**2 – 6 June 2025**

# WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

## Key Highlights


- US equities pushed higher with the S&P 500 up 1.0% and Nasdaq gaining 1.5%.
- The US labour market remained firm, with non-farm payrolls rising 130,000 and average hourly earnings beating expectations. The 10-year Treasury yield climbed to 4.50%, delaying rate cut expectations to September.
- ISM data and the Fed's Beige Book pointed to slowing capex and labour demand, while alternative indicators suggest unemployment could be understated. Inflation remains sticky, with CPI expected to rise in coming months due to new tariffs.
- The ECB cut rates by 25 bps but signalled a more hawkish tone going forward.


- The MSCI Asia ex-Japan Index rose 2.4%, led by Korea's KOSPI (+5.3%) on optimism around President Lee's "Value-Up" reforms to boost governance and shareholder returns.
- Korean conglomerates and SK Hynix rallied on HBM chip demand. Valuations remain attractive at 9x forward P/E, supporting further upside.
- RBI surprised markets with a 50 bps rate cut to 5.5% and 1% reserve ratio cut to boost consumption and credit. NBFCs and property stocks expected to benefit.


- The KLCI edged up 0.56%, lifted by gains in utilities and construction.
- Pavilion REIT completed its placement at RM1.40. The stock jumped to RM1.50 with a 6.2% implied yield. Broader REITs saw yields compress into the 4–5% range, making Pavilion's valuation more attractive.
- Foreign funds extended their selling streak, bringing YTD net outflows to RM11 billion. Local institutions were net buyers.
- Privatisation talks surfaced around Yinson, with Stonepeak reported to be valuing the deal at RM2.60 per share. Funds averaged down on weakness.

## GLOBAL & REGIONAL EQUITIES

The S&P 500 rose by 1.0%, while the NASDAQ gained 1.5%. Markets continued to climb higher in what some described as a “pain trade” or “TACO trade”—a reference to investor resilience in the face of increasingly unpredictable headlines from President Donald Trump. For instance, Trump’s move to double tariffs on steel and aluminium, from 25% to 50%, was largely shrugged off by markets, with the prevailing view being that such measures might eventually be walked back. US retail investor sentiment remained buoyant, with broad-based buying helping to sustain upward momentum.

Last week, global markets absorbed a series of key macroeconomic data releases, central bank decisions, and geopolitical developments, though equity movements remained relatively contained. In the United States (US), the non-farm payrolls report showed a gain of over 130,000 jobs in May, above market expectations of 120,000 despite the broader trend of slowing job growth. The unemployment rate remained unchanged at 4.2%, while the bigger surprise came from average hourly earnings, which exceeded expectations. Although earnings growth has moderated in absolute terms, the data was still viewed as strong enough to delay any imminent policy shift by the Federal Reserve.

Following the release, US Treasury yields spiked, with the 10-year yield climbing from 4.35% to 4.50%. Markets pushed back expectations for the first rate cut to September, down from earlier projections for July. Several major banks revised their forecasts, reducing their projected rate cuts for 2025 from 75 basis points to 50 basis points.

Other economic indicators, including the ISM manufacturing and services indices, pointed to continued pessimism among purchasing managers. The Federal Reserve’s Beige Book echoed this caution, citing a slowdown in hiring and capital expenditure (capex). Meanwhile, alternative labour market indicators, such as the household survey, suggest that conditions may be weaker than headline payroll numbers imply. One estimate noted that if labour force participation had remained unchanged, the unemployment rate could have been closer to 4.6%.

Looking ahead, markets will be closely watching the upcoming Consumer Price Index (CPI) data. Inflation is expected to trend higher in June and July, in part due to new tariff-related pressures. This aligns with recent comments from Federal Reserve officials, who cautioned that inflation remains sticky and warned of potential upside risks from tariff-driven price increases.

Outside the US, the European Central Bank (ECB) cut interest rates by 25 basis points, bringing the deposit rate down to 2.00%, cumulative 200 bps reduction from the peak of 4.00%. However, ECB President Christine Lagarde adopted a more hawkish tone during the press conference, noting that further rate cuts would be more difficult to justify given the current economic environment.

