May 2025

Monthly Market Outlook

Year-End Outlook Remains Murky

Summary

- **Global PMI manufacturing falls into contraction in Apr-25.** World manufacturing operating conditions deteriorated for the first time in four months in Apr-25. Although the rate of decline was only marginal, the survey data provided evidence of further potential weakness. Global trade conditions worsened, jobs were cut and business optimism slumped to a two-and-a-half year low. The JPM Global Manufacturing PMI fell to 49.8 (Mar-25: 50.3). Three of the five PMI components (new orders, employment and stocks of purchases) were at levels signalling contraction. Meanwhile, growth of service sector eased sharply. The slowdown was mainly centred on the US, although weaker economic expansions were also seen in China and the euro area.
- **APAC market review – The MSCI APAC Index ended Apr-25 3% higher, rebounding from a sharp global sell-off earlier in the month triggered by US tariff announcements.** Among major Asia Pacific markets, Thailand (+8%) was the top performer in Apr-25, marking a strong turnaround after being the region's worst performer in 1Q25. In contrast, China (-4%) was the region's weakest performer in Apr-25, as it remains at the centre of the US tariff measures. Nevertheless, China's YTD return of 10% is still among the strongest in Asia Pacific.
- **Local equity review – The FBMKLCI index rose 2% in Apr-25, although the headline gain masks a volatile month for the local market.** In early April, equity markets globally sold off sharply after the US announced sweeping tariff measures that were more severe than expected. Malaysia was not spared - on 9 April, the KLCI touched its year-to-date low. However, the index staged a strong rebound following the US government's announcement of a 90-day pause on implementing reciprocal tariffs. The post-9 April rebound was broad-based across sectors. However, foreign investors remained net sellers for the seventh straight month in Apr-25.
- **Bond market review – For April "Liberation Day" tariff announcement roiled capital markets and caused wild swings on yields during the month.** However, on a MoM basis, yields closed lower with the 2Y UST and 10Y UST rallying by 29bps and 10bps, respectively. This was largely due to the release of softer macro data. Locally, govvy yields also followed suit coupled with the weaker headline CPI in Mar-25 while the Leading indicator index for Feb-25 showed a contraction.
- **Macro – Unable to forecast year-end landing.** Positive frontloading impact on Asian & European economies in 1Q25 due to Apr-25 reciprocal tariff is fading fast, judging from the Asian manufacturing PMIs in Apr-25. Despite growing concerns on GDP growth ahead, the risk asset prices have somewhat priced in the negative impact from tariff threats. Evidently, as the VIX stabilizes below 30 after a sharp spike, the S&P500 index tends to see a near-term relief recovery from the sharp selldown at the expense of higher 10y UST yields should the Fed remain inaction on monetary policy.

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- **Local equity outlook –** The US government's 24% reciprocal tariff on Malaysian exports – which is lower than the rates imposed on several ASEAN peers and key export competitors - is currently suspended for 90 days starting 9 April 2025. In response, the Malaysian government has initiated formal engagement with the US – our largest export destination. The outcome will depend on the progress of ongoing negotiations. **Although near-term uncertainties remain, market volatilities could present opportunities for long-term investors to gradually accumulate high-quality assets at more attractive valuations.** In this environment, maintaining a diversified portfolio and staying invested remain key strategies for navigating uncertainty while positioning for eventual recovery.
- **APAC equity outlook –** The US has imposed tariffs as high as 145% on Chinese imports, with China retaliating by placing tariffs of 125% on US goods, further escalating tensions between the world's two largest economies. The resulting uncertainty also weighed on the USD, triggering sharp appreciation in several Asia Pacific currencies While stronger regional currencies may pose a headwind to corporate earnings in export-oriented markets, the impact varies depending on factors such as the degree of currency hedging and the currency denomination of input costs. Meanwhile, oil prices declined more than 10% in April, providing relief for oil-importing countries in the region. Although near-term uncertainties persist, periods of volatility can present opportunities for long-term investors to gradually accumulate high-quality assets at more attractive valuations.
- **Fixed Income outlook – For May-25, we expect the govvy yields to trend lower, partly supported by lower net supply of govvies while for the UST, we see continued volatility** owing to protracted negotiations with trade partners. Additionally, we foresee softer US macro data in the upcoming months that will likely paint a more dovish FOMC statement ahead, paving the way for 2H25 rate cuts.

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