by a rally sparked by the rise of China's AI model, DeepSeek. Additionally, Alibaba's commitment to significant AI spending further bolstered investor sentiment, particularly within China's AI supply chain. Conversely, India (-8%), Thailand (-9%), and Indonesia (-16%) were the worst-performing markets, weighed down by persistent foreign outflows and growing concerns over potential US tariffs. These headwinds have contributed to increased volatility and cautious positioning among investors.
- **Local equity review – Malaysia's equity market saw some relief in Feb-25, with the FBMKLCI rising 1% (Jan-25: -5%), mainly supported by the heavyweight banking sector.** However, the broader market was weaker, as the Mid 70 and Small Cap indexes fell by 5% and 7%, respectively. Domestically, most listed companies reported their full-year earnings in Feb-25, but several notable disappointments led to sharp declines in share prices. Externally, concerns over US tariffs and uncertainties surrounding the growth outlook for artificial intelligence and data centres persisted. Foreign investors remained net sellers for the fifth consecutive month in Feb-25.
- **Bond market review – Local bond yields barely budged MoM basis despite the large swings in the global bond markets and hefty local supply of govies.** The 3Y MGS/GII closed at 3.50%/3.51% (end-Jan: 3.52%/3.51%) while the 10Y MGS/GII closed at 3.81%/3.82% (end-Jan: 3.83%). The 2Y and 10Y UST yields, meanwhile, closed 23bps and 34bps lower MoM as bets for 2 Fed rate cuts for 2025 (compared to 1 previously) returned amid weaker macro data prints and consumer sentiments.
- **Macro – Sentiment turns extremely fearful.** According to the latest Fear & Greed Index in early Mar-25, investor sentiment globally has turned extremely risk averse over the past 1 month amidst uncertain geopolitics and trade tariffs implementation. This has led to the US corporates to retract back capital spending plans in 2025 alongside weakening CEO economic outlook survey. On 3 Mar., the Atlanta Fed GDPNow model forecast the US real GDP growth in 1Q25 to be -2.8%, deteriorating from -1.5% on 28 Feb. Current scenario is worse than Trade War 1.0 back in 2018/19, hence, we opine that market sentiments could be too pessimistic and overreact at this juncture.

March 2025

- **Local equity outlook – In the near term, market sentiment is expected to remain cautious due to external uncertainties**, particularly concerns over US tariffs, and lack of new domestic catalysts. That said, current market conditions offer an opportunity to gradually accumulate quality stocks at attractive valuations. While some research houses have revised their 2025 KLCI targets downward, all still anticipate a market rebound by the end of the year.
- **APAC equity outlook – In the near term, Asia Pacific equities are expected to be heavily influenced by developments in US trade policy and any potential retaliatory measures from impacted economies.** China's National People's Congress in early March will also be a key event, as investors assess China's economic strategy amid ongoing geopolitical tensions. Markets with strong domestic growth drivers may demonstrate resilience, while export-dependent economies remain more vulnerable to tariff-related risks. Meanwhile, China's AI ecosystem could continue to attract investor interest, driven by the country's ongoing advancements in the sector.
- **Fixed Income outlook – We expect local bond yields to trend slightly lower in Mar-25.** This is supported by favourable supply dynamics (net supply: RM3.2bn). We see the recent weaker macro prints in the US to be temporary as these have largely been affected by severe weather conditions. US labour market still shows some tightness while the reciprocal tariff implementation on USD1.5trn of imports from Canada, Mexico and China is expected to fuel inflation expectations.

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