On the geopolitical front, tensions escalated as US President Donald Trump clashed with Tesla CEO Elon Musk on 5 June. The fallout began after Musk publicly criticised Trump’s “One Big Beautiful Bill” spending package, prompting Trump to threaten federal action against Tesla and SpaceX. The dispute rattled sentiment, sending Tesla shares lower on concerns over possible regulatory retaliation.

Meanwhile, civil unrest flared in Los Angeles on 6 June following a wave of immigration raids. Protests escalated near federal buildings and the 101 Freeway, prompting California to deploy 2,000 National Guard troops over the weekend to restore order.

In terms of trade, US-China talks resumed in London on 9 June, marking the first high-level engagement in

## GLOBAL & REGIONAL EQUITIES *(CONT')*

several weeks. With tensions running high over tariffs and rare earth export controls, markets are monitoring closely for any signs of de-escalation or breakthrough.

In the foreign exchange (FX) market, the US dollar ended slightly higher, though performance was mixed across major currencies. Outperformers versus USD were some of the emerging market currencies, particularly the South Korean won and the Malaysian ringgit.

### Asia

Interestingly, the rally in equities was even more pronounced in Asia. The MSCI Asia ex-Japan Index rose by 2.4%. The rally was led by South Korea's KOSPI, which surged 5.3%, followed by Hong Kong's Hang Seng Index, up 2.2%.

The standout performance in Korea was driven by political developments. Following the election of President Lee Jae-myung, markets grew optimistic about the continuation of the Value-Up programme, a government-led initiative aimed at improving corporate governance and enhancing shareholder returns. Key proposals include strengthening the fiduciary duties of boards of directors to prioritise shareholders and enhancing the selection processes for directors and audit committees. They also involve extending support to key export sectors such as shipping, defence, cosmetics, K-pop, and nuclear energy.

Valuations remain attractive, with the Korean equity market trading at 9x forward price-to-earnings, compared to its five-year average of 11x. This presents potential for a re-rating, similar to the momentum seen in Japan during its own governance reform cycle. As such, we are currently overweight Korea, and added exposure last week, particularly to large-cap names such as SK Hynix, which continues to show strong growth on the back of robust demand for High Bandwidth Memory (HBM) chips. We also increased exposure to select Korean conglomerates, which have historically traded at a discount due to governance concerns but are now seeing improved sentiment as reform efforts gain traction.

In India, the Reserve Bank of India (RBI) surprised markets with a 50 basis point rate cut, lowering the policy rate to 5.5%, alongside a 1% cut in the reserve ratio. This marked a notably aggressive easing stance by the new RBI Governor, who took office in December 2024 and has already implemented multiple measures to inject liquidity into the financial system.

These moves are expected to support loan growth and domestic consumption, with potential upside for consumer-related stocks, property counters, and non-banking financial corporations (NBFCs), all of which tend to be rate-sensitive. Despite the positive policy shift, we remain neutral on India as valuations remain relatively expensive. We would maintain selective exposure to Indian banks and consumer stocks.

Cash levels across portfolios are currently between 2% to 3%.

## UPDATES ON MALAYSIA

The FBM KLCI rose by 0.56% week-on-week, supported by gains in the utilities and construction sectors. Notably, YTL Corporation and YTL Power International rebounded strongly amid renewed optimism surrounding their exposure to the data centre segment. Gamuda Berhad and IJM Corporation Berhad also saw continued positive price action on expectations of robust order book growth in the coming months.

## UPDATES ON MALAYSIA *(CONT')*

On the other hand, laggards were primarily from the healthcare sector, weighed down by ongoing weakness in the glove segment and a pullback in hospital-related counters.

In the real estate investment trust (REIT) space, the Pavilion REIT placement was successfully concluded after three months of preparation. The deal was met with strong demand—oversubscribed by approximately 5 to 6 times at the top end of the pricing range. The placement was priced at RM1.40, compared to the previous market price of RM1.47. As allocation was limited, many investors turned to the secondary market, pushing the share price up to RM1.50 by last Friday's close, a level it has since held. At RM1.50, the implied gross yield is around 6.2%, indicating some yield compression.

