AHAM CAPITAL
ASSET MANAGEMENT

13 - 17 January 2025

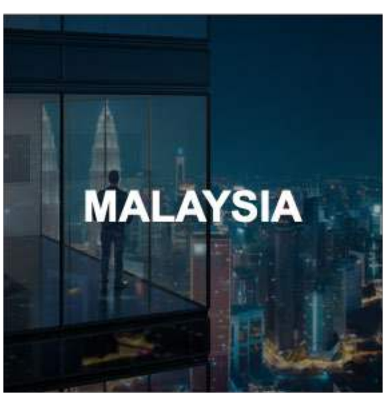
WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 rose 2.90%, supported by softer inflation data and dovish remarks from Fed officials, lifting expectations for rate cuts later this year.
- Core CPI increased 0.2% in December, with headline inflation easing to 2.9%, signaling moderating price pressures.
- Retail sales grew 0.4%, while the Producer Price Index (PPI) increased by a modest 0.2%.
- Donald Trump begins his second term as US President this week, with renewed focus on trade tensions and economic policies likely to influence global markets.

- The MSCI Asia ex-Japan Index rose 1.02%, led by robust earnings from TSMC, which lifted tech stocks across the region.
- China's Q4 GDP exceeded expectations at 5.4%, with strong retail sales and industrial production showing signs of recovery amid ongoing policy support.
- A call between Donald Trump and Xi Jinping offered temporary relief for Chinese equities, though trade tensions remain a key overhang as Beijing signals readiness to counter potential tariffs.
- Indonesia outperformed following a surprise 25 bps rate cut by Bank Indonesia, while Thailand faced headwinds from local economic challenges.



- The KLCI Index declined by 2.20%, weighed down by concerns over US AI chip export restrictions on Tier 2 and Tier 3 countries, including Malaysia.
- Data centre-linked stocks such as Gamuda and Mah Sing experienced significant sell-offs, with valuations sharply de-rated amid market concerns.
- The broader market, including technology stocks, faced pronounced selling pressure, reflecting a broad-based reaction to the chip restriction news.
- Further downside should be limited at this stage, as valuations offer a degree of support. However, a meaningful rebound is unlikely until greater clarity emerges surrounding US policy on chip restrictions.

Global & Regional Equities

US equities rose last week with the S&P 500 index closing 2.90% higher, following a softer inflation reading which helped lift expectations that the US Federal Reserve (Fed) would be able to stay on track to cut interest rates in the later part of the year.

US core consumer price index (CPI), which excludes volatile food and energy costs, rose by 0.2% in December after four consecutive months of 0.3% gain led by a deceleration in prices of core goods. Headline reading increased a seasonally adjusted 0.4% on the month, putting the 12-month inflation rate at 2.9%.

Similarly, the producer price index (PPI) increased by a modest 0.2%, falling short of market forecasts. Meanwhile, retail sales rose 0.4% last month after an upwardly revised 0.8% growth in November, further underscoring consumer resilience.

A key Fed official Christopher Waller also struck a dovish tone, noting that progress in curbing inflation may warrant additional rate cuts this year. Waller’s remarks, alongside improving inflation gauges, reinforced market optimism about the Fed’s shift toward monetary easing. These developments suggest that the US economy remains resilient, even as inflationary pressures appear to moderate.

In Asia, the MSCI Asia ex-Japan Index rose by 1.02% last week, buoyed by optimism over potential US rate cuts and robust earnings from Taiwan Semiconductor Manufacturing Company (TSMC). TSMC, the world’s largest contract chipmaker, reported stronger-than-expected results, providing a significant lift to technology stocks across the region.

China’s fourth-quarter GDP grew by 5.4%, exceeding market expectations. December’s retail sales rose 3.7% year-on-year, surpassing forecasts of 3.5%, while industrial production grew by 6.2%. While the latest economic data tentative signs of a recovery boosted by a raft of policy measures from Beijing, the risk of trade tensions with the US remain a persistent overhang.

A phone call between Donald Trump and Xi Jinping drew attention. While the leaders exchanged positive remarks, historical patterns suggests that such cordial interactions have not deterred Trump from implementing additional tariffs on China in the past. Despite providing a temporary boost to Chinese equities, investors remain cautious, recognising that the trade tensions between the US and China are unlikely to ease significantly in the near term. As Donald Trump begins his second term this week, Beijing has signalled readiness to implement more stimulus measures to counter the impact of looming trade tariffs.

Within ASEAN, market performance diverged. Indonesia outperformed, with its equity market rallying after Bank Indonesia surprised with a 25-bps rate cut, lowering its benchmark rate to 5.75%. This policy move temporarily boosted market sentiment. In contrast, Thailand continued to face pressure from local challenges, while Singapore and other regional markets remained subdued.

