

## Global Outlook<sup>1</sup>

In January 2025, global equity markets were generally mixed, with DMs outperforming EMs. Europe, Korea & S&P 500 rose 6.3%, 4.9% and 2.7%, respectively. Losers were Thailand, Malaysia & Shanghai at 6.1%, 5.2% and 3%, respectively. Both bond indices rose by 0.6%.<sup>1</sup>

The Fed maintained the rate steady at 4.25%-4.5% during the January 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025. The ECB cut interest rate by 0.25% to 3.75% in January 2025 based on weak economic fundamentals and better-behaved inflation.

We are a Buyer of Asian equities. Our preference includes technology (beneficiaries of AI investment and application of AI models), selective Chinese domestic consumption, industrial names with exposure to infrastructure and defense capex, strong consumer and banking franchises in Southeast Asia, and selective Indian companies that are reasonably valued for growth.<sup>3</sup>

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## Global Outlook of the two capital markets: Fixed Income & Equities

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### Region: Developed economies

#### Fixed income

- Our view: **Neutral**.
- The Fed maintained the Fed Fund rate during the Jan 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.<sup>4</sup>
- Looking for the window to buy UST after the recent sell-off. We will take profit on secondary and switch to new credit issuances offering wider spreads. We have a risk-on, carry-positive bias on the markets.<sup>5</sup>

#### Equities

- Our view: **Positive**.
- The Fed maintained the Fed Fund rate during the Jan 2025 FOMC meeting. The Fed also guided that there could only be 2 cuts in 2025.<sup>4</sup>
- Maintained US & Japan at Overweight. Reduced Underweight on EU. Some segments in the EU indicate signs of growth. Retail sales rose to 1.9% YoY in Dec (+1.6% YoY in Nov). Manufacturing PMI showed a modest recovery, although it remained in the contraction zone.

## Region: Regional (Asia-Pacific ex-Japan)

### Fixed income

- Our view: **Neutral**.
- Pockets of opportunity in local currency Asian and Chinese credits as yields remained relatively attractive.<sup>6</sup>
- We expect investment-grade Asian bonds to provide a gross yield of 5.50% to 6.00% in 2025.<sup>6</sup>

### Equities

- Our view: **Positive**.
- We remained positive on Asian equities underpinned by cheap valuation & China's continued execution of more friendly policies.<sup>7</sup>
- We prefer tech (beneficiaries of AI investment and application of AI models), selected Chinese domestic consumption, names with exposure to infrastructure and defense capex, consumer and banking in Southeast Asia, and selected Indian companies.<sup>3</sup>

## Region: China

### Fixed income

- Our view: **Neutral**.
- Credit bonds in 2024 rose 31% to RMB3.1tn, underpinned by non-financials - +159%. Non-LGFV SoEs saw a net issuance of RM2.4tn.<sup>8</sup>
- The default rate for 2024 dropped to 0.12% from 0.17% the previous year.

### Equities

- Our view: **Positive**.
- After the September major policy pivot, China continued to announce more supply policies to support the economy. Additional measures are aimed at spurring domestic demand.
- Manufacturing PMI for Jan 2025 dropped to 49.1 from 50.1 previously. The Services PMI fell to 50.2 from 52.2 over the same period.<sup>9</sup>

## Region: Domestic (Malaysia)

### Fixed income

- Our view: **Positive**.
- BNM maintained the OPR at 3.00% during the Jan 2025 MPC meeting. The move was well anticipated.<sup>10</sup>
- Recent corrections made sovereigns attractive again but remain cautious on short-term volatilities. Continue to take profit on overvalued credits but will remain OW on credits.<sup>3</sup>

### Equities

- Our view: **Positive**.
- The National Energy Transition Roadmap (NETR) and the Industrial Master Plan 2030 would revitalize domestic investment and buoy consumption.<sup>3</sup>  
Prefer big caps with strong fundamentals and solid cash flow. Favour Financials and Utilities as well as beneficiaries of NETR and SEZ.

