Kenanga Investors

April 2025
Market Review and Outlook

Mixed Assets Market Review

March 2025 was an exceptionally turbulent month with the Dow Jones, S&P 500, and Nasdaq plunging 4.2%, 5.8%, and 8.2% month-on-month (MoM). Anticipation of President Trump's aggressive tariff strategy, coupled with mixed economic signals rattled investor confidence. Market participants grew increasingly cautious with consumer sentiment at near 2½ year lows. The Federal Reserve (Fed) kept rates steady at 4.5% for a second straight month and provided economic projections forecasting slower growth and higher inflation by year end. Fed Chair Powell also highlighted that the economy is progressing at a steady pace with solid labour market conditions, and acknowledged that albeit elevated, inflation has moderated over the past year.

Europe was not immune to tariff concerns, with STOXX slipping 3.9% MoM. Worries over US-driven global economic instability and tariff-induced disruption created heightened volatility. However, by late March, relative stability in defensive sectors provided support to the European markets.

In Asia, MSCI Asia ex-Japan dipped marginally by 0.2% MoM. Gainers were India (SENSEX: +5.8% MoM) and Hong Kong (HSCEI: +1.2% MoM; HIS: +0.8% MoM). China was relatively flattish, with SHCOMP rising 0.5% MoM and SHSZ300 falling 0.1% MoM. Decliners were Taiwan (TWSE: -10.2% MoM), Japan (Nikkei 225: -4.1% MoM), Australia (ASX 200: -4.0% MoM), and Korea (KOSPI: -2.0% MoM). The US-China trade war escalates, as President Trump increased tariffs on all Chinese imports to 20% in retaliation to Beijing for failing to halt shipments of fentanyl to the US, and China responded immediately by announcing additional tariffs of 10%-15% on certain US imports. This led to significant selloffs in export-intensive sectors towards the end of the month.

ASEAN equities grew 1.0% MoM as gains in Indonesia (JCI: +3.8% MoM), Philippines (PCOMP: +3.1% MoM), and Singapore (SST: +2.0% MoM) were offset by declines in Thailand (SET: -3.8% MoM) and Malaysia (KLCI: -3.9% MoM).

Malaysia's equity market remains under pressure, as the FBM KLCI (-3.9% MoM), FBM 100 (-3.4% MoM), FBM Shariah (-2.5% MoM), and FBM Small Cap (-2.1% MoM) continue their downtrend. Energy and Utilities were the only sectors to buck the downtrend, while Telco, Financials, and Healthcare recorded the steepest losses. March also saw foreign outflows every single trading day, totalling RM4.6 billion– the largest since February 2020 at RM5.6 billion which were due to pandemic lockdown. Notable news flow includes USD250 million partnership with ARM Holdings to establish an ASEAN and Oceania base of operations, potential mechanism for the targeted RON95 fuel subsidy rationalisation, and Bank Negara Malaysia (BNM) maintained Overnight Policy Rate (OPR) at 3.0% as widely expected.

Amongst commodities, Brent Crude Oil grew 2.1% MoM to USD74.7 per barrel amid mounting concerns about tighter global supply following US's threat of tariffs on nations buying Venezuelan crude. Anticipation of OPEC+ to unwind voluntary production cuts in April also influenced prices. Meanwhile, crude palm oil (CPO) declined 3.0% MoM to RM4.419 per ton largely attributed to seasonal production recovery from March onwards while major importers were scaling back their orders for palm oil amid trade uncertainties and competition from alternative vegetable oils.

On the fixed income front, US Treasuries (UST) broadly rallied in a volatile month of March amid mixed US economic data, rising economic concerns and escalating geopolitical tensions. US ISM services index was firmer in February, while nonfarm payrolls rebounded slightly to 151,000 (January: 125,000) although unemployment rate surprisingly rose to 4.1% (January: 4.0%). Headline and core inflation came in lower-than-expected in February at 2.8% year-on-year (YoY) and 3.1% YoY respectively (consensus: 2.9% and

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3.2%). Meanwhile, more US tariff measures were announced during the month with investors increasingly concerned about potential stagflation. The central bank announced a partial easing in quantitative tightening by slowing the pace of its monthly reduction of Treasuries to USD5 billion from USD25 billion in April while maintaining the reduction of mortgage-backed securities at USD35 billion. There was no change in the latest Fed dot plot projections of 50 basis points (bps) interest rate cuts in 2025 and another 50bps in 2026. Consequently, UST yields tumbled as US consumer confidence continued to plunge, coupled with heightened concerns over a potential trade war ahead of President Trump's reciprocal tariffs announcement in early April. Overall, the UST yield curve bull steepened with the 2Y UST plunged by 11bps to 3.88% while the 10Y UST yield was unchanged at 4.21%.