Portfolio activity remained steady last week, with no significant adjustments to holdings. Cash levels

Global & Regional Equities *(cont')*

across portfolios were maintained between 3% and 10%, reflecting a cautious yet opportunistic approach to current market conditions.

Updates on Malaysia

The Malaysian equity market faced headwinds last week, with the KLCI falling 2.20%, while the broader FBM 100 index was down 2.4%. This brings Malaysia's year-to-date (YTD) performance to a decline of approximately 5% thus far.

The primary drag on sentiment stemmed from the US government's move to impose AI chip export restrictions on tier 2 and tier 3 countries, including Malaysia. This policy shift significantly impacted sectors tied to the data centre (DC) theme, triggering a broad sell-off across related stocks.
Construction and property stocks with exposure to the DC theme, such as Gamuda and Mah Sing, bore the brunt of the sell-off. Gamuda's valuation experienced a sharp de-rating, while Mah Sing surrendered much of its earlier gains from the DC rally.

The correction was not confined to DC-linked names with the weakness extending across the broader market. Even unrelated sectors, such as technology, experienced significant selling pressure. The swift and pronounced sell-off suggests that market participants have largely priced-in the impact of the AI chip restrictions, with many funds giving up earlier gains tied to the DC narrative.

Looking ahead, the local market should stabilise, as valuations across affected sectors have reached more palatable levels, offering a degree of support. However, a meaningful rebound is unlikely until greater clarity emerges on the US government policy for chips as US President Donald Trump begins his second term this week.

On portfolio positioning, cash levels range between 5%-10% across our domestic funds. While we have trimmed positions in select names, we refrained from wholesale selling during the recent weakness. Beyond the DC narrative, we believe that Malaysia's broader fundamentals remain intact, underpinned by steady economic growth, political stability, and policy reforms.

Fixed Income Updates & Positioning

Last week, investment-grade (IG) credit spreads remained stable at 73 basis points (bps), reflecting steady demand for higher-quality issuers. In contrast, high-yield (HY) spreads widened by 25 bps to 4.26%, driven largely by weakness in the Chinese HY segment. Key contributors to this weakness included Global Logistics Properties (GLP), Vanke, and Longfor Group Holdings Limited, which faced increased investor scrutiny. Adding to the pressure, New World Development (NWD) weighed heavily on market sentiment as concerns over the vulnerabilities of the property sector persisted.

On a more positive note, Adani Group experienced some relief, gaining approximately one point after it was reported that Hindenburg Research had ceased operations. This development boosted sentiments

Fixed Income Updates & Positioning *(cont')*

on the Adani complex. However, the broader HY market remained under strain, with Vanke Group emerging as a notable concern. Reports surfaced that Vanke's CEO had been detained by authorities, although he later addressed the media through a local reporter. Despite this clarification, the market remains cautious about the company's ability to meet its debt obligations, further amplifying unease in the HY space.

In the primary market, we participated in the Al Rajhi AT1 USD Sukuk, which offered a yield of 6.25%. Additionally, we took part in Nippon Life's Euro-denominated subordinated bond, priced attractively at 4.11%.

Among other notable deals, Great Eastern issued an AT1 USD bond priced at the tight end of guidance, around 5.4%. However, we opted to pass on this deal, as it did not offer sufficient value. Since issuance, the bond has widened by approximately 10 basis points and has now stabilised at around 5.5%.

Back home, the domestic bond market was stable last week. Overall yields increased slightly by 1 bps on a week-on-week basis. However, the 10-year and 30-year Malaysian Government Securities (MGS) yields remained unchanged. As of last Friday, the 3-year MGS was at 3.46%, the 10-year MGS at 3.82%, and the 30-year MGS at 4.18%.

The highlight of the week was the issuance of the 15-year Malaysian Government Investment Issue (MGII). The total issuance size was RM 4 billion, with RM 3 billion available for public auction and RM 1 billion privately placed. The auction was met with exceptionally strong demand, achieving a record bid-to-cover ratio of 4.3 times—the highest ever recorded for an ultra-long-tenor auction. The successful yield was at 3.974%, and following the auction, the sukuk was actively traded in the secondary market, closing the week 1 bps lower at 3.96%. Looking ahead, the next auction will feature a 3-year GII with an estimated issuance size of RM 5 billion, without any private placement. This shorter tenure is expected to attract more interest from banking books compared to institutional investors.

