AHAM CAPITAL
ASSET MANAGEMENT

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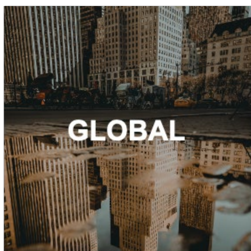
12 – 16 May 2025

WEEKLY MARKET REVIEW

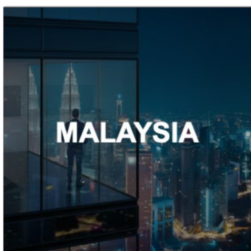
A brief on global markets and investment strategy

Key Highlights



- The S&P 500 rose 5.30%, nearing pre-Liberation Day levels as US-China trade talks resumed with a more conciliatory tone.
- US CPI and core CPI rose 0.2% MoM — softer than expected — pointing to easing inflation pressures.
- The Atlanta Fed's GDPNow estimate was revised up to +2.5% annualised, signalling continued US economic resilience.
- Fed rate cut expectations moderated to 50 bps in 2025; 10-year Treasury yield held steady at 4.45%.
- Moody's downgraded the US sovereign credit rating to Aa1, citing concerns over its fiscal deficit and interest costs.

- MSCI Asia ex-Japan gained 3.5%, led by Taiwan (+4.4%), India (+3.6%), and Hong Kong (+2.1%) on improved trade sentiment.
- India-Pakistan tensions cooled following a US-brokered ceasefire, lifting regional sentiment.
- US-Saudi AI tech investments boosted confidence in semiconductors; Nvidia and AMD to supply chips for a large AI data centre.
- Asian IG spreads tightened 7 bps to 81 bps; HY compressed 38 bps to 4.84% as risk appetite returned.



- The FBM KLCI rose 1.63%, supported by institutional inflows and stronger regional cues.
- Q1 GDP came in at 4.4%, slightly below expectations; OPR cut expectations for 3Q'25 increased.
- RM5b 5-year MGS auction drew solid demand (BTC 2.1x); average yield printed at 3.336%.
- MGS curve ended mixed; 10-year yield rose 3 bps to 3.57%, 30-year up 1 bp to 4.06%.
- Bank Islam issued RM250m Tier-1 sukuk; PDS market activity remained subdued.

MARKET PULSE | QUESTION OF THE WEEK

Moody's Downgrades US Credit Rating – What It Means for Markets

Upon the close of markets last week, Moody's downgraded the US sovereign credit rating by one notch, from Aaa to Aa1, bringing it in line with Fitch and S&P, both of which had already stripped the US from its top-tier rating. Moody's cited that the downgrade was due to the failure of US administrations and Congress in reversing the trend of large annual fiscal deficit and growing interest costs. Nonetheless, the stable outlook and Aa1 rating reflects Moody's view that the US retains exceptional credit strengths due to its size, resilience, dynamism of its economy and the role of the US dollar as a global reserve currency.

Why It Matters

US Treasury yields serve as the global benchmark for risk-free rates. A downgrade typically puts upward pressure on yields, tightening financial conditions and potentially triggering a risk-off tone in global markets.

However, market reactions are not always straightforward. When S&P downgraded the US in 2011, US Treasuries rallied — largely due to the Federal Reserve's quantitative easing (QE) at the time. This highlights that broader macro dynamics and policy responses often have a stronger impact than rating changes alone.

Our Views

The downgrade is unlikely to cause significant disruption, as it merely brings Moody's rating in line with other agencies and reflects long-standing fiscal concerns.

While it may dampen sentiment near-term, markets will also be on the lookout for inflation print, direction of Fed policy and progress of trade negotiations by the US and other countries.

GLOBAL & REGIONAL EQUITIES

United States

US equities rallied strongly last week, with the S&P 500 gaining 5.30% and approaching levels seen before the announcement of the Liberation Day tariffs. This sharp rebound was driven by a more conciliatory tone in ongoing US-China trade negotiations, which have helped calmed investors' nerves. However, while markets welcomed the pause in hostilities, the structural conditions underpinning the trade war is not yet fully resolved.

In macro data, US inflation data last week came in slightly softer than expected, contributing to the improved tone in market sentiment. Headline CPI rose by 0.2% month-on-month, below consensus expectations of 0.3%. Similarly, core CPI which strips out the more volatile food and energy components also increased by 0.2%, versus expectations of a 0.3% rise.

Goods inflation remained subdued, with prices for many items not directly impacted by tariffs continuing to ease, such as used car prices. On the other hand, core services inflation, particularly within the shelter component showed signs of moderation but remains elevated. Taken together, these inflation prints suggest that price pressures are gradually inching toward the Fed's inflation 2% target. Inflation data needs to be continually assessed in the coming months to get a better picture of the impact of flip flop in tariffs implementation.

