AHAM CAPITAL
ASSET MANAGEMENT

24 – 28 February 2025

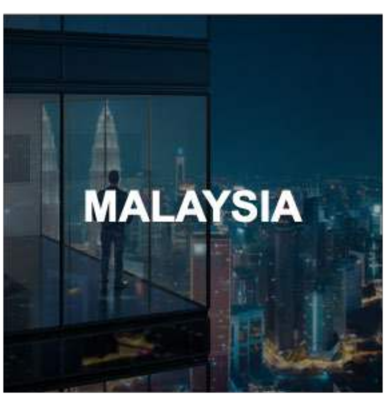
WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 fell 1%, while the Nasdaq dropped 3.5%, weighed down by economic jitters and concerns over AI and semiconductor capex spending.
- Trade tariffs of 25% on Canada and Mexico, as well as 10% tariffs on Chinese goods are set to take effect this week. Meanwhile, the US trade deficit widened sharply to USD 153 billion as imports surged ahead of the tariffs.
- Consumer confidence fell to its weakest level since 2021, with real personal spending contracting by 0.5%, leading the Atlanta Fed's GDPNow tracker to turn negative for Q1 2025.
- US Treasury yields fell sharply, with the 10-year yield dropping from 4.43% to 4.21%, driving a flight to safety in bonds. The US dollar also strengthened against G10 and other major Asian currencies .

- The MSCI Asia ex-Japan index declined 4.2%, with Indonesia (-7.8%), Korea (-4.6%), and Taiwan (-2.9%) posting sharp losses, driven by tariff concerns and weak global tech sentiment.
- China's tech and AI sectors saw profit-taking, with a rotation into property and consumer stocks, supported by signs of property sector stabilisation.
- The top 100 developers in China saw land acquisitions rising by 30%-40%. Property sales are also seen stabilising, but have yet to recover fully from its rout 4 years ago.
- China's National People's Congress (NPC) begins Wednesday. While expectations are low, the potential for stimulus measures could spur domestic consumption.



- The KLCI Index declined 1.03%, bringing year-to-date losses to 4.12%, tracking broader regional and U.S. market weakness.
- Microsoft's cancellation of U.S. data centre leases weighed on technology-related sectors, while Trump's proposed tariffs on semiconductors and pharmaceuticals raised concerns for Malaysia's E&E sector.
- Technology and construction sectors fell 10% and 6%, while plantation and telecommunications sectors gained ~2%, providing some resilience.
- Bank Negara Malaysia (BNM) will hold its Monetary Policy Committee (MPC) meeting on March 6, where it is widely expected to maintain the Overnight Policy Rate (OPR) at 3.00%, in line with market expectations.

Global & Regional Equities

US equities came under pressure last week with the S&P 500 closing down 1% on the back of economic jitters following soft data. The Nasdaq also fell 3.5% driven by concerns over capex spending in the artificial intelligence (AI) and semiconductor space.

Adding to the cautious sentiment were renewed trade tensions, with Trump proposing tariffs of 25% on Canada and Mexico and 10% on Chinese goods, set to take effect this week. The US trade deficit widened sharply to USD 153 billion from December's USD 122 billion, driven by a surge in imports as manufacturers front-loaded purchases ahead of the tariff implementation.

Consumer sentiment also took a hit, with the Conference Board's Consumer Confidence Index falling 7 points to 98.3, which is the weakest level since 2021. Additionally, real personal spending contracted by 0.5%, reversing the previous month's 0.4% gain. These data points contributed to the Atlanta Fed's GDPNow tracker turning negative, signaling softer economic expectations for Q1'2025, though the tracker remains volatile and subject to revisions.

On the inflation front, core personal consumption expenditures (PCE) was in line with expectations, where the US Federal Reserve's (Fed) preferred inflation gauge increased 0.3% for the month, translating to a year-on-year rate of 2.6%.

Concerns over slowing growth led to a sharp rally in US Treasuries. The 10-year yield declined (bond prices move inversely to yields) from 4.43% to 4.21%—a 20-basis-point move—driving a flight to safety not only in bonds but also in currencies. The US dollar strengthened across the board, rising against all G10 and major Asian currencies last week. With growth expectations softening, market pricing for Fed rate cuts has shifted to 2 - 3 cuts this year, from 1 -2 previously.