On the local front, the Malaysian Government Securities (MGS) exhibited resilience amid global economic uncertainties as the positive sentiment in UST spilled over into the local bond market. BNM acknowledged the considerable uncertainties from tariffs and key policies by major economies as well as geopolitical developments that could weigh on the global growth outlook but anticipates a resilient domestic demand to help anchor external headwinds. Headline inflation eased to 1.5% YoY (January: 1.7%) in February, while core inflation climbed slightly to 1.9% YoY (January: 1.8%). Primary government bond issuances continued to garner healthy demand with an average oversubscription rate of 2.6 times for auctions held during the month. The 3Y MGS yield shed 6bps to 3.38% while the 10Y MGS closed the month 1 basis point lower at 3.78%.

Mixed Assets Market Outlook

The new tariff policies, if sustained, represent a blow to global trade and a significant risk to the global outlook, with many economists raising their probability of a global economic recession by year end to >50%. Additionally, the impact of the proposed tariffs to US GDP is estimated at a reduction of about 100bps while core PCE could rise by 100bps-150bps to nearly 5% in 2025 and 4.2% in 2026.

The focus in the near term will shift to bilateral negotiations and retaliations, with the escalation between the US and China a key factor to watch. In the near-term, the Fed is likely to monitor the situation before making any moves as it has to balance between higher inflation in the short term and anticipated weaker growth from the tariff shock.

In light of the increased external uncertainties, Malaysia's GDP growth and corporate earnings are subject to likelihood of downward revision. Particularly, the export-oriented sectors are expected to bear the brunt of the direct US tariffs, as well as the spill over effects from escalating tensions and second-order demand destruction. On the other hand, domestic oriented sectors are relatively more insulated.

For fixed income, UST recorded steep rally on flight to safe haven demand as investors weigh US recession risk and slowing global growth from the impact of a potential global trade war, following President Trump's announcement of a significantly larger-than-expected reciprocal tariffs on nearly all the US trading partners on 2 April. UST yields could remain volatile over the near term as the developments and uncertainties surrounding tariffs unfold, which leads to reassessment of recession and monetary policy expectations.

Similarly, the domestic bond market also reacted in a dovish manner in tandem with global bond markets on fears of slower economic growth from the impact of US tariffs and escalating global trade tensions that sparked expectations of BNM to ease monetary policy. In BNM's latest Annual Report 2024, Malaysia's economy is projected to expand at 4.5%-5.5% in 2025, driven by sustained domestic demand despite heightened external uncertainties that could lead to a more moderate expansion of exports while inflation should remain manageable between 2.0%-3.5%. For local monetary policy, it is crucial to watch the language of the Monetary Policy Committee (MPC) statement in the upcoming meeting. BNM may adjust its monetary policy should downside risks to growth continue to linger. Prospects for the local bond market should remain favourable given the risk-off sentiment, ample market liquidity and steady demand from long-term fixed income investors.

Mixed Assets Fund Strategies

Given the growth outlook, we are focused more on stock picking for 2025. We still like sectors such as financials, construction, property, new energy, utilities and healthcare.

As for fixed income, we will continue to invest in a diversified portfolio of fixed income securities and other permissible investments. Emphasis is placed on credit-worthy issuers of debt and investment-grade fixed income instruments.

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Kenanga Islamic Balanced Fund
April 2025

Kenanga Investors

3-year Fund Volatility
8.5
Low
Lipper Analytics
10 Mar 2025

FUND OBJECTIVE

Aims to achieve steady capital growth and income distribution (if any) over the medium to long-term period by investing in a diversified portfolio in accordance with Shariah requirements.

Fund Category/Type
Balanced (Islamic) / Growth & Income

Launch Date
06 December 2004

Trustee
CIMB Islamic Trustee Berhad

Benchmark
60% FTSE Bursa Malaysia Emas Shariah Index and 40% Maybank 12-month GIA Rate

Designated Fund Manager
Lee Sook Yee

Sales Charge
Max 5.50%

Annual Management Fee
1.50% p.a.