GLOBAL & REGIONAL EQUITIES *(CONT')*

United States

The Atlanta Fed's GDPNow estimate also ticked higher moving from a previously negative territory to a +2.5% annualised growth forecast reinforcing continued US economic resilience.

Against this economic backdrop and easing trade tensions, bond market expectations for Fed rate cuts have moderated. At the start of May, futures were pricing in as much as 100 basis points of easing for the year; that has since narrowed to just 50 basis points, aligning more closely with our own base case for 2 rate cuts in 2025. The US 10-Year Treasury yield ended the week flat at 4.45%, having briefly traded in a range between 4.40% and 4.55%.

Asia

Similarly Asian equities rallied last week, supported by improving sentiment from the US-China tariff de-escalation. The MSCI Asia ex-Japan Index rose 3.5%, with Taiwan previously the hardest hit by rebounding 4.4%. Hong Kong's Hang Seng Index gained 2.1%, while India's Sensex climbed 3.6% as geopolitical tensions between India and Pakistan eased following a ceasefire.

Improved risk sentiment also followed US President Trump's visit to Saudi Arabia, which saw a series of US tech announcements in the region. Notably, Nvidia and AMD revealed plans to supply semiconductors to Saudi firm Humain for a large-scale AI data centre. The trip resulted in USD 600 billion in investment pledges from the Saudi government, further boosting confidence in the tech sector.

On portfolio positioning, our Asian funds remain around 95% - 96% invested, unchanged from prior weeks. However, we tactically shifted our allocation last week. We trimmed positions in Indonesia and Singapore, redeploying capital into Korea, where valuations remain attractive and selective earnings upgrades continue to emerge. We also modestly added exposure to Taiwan, but maintaining an underweight stance.

In terms of fund flows, we observed broad-based foreign inflows across the region last week, with the exception of Thailand and the Philippines, which continued to see net outflows. Quarter-to-date, India, Japan, Malaysia, and Taiwan have all recorded net inflows. While year-to-date (YTD) flows for the region remain negative overall, the gap is narrowing amid US dollar weakness and a gradual shift in allocations from US to Asian assets.

UPDATES ON MALAYSIA

The FBM KLCI rose 1.63% last week, reflecting a broad-based rebound likely supported by returning fund flows, as institutional investors recalibrate their exposures back toward neutral.

While the rebound is encouraging, broader sentiment remains cautious given the prevailing external macroeconomic headwinds. In response, our portfolios have moved to a more neutral position, with cash holdings trimmed to around 15%, lower from elevated levels earlier in the quarter. The bulk of our exposure remains anchored in dividend-yielding stocks, offering a measure of defensiveness in a global environment of moderating growth expectations.

Looking ahead, we intend to maintain this positioning in the near term as we await clearer signals on both global monetary policy and domestic growth catalysts.

REGIONAL FIXED INCOME

It was another constructive week for credit markets, supported by a broadly risk-on tone following news on the tariff war de-escalation. In Asia, credit spreads continued to tighten, reflecting stronger risk appetite. Investment-grade (IG) spreads narrowed by 7 basis points (bps) to 81 bps, while high-yield (HY) spreads compressed by 38 bps to 4.84%. IG spreads have now returned to pre-Liberation Day levels, while HY spreads have recovered nearly 80% from their widest point—signalling a gradual return in investor confidence.

This shift in tone was also visible in fund flows, with emerging market debt seeing increased demand throughout the week. Inflows picked up notably following the announcement of new US-China tariff measures, which were perceived to be less severe than initially feared.

Primary market activity was robust across currencies, as issuers capitalised on improved sentiment. Our team participated selectively in several deals, including a 10-year SGD-denominated subordinated bond from Prudential at 3.8%, AT1 papers from European banks, and a USD-denominated issuance from an Indonesian state-owned enterprise. In the secondary market, we took profits on select recent primary allocations and switched from government bonds to make room for new opportunities.

Overall, we continue to maintain a nimble stance with a preference for high-quality investment-grade names. While recent momentum has been encouraging, we remain disciplined and selective amid ongoing macro and geopolitical uncertainties.

DOMESTIC FIXED INCOME

The domestic bond market opened the week on a cautious note amid lingering concerns over global trade developments. Malaysian Government Securities (MGS) remained largely range-bound until the release of Malaysia’s first quarter GDP, which came in at 4.4% - matching the advance estimate but slightly below consensus expectations of 4.5%. The softer print reinforced market expectations for a possible OPR cut in the third quarter, contributing to a more dovish shift in tone toward the end of the week.

MGS benchmark yields ended the week mixed. The mid-tenor segments saw modest upward pressure, with 5-year and 7-year yields rising by 3 and 5 bps respectively. Longer-dated bonds were relatively stable. The 5-year MGS closed flat at 3.26%, while the 10-year rose to 3.57% (+3 bps) and the 30-year edged up to 4.06% (+1 bp).

