February 2025

Monthly Market Outlook

Market Revolving On Tariff War

Summary

- **Global manufacturing recovers following downturn at end of 2024.** The JPM Global Manufacturing PMI rose to 50.1 in Jan-25 (Dec-24: 49.6), signalling the first improvement (albeit marginal), in operating conditions in seven months. Variations in performance amongst regions remained, with business conditions being affected by, among other things, the possibility of US tariffs being imposed during the coming year. While growth was led by India, US and China, downturns continued in the euro area, Japan and the UK. Meanwhile, the rate of increase in the service sector eased to a 13-month low, albeit still outperforming its manufacturing counterpart for the twenty-fifth month.
- **APAC market review – Despite a sell-off in the first half of Jan-25, the MSCI Asia Pacific Index rebounded in the latter half to close 1% higher for the month.** South Korea led with a 7% gain, recovering from a weak Dec-24 driven by its political turmoil, followed by Australia (+5%) and Singapore (+5%). Emerging markets underperformed during the month. Sector-wise, IT (+3%) and financials (+2%) led, while utilities (-5%) weighed on performance. Most Asian markets saw foreign outflows in Jan-25, with Japan being the exception.
- **Local Equity market review – After a strong 2024 (+13%), the FBMKLCI had a weak start to 2025, declining 5% in Jan-25**. The sell-off was broad-based but more pronounced in stocks related to artificial intelligence (AI) and data centre (DC), following two unexpected developments: (i) a proposed US export restriction on advanced chips; and (ii) China's AI model DeepSeek claimed it was developed without having to use advanced chips and at a significantly lower cost than US AI models. Foreign investors were net sellers in Jan-25, with outflows totalling RM3bn, similar to levels recorded in November and Dec-24.
- **Bond market review – Bond markets appear to be unperturbed by the slew of tit-for-tat tariff announced by US, Canada and China thus far.** Meanwhile, local yield movements were relatively steady with the 10y MGS and GII slipping by 1bps MoM to end the year at 3.83%, respectively. There were easing concerns of higher longer-end supply of UST as traders earlier feared the newly appointed Treasury Secretary would ramp up long-end treasury supply given his criticism that the previous administration ramped up short-end issuances to compress debt service cost. Separately, a diverse policy action was taken by the ECB, BoJ and the Fed in Jan-25.
- **Macro – Extracting concessions out of tariff threats.** Near-term themes will be on tariffs, DeepSeek, US macro data release and Asia FX intervention. The US administration's decision to call off US import tariffs on Mexico and Canada for 30 days supports the view that to strike "concessions" from "tariffs" that will be the norm for US allies (Canada, the EU, Japan, Mexico, etc.). This was evident in 2018-2019. The US macro data at the start of 2025 is expected to remain resilient thus, supporting the latest policy rate pause undertaken by the US Federal Reserve. This would keep bond yields at elevated levels while optimism could resurface in equity markets.

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- **Local Equity outlook – In the near term, market movements will be influenced by news flow on AI, data centres, and potential US tariff hikes.** In the longer term, we remain cautiously optimistic on Malaysian equities. Despite uncertainties surrounding the growth outlook for AI and data centres, the market could find support from rising foreign direct investments and initiatives such as the National Energy Transition Roadmap and National Semiconductor Strategy.
- **APAC Equity outlook – Tariffs have taken centre stage under President Trump, with market volatility -** particularly in China and supply chain-dependent sectors such as semiconductors and electric vehicles - likely to persist amid ongoing US trade policy developments. Any escalation in trade tensions could weigh on sentiment, while domestically oriented markets may be less affected. Meanwhile, DeepSeek's recent launch is expected to sustain investor interest in selected tech stocks.
- **Fixed Income outlook – For Feb-25, we expect the 10y MGS yields to trend slightly higher given more net supply of govvies in Feb-25.** Tit-for-tat trade policies, may cause yields to react negatively. However, it appears to have a rather muted impact so far. Traders also see the high possibility that the Fed will likely only cut in Sep-25.

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