18 – 22 August 2025

WEEKLY MARKET REVIEW

A brief on global markets and investment strategy

Key Highlights

- The S&P 500 gained 0.3% lifted rate cut optimism following Fed Chair Powell's dovish remarks at the Jackson Hole symposium.
- Powell signalled labour market weakness now outweighs inflation risks, opening the door to a September rate cut.
- US 10-year Treasury yields eased to 4.25% from 4.33%, with markets fully pricing in a 25 bps cut in September and another 25 bps by year-end.

- MSCI Asia ex-Japan slipped 0.5%, though China outperformed with the CSI 300 up 4% on strong domestic momentum as retail participation surges.
- India rebounded on speculation of VAT cuts on vehicles.
- On the flipside, Taiwan lagged amid concerns of the US government taking equity stakes in semiconductor companies in return for grants under the Chips Act. Though, this has been dismissed by TSMC.
- Asian IG spreads held steady at 61 bps, while Asian HY spreads widened by 12 bps to 346 bps.

- The KLCI rose 1.34% to just below 1,600, led by PCHEM, CIMB, Gamuda, and 99 Speedmart.
- Earnings from large-cap names (MCB, TM, AMMB) were in line or above expectations, lending support to equities
- ITMAX secured its first railway contract with KTM, a modest but strategic entry into the transport sector.
- The 10-year MGS settled at 3.39%. Local bond yields may see some downward pressure ahead of the Fed's rate cut in September.

GLOBAL & REGIONAL EQUITIES

US

It was a muted week for US equities, with markets trading largely directionless before finishing slightly higher. The S&P 500 gained 0.3%, with momentum only returning on Friday following Fed Chair Jerome Powell's dovish remarks at the Jackson Hole symposium.

At the symposium—likely Powell's last as Fed Chair—investors were awaiting clarity on the policy path ahead. In his address, Powell acknowledged two key risks: inflationary pressures from tariffs and weakness in the labour market. Notably, he highlighted that risks to the labour market now appear to outweigh inflationary concerns, effectively opening the door to a September rate cut.

The US dollar weakened and Treasury yield fell across the curve following Powell's dovish tilt. The US 10-year Treasury yield eased from 4.33% to around 4.25%. As it stands, markets are fully pricing in a 25 bps cut at its September FOMC meeting and another 25 bps by year-end.

Attention will now turn to upcoming data releases particularly Personal Consumption Expenditures (PCE) inflation and the next jobs report which would be closely scrutinised by the Fed ahead of its September meeting. As long as the data remain consistent with the current trajectory, the Fed appears firmly on track to deliver a cut, aligning with our house view.

Asia

In Asia, the MSCI Asia ex-Japan index slipped 0.5% last week, though performance was mixed across the region. China equities rallied strongly, with the Shanghai Shenzhen CSI 300 climbing 4%. The uptrend was driven by greater domestic momentum as investors reallocated from bonds to equities in response to a rising yield environment and persistent weakness in property.

This rotation into equities as a preferred asset class has been in line with policy guidance, with Beijing earlier this year urging state-owned insurers to increase equity allocations. Flows into the onshore A-share market have been robust, while southbound flows into Hong Kong equities have also remained strong, sustaining market momentum.

India also rebounded, supported by speculation of potential GST cuts, with reports suggesting that VAT on motor vehicles could be lowered from 28% to 18%. While unconfirmed, such a move would represent a significant boost for consumption and has lifted sentiment in the near term.

By contrast, Taiwan underperformed the region amid concerns that the US government could seek equity stakes in semiconductor companies in exchange for cash grants under the CHIPS Act. Although US officials later clarified that TSMC would not be subject to such requirements given its extensive US investment commitments, the market remained cautious.

It was reported that Intel agreed to give the US government a 10% stake in exchange for funding, fuelling speculation that the arrangement may still apply selectively within the semiconductor sector.

On the outlook ahead, Asian equities could stand to benefit from the upcoming Fed rate cycle. When cuts occur without a recession in sight, the outcome has generally been positive for risk assets. Conversely, rate cuts alongside recessionary conditions have tended to weigh on equities.

Asia *(cont')*

Data from past cycles of rate cut resumption after a pause, show that the US dollar typically weakens by 5–6%, while US 10-year Treasury yields fall by around 50 bps over the next 6 months after the rate cut resumption. Emerging market (EM) equities have historically outperformed developed markets by about 5% in the first six months following such a cycle, with further gains subsequently.

If economic conditions remain stable and the US does not enter a recession, a combination of a softer US dollar as well as lower yields will provide upside for EM and Asian markets.

UPDATES ON MALAYSIA

The KLCI extended its uptrend last week, gaining 1.34% to close just shy of the 1,600-point mark. The rally was broad-based, with notable contributions from PETRONAS Chemicals Group Berhad (PCHEM), 99 Speedmart, CIMB Group Holdings Berhad (CIMB), and Gamuda Berhad.