On the geopolitical front, talks between Donald Trump and Volodymyr Zelensky about a potential resolution to the Ukraine war ended abruptly after the exchange turned fiery. For years, the US has played a stabilising role in global conflicts, but a shift in foreign policy under Trump's administration could accelerate the move towards a more multipolar world. If US support becomes less certain, European nations may need to bolster its own defence spending without relying on US backing.

The US 4Q 2024 earnings season is in its final stages, with 90% of companies having reported. So far, 75% of companies have exceeded expectations, delivering an average positive surprise of 7%. However, earnings growth expectations for 2025 are being revised downward, now standing at 12%, down from 14% in January.

Nvidia's results were a key focus last week. While the company beat expectations, the buy-side had set a higher bar, particularly for forward guidance. The lack of a stronger outlook led to some disappointment in the tech sector, contributing to broader weakness.

Global & Regional Equities *(cont')*

In Asia, the MSCI Asia ex-Japan index fell 4.20% last week. Indonesia saw a sharp selloff, with the Jakarta Composite Index down 7.80%, partly driven by concerns over US tariffs. Similarly, Korea and Taiwan also closed negatively with their respective country indices down 4.60% and 2.90% respectively.

In China, we saw profit-taking in tech and AI names, with some rotation into cyclical sectors like property and consumer stocks. This shift was likely supported by encouraging property data where sales among the top 100 developers were flat y-o-y in the first 2 months of 2025, suggesting that the property sector has stabilised. However, property sales still remain 65% lower than the 4-year average.

On a more positive note, land acquisitions among the top 100 developers rose 30%–40% in the same period. Over the weekend, February's manufacturing PMI also came in ahead of expectations.

Looking ahead, this week's key event will be China's National People's Congress (NPC), which begins on Wednesday. Expectations are low, but that may work in the market's favor. Given the tariff concerns, there is speculation that Beijing may announce further stimulus measures to boost domestic consumption.

In terms of portfolio actions, we top-sliced some Alibaba exposure to reduce our China tech overweight following its strong rally, bringing our China positioning down to neutral. We also selectively nibbled into property and consumer names, anticipating some catch-up if the NPC meeting delivers positive surprises.

Updates on Malaysia

The KLCI index declined by 1.03% last week, mirroring broader losses across regional and U.S. markets. Year-to-date, the index has fallen by 4.12%, reflecting continued market volatility.

The week started on a weaker note after Microsoft announced plans to cancel a significant number of U.S. data centre leases, which dampened sentiment across technology-related sectors. Towards the end of the week, investor concerns were further exacerbated by potential tariff measures under Donald Trump's proposed economic policies.

According to Reuters, Trump has outlined plans to impose a 25% tariff on imports of automotive, semiconductor, and pharmaceutical products. This development presents a substantial challenge for Malaysia, given that electrical and electronics (E&E) products account for approximately 60% of its total trade with the U.S. In response, Malaysia, as the 2025 ASEAN chair, is advocating for a special ASEAN-U.S. summit to discuss these trade concerns. At the same time, Malaysian officials are engaging directly with Washington in an effort to safeguard the country's semiconductor industry from potential disruptions.

Sector performance was mixed, with technology and construction leading the declines, falling by 10%

Updates on Malaysia *(cont')*

and 6%, respectively. Meanwhile, the plantation and telecommunications sectors managed to record modest gains of approximately 2%, providing some resilience amid broader market weakness.

On the domestic front, the Employees Provident Fund (EPF) announced a 6.3% dividend for both conventional and Shariah savings for FY2024—the highest payout since 2017. This marks a significant increase from the 5.5% and 5.4% dividends declared for conventional and Shariah savings in FY2023, respectively. The total dividend payout for 2024 amounted to RM73.24 billion, up from RM57.81 billion in the previous year, underscoring the EPF's solid investment performance despite prevailing market uncertainties.

Foreign outflows persisted last week, with nett equity sales amounting to RM600 million. Total foreign outflows for January and February stood at RM3.1 billion and RM2.2 billion, respectively—already surpassing the entire 2024 net outflow of RM4.3 billion within just the first two months of this year.

On portfolio actions, cash levels remain within the 5-10% range. While valuations may appear attractive, we are holding off on buying the dip, opting instead to maintain higher cash reserves amid ongoing uncertainty.