The broader REIT space has also performed well year-to-date and remains one of the few positively performing sectors in Malaysia. However, valuations have become less attractive, with yields for names like IGB REIT and Sunway REIT compressing into the high-4% to low-5% range. Given where Malaysian Government Securities (MGS) yields currently stand, the spread is now relatively tight. Given this valuation gap, Pavilion REIT may still have room for further yield compression, as its yield remains above 6%.

In terms of fund flows, foreign investors remained net sellers for the third consecutive week, bringing year-to-date outflows to RM11 billion. In contrast, local institutional investors stepped in as net buyers.

On the corporate news front, it was reported that Stonepeak Partners, a New York-based infrastructure investment firm, is in exclusive talks with the Lim family for a potential privatisation of Yinson Holdings Berhad. The reported valuation of up to RM9 billion translates to an estimated RM2.60 per share on a fully diluted basis, representing an 11% premium to Yinson's last traded price. We continue to hold this name in our portfolios, with some funds averaging down last week.

In terms of portfolio positioning, funds were observed trimming positions in construction and electronics manufacturing services (EMS), while adding exposure to healthcare, REITs, and airlines.

Cash levels range between 15% and 20% across portfolios.

## REGIONAL FIXED INCOME

Asian credit posted a total return of +0.3% last week, supported by a rally in US Treasuries ahead of a brief sell-off on Friday night. While rates provided some support, credit spreads widened, particularly in high yield.

Asian investment-grade (IG) spreads widened slightly by 3 basis points (bps), while high-yield (HY) spreads widened more notably by 30 bps. The underperformance was primarily driven by Hong Kong and China names, following last week's news that New World Development would defer coupon payments on its US dollar perpetual bonds - an issue that continues to weigh on sentiment.

In terms of portfolio activity, we participated in several new primary deals:

- AIA Group's SGD-denominated 10-year Tier 2 bond, which priced at 3.6% and saw strong demand with a book size five times oversubscribed;
- State Grid Corporation of China, a Chinese utility SOE, which priced 5-year and 10-year senior CNH bonds at 2.00% and 2.25% respectively. The books for these deals were also robust, with the orderbook more than ten times covered;

## REGIONAL FIXED INCOME *(CONT')*

- Additionally, we participated in the Melbourne Airport AUD-denominated hybrid bond callable in 2032, priced at 6.0%, with the orderbook more than four times covered.

On the secondary front, we took profit on the new AIA bonds at 101.5, and also on prior AUD primary holdings such as Macquarie Group and QBE Insurance, which traded between 101 and 103 in cash price. We also trimmed exposure to Tier 2 bonds from select Hong Kong banks to manage regional concentration risk.

## DOMESTIC FIXED INCOME

The domestic bond market remained relatively quiet last week, largely due to shortened working days and the school holiday period. Total trading volume declined to approximately RM30 billion, down 30% from RM45 billion the previous week.

Given the limited liquidity, yields on Malaysian Government Securities (MGS) for tenors 15 years and below were either unchanged or edged up slightly by 1 basis point (bp). However, there was continued buying interest in ultra-long tenors, particularly the 20- and 30-year MGS, which saw yields fall by 2 bps.

As of last Friday:
- The 3-year MGS was unchanged at 3.15%,
- The 10-year MGS held steady at 3.53%, and
- The 30-year MGS declined by 2 bps, ending the week at 4.01%.

There were no government bond auctions or primary corporate bond issuances during the week. Looking ahead, market liquidity is expected to improve, with a pick-up in trading activity. Today, the market will see an auction for a 15-year MGS maturing in 2039, with an issuance size of RM4 billion, including RM1 billion via private placement by Bank Negara Malaysia. The size is slightly smaller than market expectations. That said, auction sentiment remains constructive, and the bid-to-cover ratio is expected to exceed 2.0 times, particularly as positioning in longer-tenor bonds remains supportive.

In the corporate bond space, RHB Bank is planning to issue:
- RM500 million in senior medium-term notes (MTNs), with indicative pricing at 3.80% for the 5-year tranche, and
- RM500 million in Tier 2 subordinated bonds, with pricing guidance around 3.90%.

Hong Leong Bank is also expected to tap the market with a RM500 million issuance:
- For the 10-year non-call 5, the pricing is around 3.78%,
- For the 12-year non-call 7, indicative pricing is around 3.85%

On the portfolio front, there was minimal activity last week due to the subdued liquidity environment. No major changes were made to strategy. As of last Friday, cash levels remained below 3%, with portfolio duration maintained at around 7 years.