Among the top gainers, PCHEM rallied sharply following reports that South Korea may cut petrochemical capacity after years of oversupply, with some Korean producers facing financial stress. While this supported short-term sentiment, we did not chase the rally, as the industry's underlying fundamentals remain challenging. Even with potential capacity reductions, petrochemical prices are expected to stay under pressure due to the persistently low crude oil environment.

The ongoing earnings season has also lent support to local equities. Results from large-cap names such as 99 Speedmart, Malayan Cement Berhad (MCB), Telekom Malaysia Berhad (TM), and AMMB Holdings Berhad (AMMB) have come in either in line with or above expectations. These companies remain core holdings across our portfolios, supported by their strong fundamentals and consistent contribution to portfolio performance.

On the corporate news front, ITMAX System Berhad (ITMAX) secured a contract from Railway Assets Corporation (RAC), the operator of Keretapi Tanah Melayu Berhad (KTM). While the contract is modest in size, it represents ITMAX's first entry into the railway segment and may open the door to further opportunities. We continue to view the name positively and have maintained our exposure.

Across portfolios, cash levels remain below 10%. We have continued to selectively add exposure to sectors such as banks, technology, oil and gas, construction, and plantations.

REGIONAL FIXED INCOME

The Asia credit market saw a combination of profit-taking and de-risking last week, as investors positioned ahead of the Jackson Hole Economic Symposium (21–23 August 2025). Despite this caution, sentiment remained firm overall, with flows still skewing towards better buying. As a result, Asian investment-grade (IG) spreads held steady at 61 basis points (bps), while Asian high-yield (HY) spreads widened by 12 bps to 346 bps. This mirrored the trend in US credit markets, where IG spreads were flat at around 75 bps, and HY at 279 bps. Notably, both Asia IG and HY touched fresh spread tights during the week at 60 bps and 329 bps, underscoring resilient market appetite.

This firm backdrop continued to support activity in the primary market, where several high-profile deals attracted strong demand, reflecting investors' ongoing hunt for yield and duration. In the Australian dollar (AUD) space, Électricité de France (EDF) priced a AUD 1 billion deal across 10- and 20-year tranches.

REGIONAL FIXED INCOME *(cont')*

The order book was 10 times oversubscribed, and the 20-year bond, initially priced at 6.627%, tightened by 25 bps in the secondary market to around 6.37%.

Also in Australia, HSBC Holdings plc issued AUD 1.75 billion in senior bonds across three tranches. While demand was robust, with a five times covered book, spreads ended the week flat following initial tightening, as investors locked in profits.

Elsewhere in the region, Swire Pacific Limited returned to the market with a USD 500 million seven-year issuance to refinance upcoming maturities. The transaction was met with strong interest, attracting a 10 times covered order book. In secondary trading, the bond tightened by 8 bps, reflecting continued demand for quality names.

India also made headlines, with Sammaan Capital Ltd., a non-bank financial institution, issuing a USD 300 million three-year senior social bond priced at 9.125%, and has since rallied, now trading slightly below the issue yield. This points to a healthy bid for risk despite recent market caution.

Meanwhile, in Europe, Allianz SE priced a USD 1.25 billion Restricted Tier 1 (RT1) perpetual non-call 8.7-year bond at 6.55%. The deal drew exceptional interest, with books covered 10 times, and tightened by nearly 20 bps in the secondary market. The strength of this reception further reinforces global appetite for long-dated, higher-yielding instruments despite a busy issuance calendar.

From a portfolio perspective, we are actively switching into new primary deals to obtain better yields. Cash levels remain low at around 2%, and there were no major changes to FX positioning during the week.

DOMESTIC FIXED INCOME

The Malaysian government bond market saw a modest pullback last week, with benchmark yields rising by 2 to 3 basis points, following an otherwise strong performance in August. The 3-year Malaysian Government Securities (MGS) closed at 3.00%, the 10-year at 3.39%, and the 30-year at 3.88%. While this represents a slight uptick, downward pressure on yields may persist in the coming weeks, supported by growing expectations of a more dovish tone from the US Federal Reserve as September approaches. Beyond that, the local yield curve is expected to remain relatively stable.

In the corporate bond space, AAA-rated papers saw noticeable repricing. Bank Simpanan Nasional (BSN) issued a series of bonds across tenors, with the 3-year at 3.42%, 5-year at 3.52%, and 7-year at 3.58%. These levels reflect a sharp compression in spreads. Meanwhile, Perbadanan Bekalan Air Pulau Pinang (PBAPP) issued longer-tenure papers, with 10-year bonds at 3.57% and 15-year bonds at 3.75%, effectively setting fresh benchmarks for the AAA yield curve.

