Tactical Asset Allocation

June 2025

Prepared by the **Investment Team**
Phillip Capital Management Sdn Bhd

Market Review – May 2025

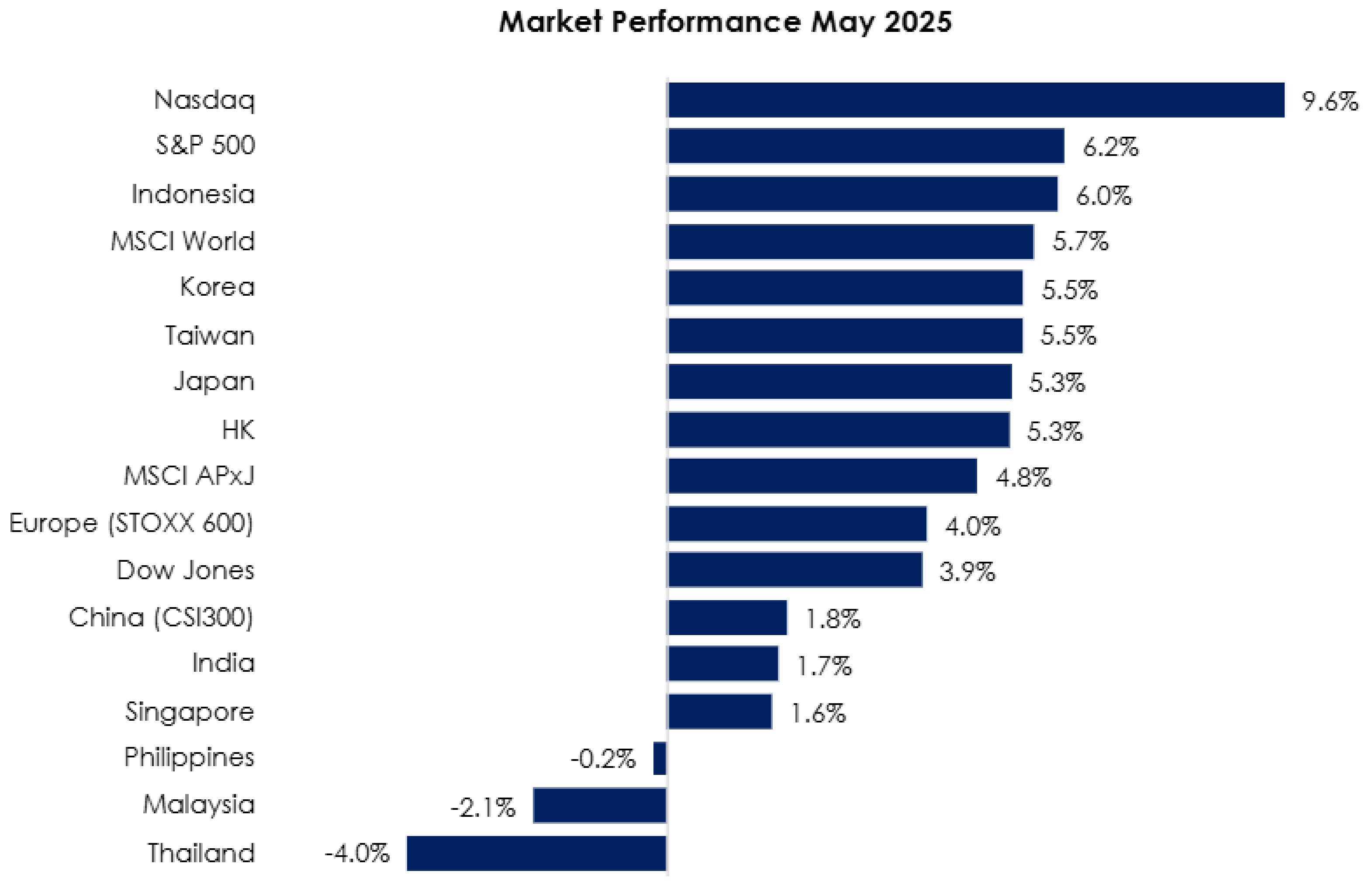
MSCI Asia Pacific Ex-Japan underperformed MSCI World; Indonesia, Korea & Taiwan led

The **MSCI World Index (+5.7%)** pulled ahead of the **MSCI Asia Pacific Ex-Japan Index (+4.8%)** after three months of underperformance on the back of strong US market gains as it retraced April's tariff-fuelled selloff. **Indonesia (+6.0%)** clinched Asia Pacific's no. 1 spot for the 2nd month in a row, likely on news of easing tariff policies and a government economic stimulus package in June. **South Korea (+5.5%)** rallied strongly thanks to a policy rate cut amidst the tariff terror retrace, and only a week prior to their presidential election on 3 June. **Taiwan (+5.5%)** also performed exceptionally well, again as export curbs fizzled. In contrast, **Thailand (-4.0%)** declined even further to -17.9% year-to-date, solidifying them as the APAC’s hardest-hit nation from China's capacity overflow. **Malaysia (-2.1%)** could not escape the "Sell in May, go away" adage, in part due to a string of weak corporate earnings and uncertainty over the replacement policy for Biden's AI diffusion rule.