A key development was the RM5 billion auction of a new 5-year MGS maturing in May 2030, which replaces the previous 5-year MGS benchmark maturing in August 2029. The issuance was well received, achieving a bid-to-cover ratio of 2.1 times, with yields ranging from 3.318% to 3.345% and an average yield of 3.336%. Looking ahead, the market is preparing for the next auction, a new 20-year Government Investment Issue (GII) with an expected issuance size of RM5 billion, split between RM3 billion via public auction and RM2 billion via private placement.

In the corporate Private Debt Securities (PDS) space, activity remained muted. The sole issuance last week was a RM250 million subordinated sukuk (Tier-1) by Bank Islam Malaysia, privately placed and rated A1. We participated in the deal, though allocations were limited due to the small size.

On portfolio action, we engaged in selective rebalancing and modest duration extension. Cash levels across portfolios remain low, between 1% and 3%, with assets nearly fully deployed, while portfolio duration is from 6.8 years to 7 years.

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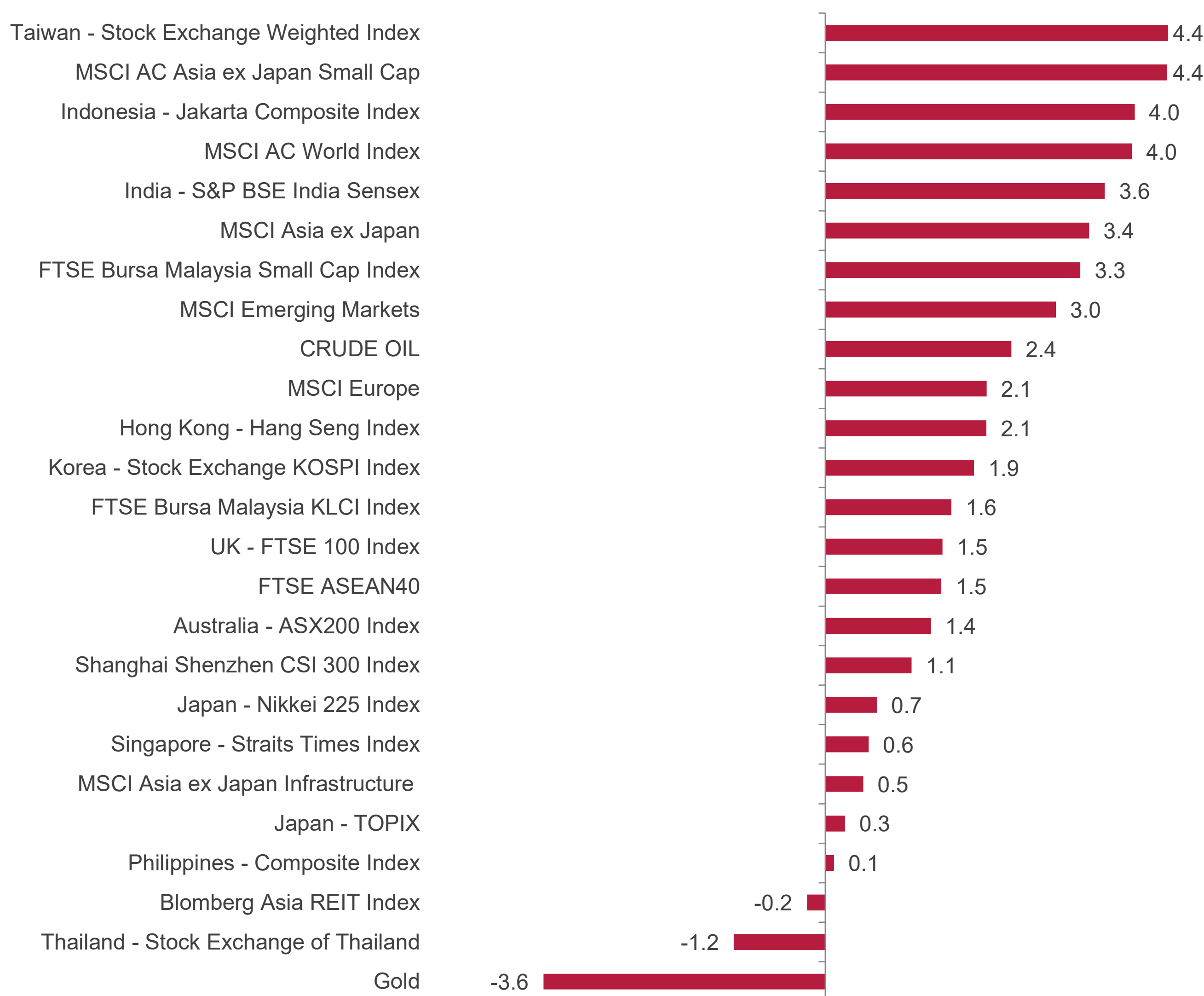
Index Performance | 12 – 16 May 2025



Index Chart: Bloomberg as at 16 May 2025. Quoted in local currency terms.

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