

Market Update & Portfolio Strategy: Malaysia Investment Strategies

Market Flash: Impact of US Tariffs on Malaysia

- **Tariff Details:** The US has imposed a 24% reciprocal tariff on Malaysian exports. US is Malaysia's third largest trading partner (13.2% of total exports in 2023). However, direct impact from the tariffs is cushioned to some extent by the following
 - Semiconductors, which made up 20.7% of exports to the US are exempted from the tariff;
 - Impact on rubber gloves, another significant export, is limited due to the inelastic demand and dominance by Malaysia and China in global supply (80% - 90%)
- **Government Response:** Malaysia has opted against retaliatory tariffs, choosing instead to renegotiate with the US and diversify exports to other high-growth markets
- **Growth Prospects:** For 2024 and 2025, Malaysia's growth is expected to lean more on investment and consumption, driven by structural reforms and public infrastructure spending, reducing reliance on exports
- **Strategic Advantage:** Within the China+1 supply chain diversification strategy, Malaysia may benefit from a lower tariff compared to some of its main competitors, such as Vietnam and China, which face higher tariffs

Economy Outlook & Policy Rate Considerations

- **Growth Risks:** The Malaysian government forecasted a GDP growth of 4.5% - 5.5% for 2025 earlier this year. However, there is now higher downside risks to growth, due to direct impact from the tariffs as well as indirect impact caused by weaker global trades and weaker demand from other trading partners. The government has not officially changed the official GDP forecast for 2025, but some research houses and economists had revised their forecasts to ~4.0% - 4.5%. The fact that Malaysia's growth in 2025 was expected to lean more on investment and consumption spending instead of relying on exports provide us with some degree of comfort.
- **Inflation Outlook:** 2025 inflation was initially expected to rise but remain manageable on the back of RON95 petrol subsidy rationalisation. We think overall impact will be contained by
 - 1) targeted nature of RON95 subsidy rationalisation and
 - 2) deflationary pressure from slower growth, lower commodity prices and possible re-routing of exports meant for US to other regions.
- **Policy Rate Overview:** The Overnight Policy Rate (OPR) was initially expected to remain at 3.00%. However, the new tariffs may open doors for potential rates cut by Bank Negara Malaysia (BNM) given the slower growth expectations. Rate cuts, if any, are more likely in 2H 2025 after BNM is able to observe the economic impact from the tariffs as well as the outcome of negotiations between US and its trading partners.

Market Impact

Malaysia Equity

	FBM KLCI	FBM Top 100 Index	FBM Small Cap Index
MTD 7 April 2025	-4.6%	-6.0%	-10.6%
YTD 7 April 2025	-12.1%	-14.9%	-22.4%

Source: Bloomberg, Manulife Investment Management, As of 7 April 2025

- **Market Sentiment:** The equity market has been adversely affected by uncertainty surrounding US tariff implementations, resulting in significant volatility and a dampened market sentiment in early 2025
- **Sector-wide Sell-off:** Following the US tariff announcement on 2 April 2025, a sell-off accelerated across all sectors, reflecting the broader global risk-off sentiment
- **Near Term Risks:** Prolonged US tariffs could heighten downside risks to growth. In the short term, responses from US trading partners and ongoing negotiations are expected to contribute to ongoing market volatility and uncertainty. This prevailing risk-off sentiment is likely to persist in the near term.

Malaysia Fixed Income

Changes in Yield	MGS 3-Year	MGS 5-Year	MGS 10-Year	MGS 20-Year
MTD 7 April 2025	-11bps	-17bps	-14bps	-11bps
YTD 7 April 2025	-18bps	-23bps	-18bps	-18bps

Source: Bloomberg, Manulife Investment Management, As of 7 April 2025

- **Rally in MGS:** The MGS market has experienced a rally since Liberation Day, driven by a global risk-off sentiment. The market has started pricing in a potential 25bps reduction in the OPR.
- **Strong Investor Participation:** Both local and foreign investors have actively participated in the MGS market, indicating strong buying interest.
- **Risk-Off Positive for Fixed Income:** We hold a positive bias to the outlook of the MGS market, in view of slower growth outlook. However, we will need to monitor updates and development on US tariffs, which remain extremely fluid. Market volatility is expected to persist for now.

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