On the monetary policy front, in May, the Federal Reserve (Fed) held interest rates steady at the 4.25% to 4.5% range during its meeting, as widely expected. Separately, the Bank of England (BoE) lowered interest rates by 25 basis points to 4.25%. In Asia, the People's Bank of China (PBoC) cut the one-year LPR by 10 basis points to 3.0% and the five-year LPR by 10 basis points to 3.5%. Similarly, the Bank of Korea (BoK) cut interest rates by 25 basis points to 2.50%. Finally, the Bank Negara Malaysia (BNM) kept the overnight policy rate (OPR) unchanged at 3%.

Market Review – May 2025

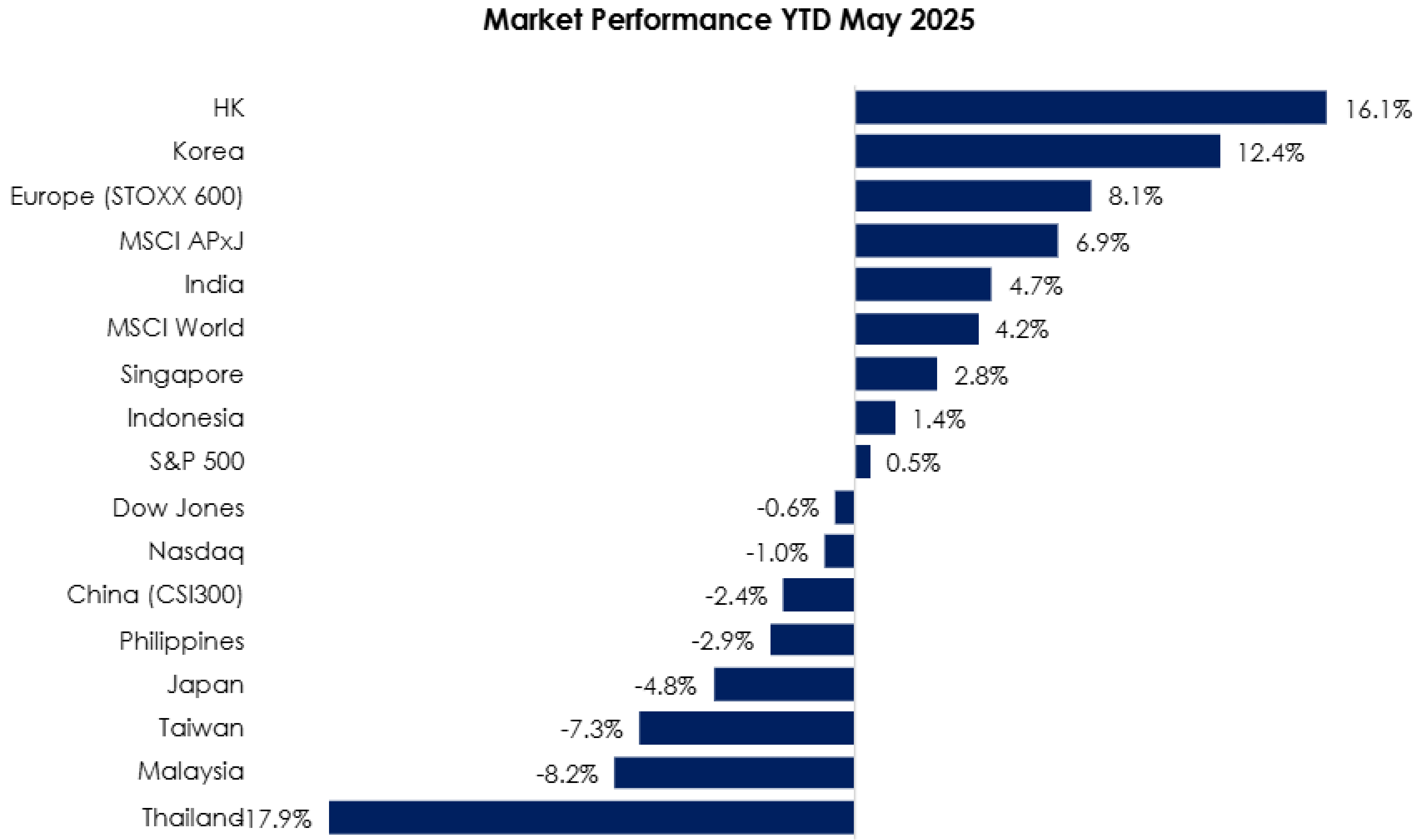
US, Indonesia and Korea led; Thailand, Malaysia and Philippines lagged



Source: Bloomberg, 31 May 2025

Market Review – YTD May 2025

HK, Korea and Europe led; Thailand, Malaysia and Taiwan lagged



Source: Bloomberg, 31 May 2025

Strategy

What to look ahead?