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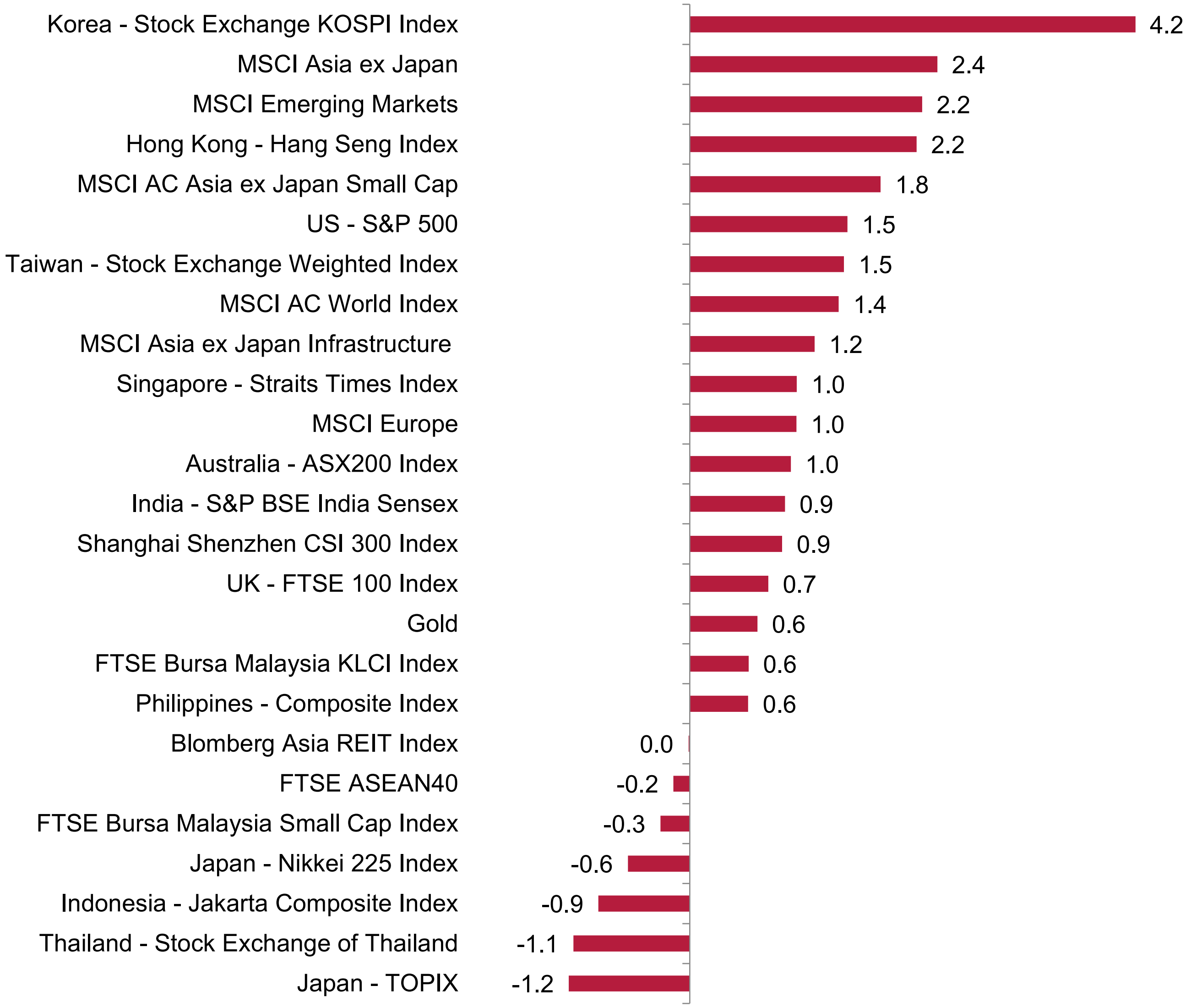
## Index Performance | 2 – 6 June 2025




**Index Chart:** Bloomberg as at 6 June 2025. Quoted in local currency terms.