Fixed Income Updates & Positioning

Regional Fixed Income

The past week in the fixed income space was marked by consolidation and macro volatility. U.S. investment-grade (IG) and Asia IG credit spreads widened by approximately five to six basis points, while high-yield (HY) bonds outperformed, tightening by more than ten basis points.

In Hong Kong, CTF Services reported solid earnings, supported by a strong income statement. Meanwhile, its sister company, New World Development, issued a profit warning. Despite this, the results were better than expected in some aspects, with manageable asset impairments and a sequential improvement in underlying profit. As a result, New World Development's dollar bond curve climbed higher over the week. Hysan Development Company Limited, a Hong Kong-based property developer, also provided positive news by announcing plans to tender its outstanding dollar perpetual, intending to refinance through a new issuance.

Dollar bond issuance in APAC remained subdued. The primary market saw only select issuances, including Chinese local government financing vehicles (LGFVs) and an Indian issuance from Varanasi Expressway Private Limited. The latter, a USD 316 million issuance backed by a single operating toll road project in India, performed well post-issuance, tightening by approximately 20 basis points from the offer. We participated in Varanasi's issuance and subsequently took profits as the bond appreciated by one point.

In contrast, the Australian dollar (AUD) bond market was highly active. Investor sentiment was stronger

Fixed Income Updates & Positioning *(cont')*

than in the U.S. dollar market, leading to robust demand for new AUD-denominated deals. Notable issuances from MUFG Bank, Ltd., Insurance Australia Group Limited (IAG), and Port of Brisbane offering were all priced at the tighter end, with oversubscription levels ranging from more than two to six times. These bonds subsequently tightened by approximately three to four basis points in the secondary market. We participated in IAG's Tier 2 subordinated bond, which was rated two notches above QBE Insurance Group and aligned with major bank Tier 2 issuances.

Additionally, we invested in the 10-year green bond issued by National Broadband Network (NBN) and a Tier 2 10NC5 bond from Banco Santander. The NBN green bond was priced at approximately 5.37% for a 10-year tenor, while Banco Santander Tier 2 bond was issued at 5.8%. Both bonds appreciated by 10 to 60 cents post-issuance.

Still within the AUD market, corporate earnings reports provided further insights. Qantas Airways Limited posted strong results, benefiting from rising travel demand. While capital expenditures (CapEx) remain high, the company's balance sheet remains robust enough to support ongoing investments. Scentre Group also delivered strong earnings, while Pacific National Holdings Pty Ltd, reported weak numbers which was overshadowed by Aurizon Holdings Limited's poor results last week.

Domestic Fixed Income

The local bond market remained highly active, driven primarily by onshore players engaging in rebalancing and liquidity management. The Malaysian Government Securities (MGS) yield curve remained relatively stable, tightening by 0 to 1 basis point across the curve. The 10-year MGS yield edged down by 1 basis point to 3.79%, while the 30-year tenor remained unchanged at 4.18%.

During the week, the government held a new 5-year benchmark Government Investment Issue (GII) auction with a total public issuance size of RM5.5 billion. Despite the larger issuance size and no private placement, demand was strong, reflected in a bid-to-cover (BTC) ratio of 3.2 times. The auction cleared at an average yield of 3.64% and ended the week slightly stronger, closing 3 cents higher at 3.62%.

The corporate bond market also saw heightened activity, with several issuers tapping the market. OSK Holdings Berhad issued RM750 million in 7-year bonds at 4.05% (+25 bps spread) and 10-year bonds at 4.12% (+32 bps spread), both rated AA. Meanwhile, AEON Credit Service (M) Berhad privately placed 5-year bonds at 4.13% (+45 bps spread) and 6-year bonds at 4.22% (+45 bps spread), with a BTC ratio exceeding five times. We participated in AEON Credit's private placement as well as the new 5-year GII auction.

Additionally, Cagamas Berhad issued 5-year bonds, while DanaInfra Nasional Berhad priced government-guaranteed (GG) bonds with spreads ranging from 4 to 5 basis points across 8- to 30-year tenors. Both issuances were well received by investors.

Fixed Income Updates & Positioning *(cont')*

Looking ahead, the Bank Negara Malaysia (BNM) Monetary Policy Committee (MPC) meeting is scheduled for March 6, where we expect the central bank to maintain the Overnight Policy Rate (OPR) at 3.00%, in line with market expectations.