MALAYSIA

1Q25 earnings release showed broad-based disappointments across oil & gas, consumer, technology, banking, automotive, non-bank financials, gaming, rubber gloves, telecommunications, and building materials sectors, while plantation and construction delivered the strongest year-on-year (yoy) earnings growth. Following a subdued May results season, we expect the market to adopt a wait-and-see approach amid continued foreign net outflows and political uncertainty under the Madini government ahead of the Sabah state election by end-2025. Furthermore, sentiment remains cautious due to concerns over a tariff-driven global slowdown, legal uncertainties tied to Trump's trade policies, and potential domestic cost pressures from higher SST, RON95 fuel prices, and electricity tariffs in 2H25. Despite these headwinds, strong domestic liquidity, a gradually strengthening ringgit (+4.8% YTD vs USD), and government initiatives such as NETR, JS-SEZ, and NIMP 2030 could help cushion downside risks and support selective buying opportunities in the near term.

Strategy

What to look ahead?

REGIONAL

As we enter June, global market conditions remain uncertain, with the potential for renewed volatility remaining high. Equities may face headwinds in the near term due to rising geopolitical tensions, persistent inflationary pressures, and a slowdown in global economic growth. Trade negotiations are ongoing; however, a meaningful breakthrough appears unlikely before the 90-day tariff suspension expires on July 8 – a key milestone that could trigger new policy shifts. In the interim, markets may experience economic distortions stemming from pre-tariff stockpiling, supply chain disruptions, and decelerating growth, all of which could amplify earnings volatility. While several central banks have begun easing monetary policy, the US Federal Reserve has yet to follow suit. Investors are anticipating a potential Fed rate cut later this year, particularly in light of the US economy contracting by 0.3% in the first quarter of 2025 – its first decline since early 2022, and a high US debt ($36tn). Although rate cuts could help underpin equity valuations, lingering trade uncertainties and uneven regional growth may continue to dampen investor sentiment. Against this backdrop, we emphasize the importance of diversification and a focus on quality amid volatility.

Strategy

We remain neutral on equities, with a preference for the Malaysian market—particularly small caps—amid recent positive developments in US-China tariff policies that support a risk-on sentiment

TAA SUMMARY	Bearish	Neutral	Bullish
A. Equity - Global			
B. Cash / Fixed Income			
C. Equity - Malaysia (Large Cap)			
D. Equity - Malaysia (Small Cap)			
E. Country call (Most bullish only)	Malaysia		

F. Sector call (Msia only)			
	Bull	Tech	Energy
	Bear	Telco	Plantation

Strategy

We remain neutral on equities, with a preference for the Malaysian market

We remain neutral on global equities as geopolitical risks and soft economic data continue to weigh on market sentiment in the near to medium term, though we note positive signs of easing US–China trade tensions. We remain **constructive** on **Asia Pacific ex-Japan equities**, as export-driven economies could see short-term gains from easing tariff tensions, with North Asia likely to build momentum. That said, elevated volatility in the near term would not be surprising as these dynamics unfold. Geopolitical risks also remain unresolved and could introduce additional uncertainty.

We continue to prefer **Malaysia**, as it remains a laggard this year compared to other markets. While the MSCI Asia Pacific ex-Japan Index is now trading at 52-week highs amid renewed optimism, and both the U.S. and European markets are performing well, we see value in positioning in laggards like **Malaysia** that have yet to catch up. We maintain a neutral view on large-cap stocks due to balanced risk-reward and have shifted to **bullish** on **small-caps** amid recent positive developments in US-China tariff policies that support a risk-on sentiment.

Sector-wise, we remain bullish on the **Technology** sector, as its underperformance offers room for a potential rebound. We remain selective in the **Energy** sector, favouring LNG-related plays due to the increasing allocation of global energy capex toward LNG. This structural shift supports the long-term outlook for gas, which is set to benefit from rising energy demand. On the other hand, we maintain an **underweight** stance on the **Telco** and **Plantation** sectors given the lack of catalysts. We are also turning cautious on the **Consumer** sector, as the recently announced SST broadening may pressure profit margins and dampen consumer spending.