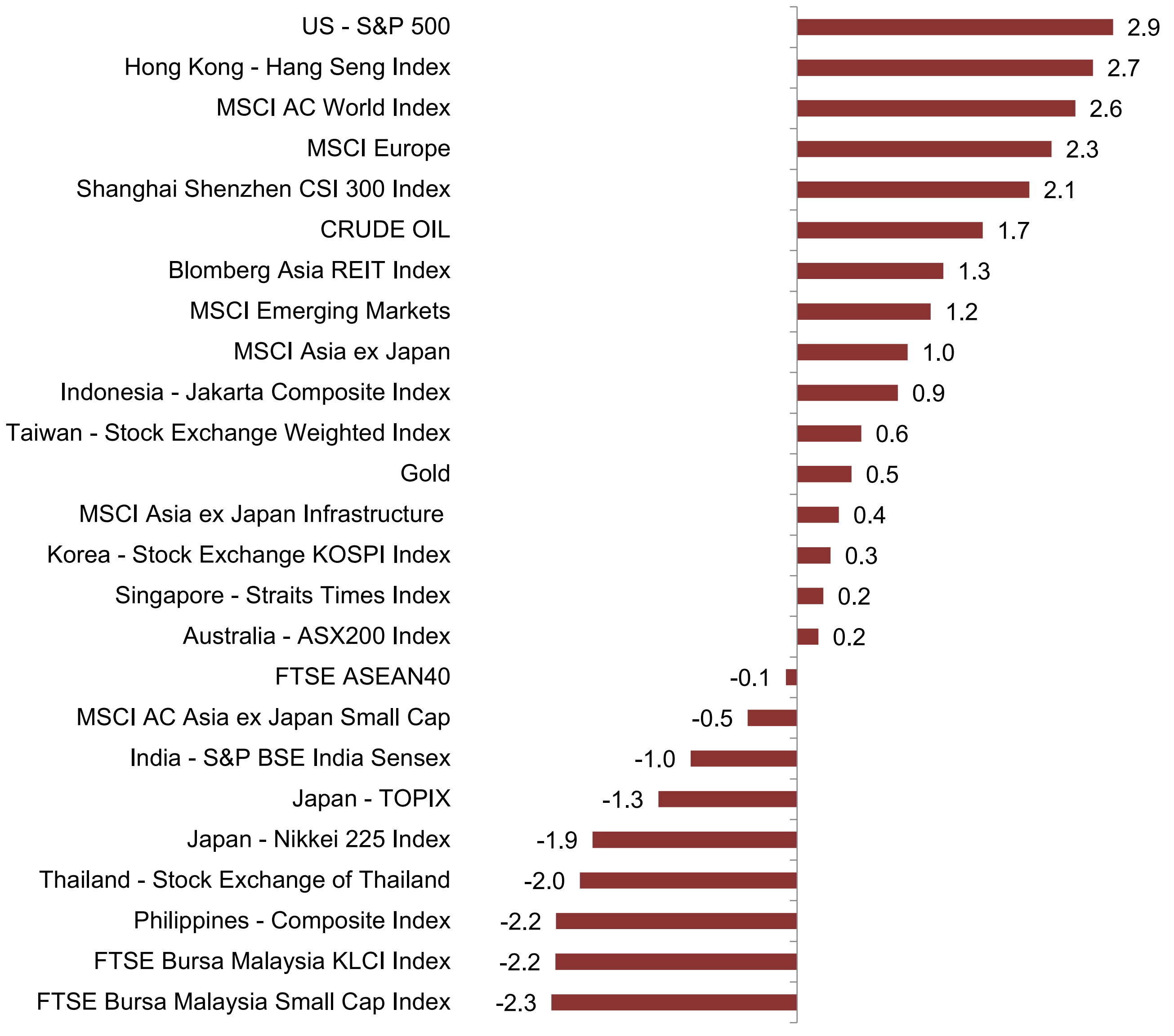
In the corporate bond space, LBS Bina Group Bhd opened a book for a 7-year paper with an issuance size of RM 400 million. The initial price guidance was set at 5.01%, but strong demand tightened the final price to 4.81%, reflecting a 20-bps reduction. Despite the robust demand, we did not participate in this issuance.

This week, all eyes are on Bank Negara Malaysia's (BNM) first Monetary Policy Committee (MPC) meeting of the year, scheduled for Wednesday. We anticipate no changes to the Overnight Policy Rate (OPR), which is expected to remain stable at 3%.

Our current portfolio duration stands between 4.8 years and 6 years, with cash levels maintained below 5%. Last week, we were net sellers, taking advantage of strong demand in the secondary corporate bond market to sell some of our holdings in corporate bonds with tight valuations.

- END -

Index Performance | 13 January – 17 January 2025



Index Chart: Bloomberg as at 17 January 2025. Quoted in local currency terms.