## Investment Implications:<sup>3</sup>

**Global:** Reduce the U.S. to Slight Overweight, reduce Japan to Neutral, increase Europe to Slight Underweight and increase exposure to off-benchmark assets including Gold ETF, Treasury ETF and stocks. The U.S. economic dominance remains intact, in contrast to weakness in Europe and China. However, uncertainty around the U.S. policies – particularly regarding tariffs, immigration, tax cuts and deregulation – could impact inflation dynamics and the fiscal deficit. Meanwhile, the rise of China’s DeepSeek, raises questions about the sustainability of high capex spending and expensive valuations in major U.S. tech firms. As technology evolves, it will shape equity market leadership, reinforcing the need for diversification within and outside the U.S. Within the U.S., attractive opportunities may arise in economically sensitive sectors, such as financials and small-mid-cap stocks. In Europe, economic challenges persist. However, relatively low-tech sector weight, modestly positive earnings forecasts, and attractive valuation provide a temporary case for diversification. In Japan, the fundamental themes of reflation and ongoing corporate governance reforms remain intact, with monetary policy staying accommodative as real interest rates stay negative to support economic growth.

**Asian Equities:** We have a constructive view of Asian equities. We like companies with a clear growth path, strong cashflows, and/or those with clear or improving shareholder return policies. Our preferences include technology (beneficiaries of AI investment and application of AI models), selective Chinese domestic consumption, industrial names with exposure to infrastructure and defense capex, strong consumer and banking franchises in Southeast Asia, and selective Indian companies that are reasonably valued for growth.

**Malaysian Equities:** Looking ahead, elevated volatility is expected in the short term due to uncertainties on the Trump administration and policies. There was a widespread decline across various markets, and Malaysia was not spared. However, we took the opportunity to deploy some capital in sustainable dividend yielders and value beaten-down names, which we think have been de-rated beyond their fundamentals. Given the current macro environment, we have made no significant changes to our portfolio strategy as we remain constructive on domestic-driven sectors and potential direct beneficiaries of the NETR. We stay focused on sectors such as Construction, Property and Utilities. We remain optimistic about the financial sector due to the rising confidence in Malaysia’s structural reforms and the fact that the sector offers a defensive shelter amid periods of uncertainty. Key risks are the derailment of Malaysia’s macroeconomic recovery and corporate earnings growth due to slower global economic growth and heightened geopolitical risk.

**Malaysian Fixed Income:** Local market volatility is expected to remain on the back of uncertainties in the global market amidst President Trump flip flop policies. Propose to maintain active portfolio management in anticipation of the rising volatility to ensure better total return in the long run given current tight credit spreads and the flat yield curve. Preference on corporate credit bonds to continue versus government bonds with a bias on primary new credit issuances due to the yield pick-up and better total returns. Active trading is required for tactical positions held in government bonds. We maintain our overweight duration bias relative to the benchmark.

Investors need to remain vigilant to changes in trade and tariff policies. As we navigate 2025, the interplay between the shifting policy landscapes and evolving market conditions calls for active and diversified portfolio construction. Our strategy emphasizes quality growth and income attributes.

- ✓ **Quality Income:** Quality income and bonds can help protect against market volatility and sustain performance in a range-bound market.
- ✓ **Quality Growth:** An investment style which has historically outperformed as a whole, with the highest relative returns during volatile markets.

## Sources:

### Footnotes:

- 1 Bloomberg, 31 January 2025
- 2 Federal Reserve Board, 31 January 2025
- 3 Principal, 31 January 2025
- 4 European Central Bank, 31 January 2025
- 5 Federal Open Market Committee (FOMC), 31 January 2025
- 6 JP Morgan Research, 31 January 2025
- 7 Bloomberg, 31 January 2025
- 8 BofA Securities, 31 January 2025
- 9 National Bureau of Statistics of China, 31 January 2025
- 10 Bank Negara Malaysia, 31 January 2025

**Past performance does not guarantee future results.** Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on bid-to-bid prices. Earnings are assumed to be reinvested.

## Glossary of Terms

UW: *Underweight*  
OW: *Overweight*  
MoM: *Month-over-Month*  
YoY: *Year-over-Year*  
FOMC: *Federal Open Market Committee*  
ECB: *European Central Bank*  
UST: *United States Treasury*  
PMI: *Purchasing Managers Index*  
SoE: *State-Owned Enterprise*  
SEZ: *Special Economic Zone*  
BNM: *Bank Negara Malaysia*  
MPC: *Monetary Policy Committee*

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