On the money market front, the Kuala Lumpur Interbank Offered Rate (KLIBOR) remained largely unchanged heading into the end of August. Looking ahead, upcoming maturities of MGS and Government Investment Issues (GII) in September and October are expected to inject additional liquidity into the system, which should provide continued support for the bond market. However, conditions may turn more cautious in the final quarter, as liquidity levels ease through November and December. Despite this, both the government and corporate bond curves remain well anchored for now.

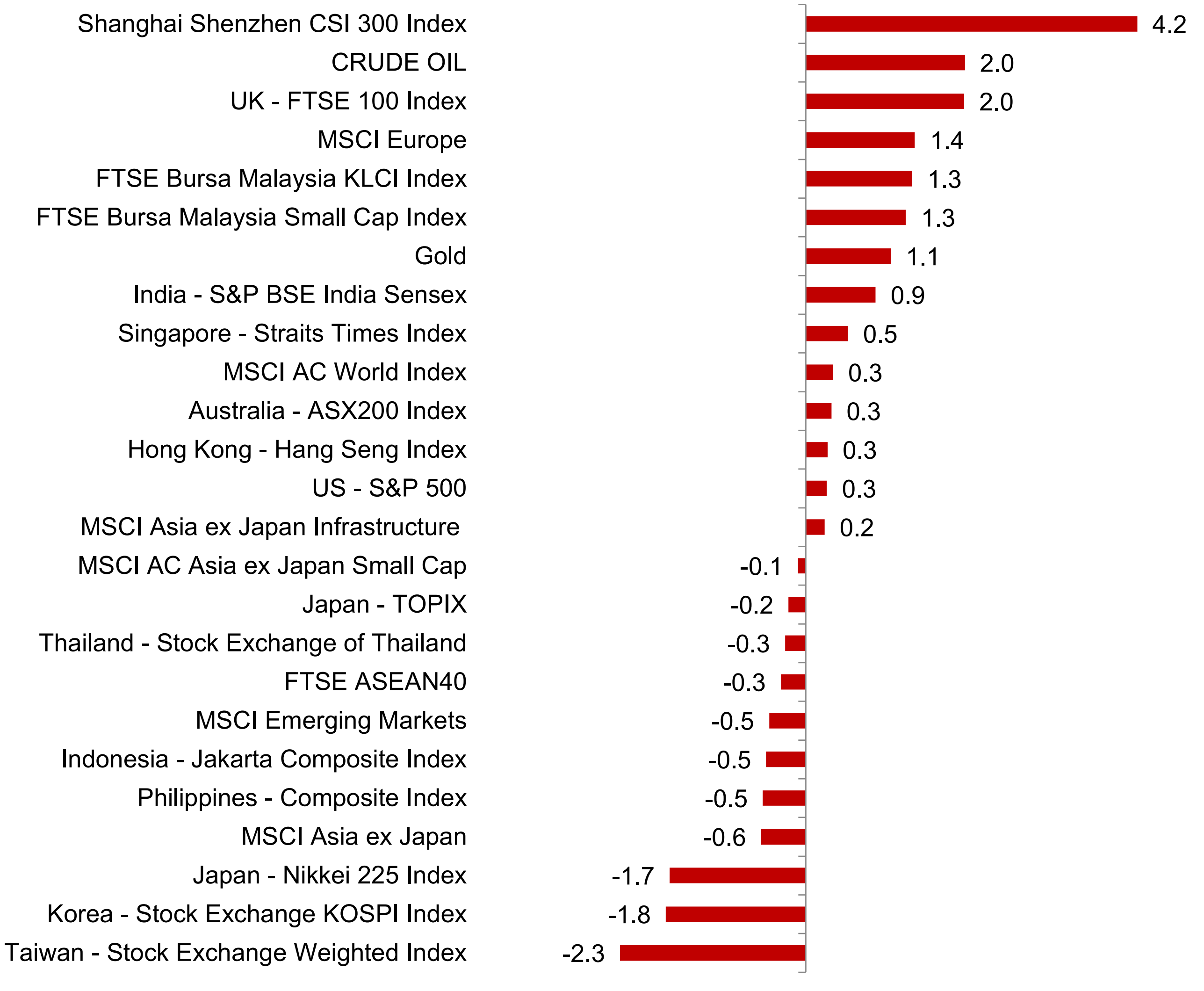
From a strategy standpoint, we continue to favour longer duration positioning, while actively participating in primary market opportunities. At the same time, we are selectively trimming certain corporate bond holdings in the secondary market to lock in gains, with the view of repositioning portfolios to benefit from

DOMESTIC FIXED INCOME *(cont')*

further credit spread tightening.

- END -

Index Performance | 18 – 22 August 2025



Index Chart: Bloomberg as at 22 August 2025. Quoted in local currency terms.