Further primary issuances are anticipated in the coming weeks, with upcoming deals from Press Metal Aluminium Holdings Berhad, UEM Sunrise Berhad, Sunway Real Estate Investment Trust (SunREIT), Pelaburan Hartanah Berhad, IJM Treasury, and CIMB Group Holdings Berhad.

On portfolio actions, we executed some switches, participating in AEON Credit's private placement and the 5-year GII auction. Cash levels across our funds remain within the 2% to 4% range.

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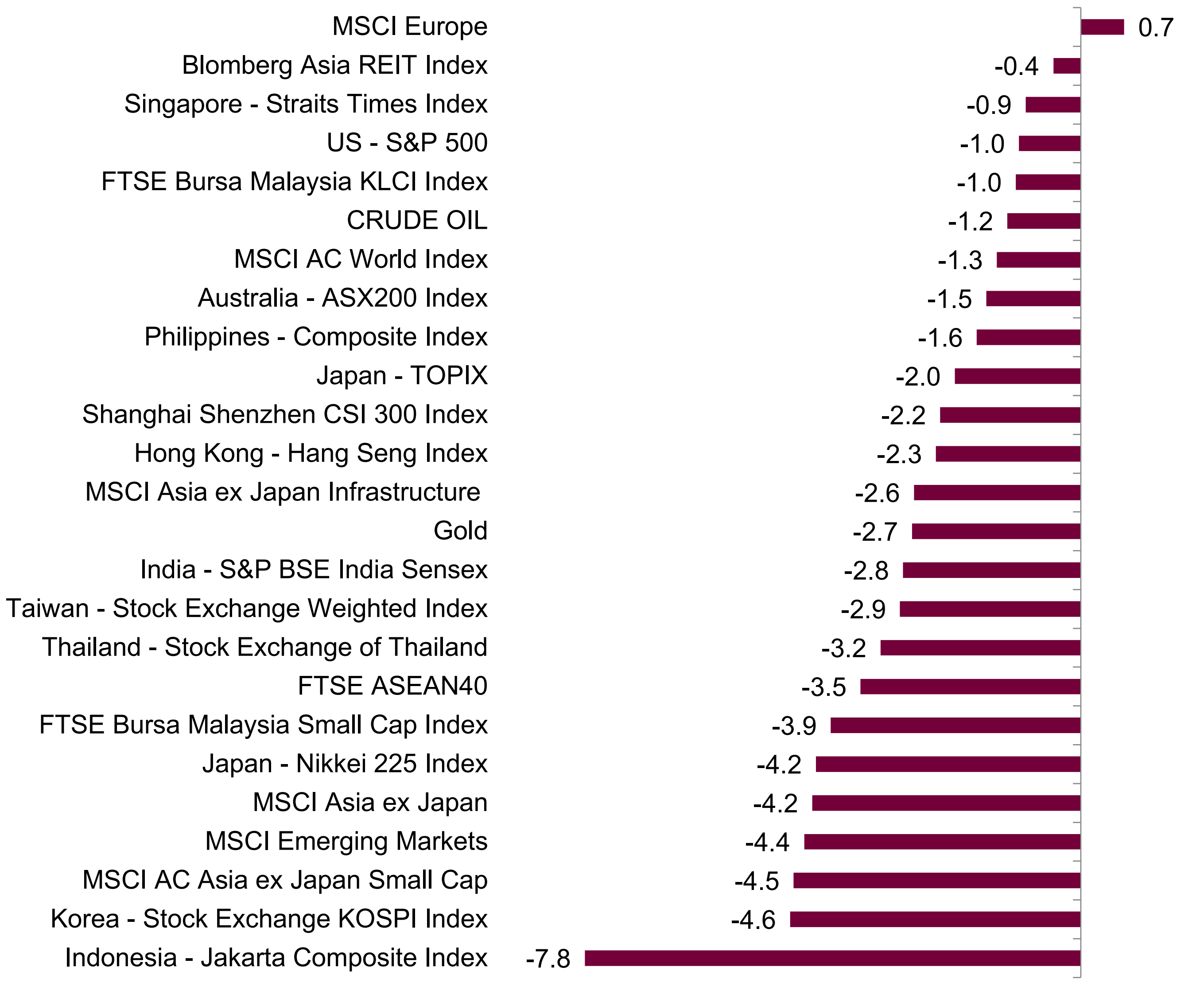
Index Performance | 24 – 28 February 2025



Index Chart: Bloomberg as at 28 February 2025. Quoted in local currency terms.