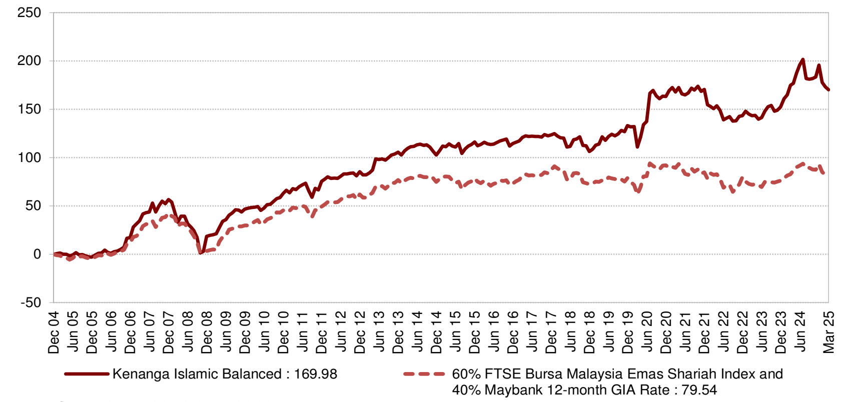
Annual Trustee Fee
0.05% p.a.

Redemption Charge
Nil

All fees and charges payable to the Manager and the Trustee are subject to the goods and services tax /sales and services tax/other taxes of similar nature as may be imposed by the government or other authorities from time to time.

FUND PERFORMANCE (%)

% Cumulative Return, Launch to 31/03/2025



Source: Novagni Analytics and Advisory

CUMULATIVE FUND PERFORMANCE (%)#

Period	Fund	Benchmark
1 month	-1.08	-1.40
6 months	-3.92	-5.11
1 year	-1.74	-1.66
3 years	7.74	-1.39
5 years	27.98	10.91
Since Launch	169.98	79.54

CALENDAR YEAR FUND PERFORMANCE (%)#

Period	Fund	Benchmark
2024	17.16	9.88
2023	3.72	1.26
2022	-10.13	-5.97
2021	2.73	-3.74
2020	13.09	7.34

 # Source: Lipper, 31 March 2025

DISTRIBUTION HISTORY *

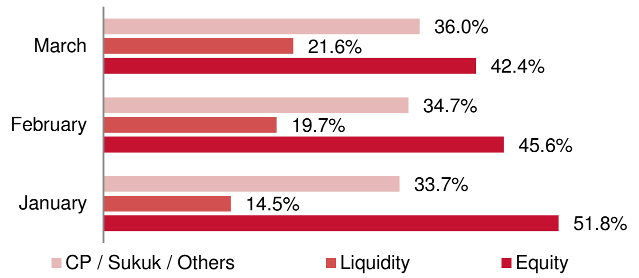
	Gross Distribution		
Date	RM	Yield (%)	Unit Split
15-Apr-22	3.50 sen	8.29%	-
9-Apr-21	5.05 sen	9.97%	-
16-May-16	2.79 sen	6.62%	-

HISTORICAL FUND PRICE *

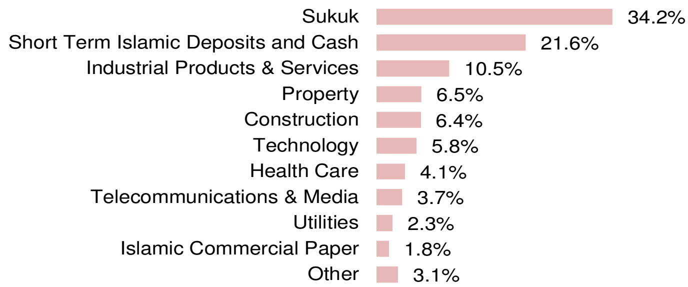
	Since Inception	Date
Highest	RM 0.6885	11-Jan-08
Lowest	RM 0.3567	15-Jul-22

FUND SIZE *	NAV PER UNIT *
RM 276.39 million	RM 0.4122

ASSET ALLOCATION (% NAV) *



SECTOR ALLOCATION (% NAV) *



TOP EQUITY HOLDINGS (% NAV) *

1	GAMUDA BHD	3.6%
2	MAH SING GROUP BHD	3.0%
3	TELEKOM MALAYSIA BHD	2.9%
4	ITMAX SYSTEM BHD	2.3%
5	IHH HEALTHCARE BHD	2.2%

TOP FIXED INCOME HOLDINGS (% NAV) *

1	GII MURABAHAH 5/2013 4.582% 30.08.2033	3.8%
2	GII MURABAHAH 2/2024 3.804 20311008	3.7%
3	AVALAND IMTN 07.08.2029	3.7%
4	GII MURABAHAH 1/2024 4.280% 23.03.2054	2.8%
5	GII MURABAHAH 2/2023 4.291% 14.08.2043	2.5%

** Source: Kenanga Investors Berhad, 31 March 2025*