SST Broadening

Assessing the impact

On 9 June, the Ministry of Finance (MOF) announced an expansion of the Sales and Service Tax (SST), set to take effect on 1 July 2025. The revision aims to strengthen Malaysia's fiscal position by broadening the tax base and is expected to generate an additional **RM10 billion in annual tax revenue**. Under the new structure, the sales tax rate will remain unchanged for essential goods. However, **a 5% or 10% sales tax will be imposed on discretionary and non-essential goods**. In addition, the scope of the service tax will be expanded to include a wider range of services such as leasing and rental, construction, financial services, private healthcare, education, and beauty services. While these measures are intended to improve public finances, most businesses are likely to pass the additional tax burden on to consumers, which could potentially dampen demand, particularly in discretionary sectors. **Macro-wise, inflation is expected to be lifted up** but we believe this has already baked this into the street's expectation.

SST Broadening

Assessing the impact

Sector	Impact	Comments
Banks	Mildly Negative	Starting 1 July 2025, financial services based on fees or commissions will be subject to an 8% SST, while core activities such as basic banking, Shariah-compliant financing, forex gains, and capital market services remain exempt. The tax will affect banks' fee income, typically 25–30% of total revenue and 30–70% of non-interest income. We may see some shift in financial transactions from conventional banks to Islamic banks, which could benefit pure Islamic banks.
Consumer	Moderately Negative	The 5–10% sales tax on non-essential goods may raise costs, weaken demand, and strain consumer spending. Companies may pass on the tax or absorb costs, leading to margin pressure and dampening consumer confidence, especially among lower-income groups.
REITs	Moderately Negative	The 8% SST on leasing and rental services may limit rental reversion for REITs, while the 6% SST on maintenance could raise operating costs. REITs with weaker tenants or low occupancy face a greater impact due to limited ability to pass on costs.
Construction	Mildly Negative	A 6% service tax will apply to contractors earning over RM1.5 million annually, with exemptions for residential buildings and public housing-related amenities. Contractors are likely to reprice contracts to preserve margins, resulting in higher construction costs across most non-exempt projects. Building Material-wise, no direct impact as construction materials are zero weighted; however, order flows may be indirectly affected by any slowdown in construction and property-related activities.
Hospital Operators	Mildly Negative	A 6% service tax will apply to private healthcare and related services for non-citizens, if providers exceed RM1.5 million in annual revenue. Malaysian citizens are exempt. The impact on local hospital operators is expected to be minimal, as medical tourism contributes less than 10% of their revenue. Furthermore, we believe foreign demand for local hospital services will remain sticky, driven by Malaysia's cost advantage and high-quality healthcare offerings.

Appendices

PMART Performance

	FBM KLCI	**EPF Adv**	**EPF Opp**		**EPF Blue Chip**	**EPF Div**	**EPF UT**	**EPF UT FLEXI**		**EPF ETF***	**EPF ESG**	**EPF Quant US**	
			Con*	**Sya***				**Con***	**Sya***			**Con***	**Sya***
2023	**-2.7**	**6.3**	**5.5**	**4.7**	**1.2**	**9.5**	**3.1**	N/A	N/A	**12.3**	**9.7**	N/A	N/A
2024	**12.9**	10.5	1.5	9.2	11.2	**13.7**	4.2	12.1	9.2	4.4	11.0	1.2	-17.8
Jan-25	-5.20	**-4.45**	-6.23	-5.35	**-4.96**	**-1.92**	**-2.22**	**-2.60**	**-2.64**	**-1.36**	**-3.01**	**2.65**	**4.39**
Feb-25	1.14	-2.53	-5.62	-4.85	-3.17	-0.79	-1.16	-3.82	-1.55	0.39	-4.39	-0.38	-4.92
Mar-25	-3.88	**-1.59**	**-1.23**	**-0.78**	**-0.95**	**-0.88**	**-0.72**	**-2.10**	**-2.11**	**-1.31**	**-0.63**	-5.61	**-2.46**
Apr-25	1.76	-0.49	-3.19	-2.49	-2.05	0.30	-1.95	-3.53	-0.99	-2.82	0.16	-6.84	-6.36
May-25	-2.07	**-0.63**	**2.65**	**2.14**	**-1.02**	**-0.57**	**1.14**	**1.32**	**2.40**	**4.58**	**0.49**	**2.84**	**3.45**
YTD	-8.16	-9.37	-13.14	-10.99	-11.61	**-3.81**	**-4.85**	-10.36	**-4.87**	**-0.67**	**-7.25**	**-7.54**	**-6.22**

Note: Composite returns on all accounts, including new injections, as provided by IT Dept

Bold *- Out-performed KLCI* ** Typical Account*

Source: PCM, 31 May 2025

PMA Performance

Monthly Performance Summary (%)

	FBM KLCI	PMA	Mini PMA	PMA DIV	PMA 4%	PMA 8%	PMA IPO	PMA Sya	Mgt UT	PME GF	PGWA *New Front	PGWA *Asia Focus	PGWA *World Leader
2023	**-2.7**	**7.3**	**2.7**	**11.8**	**12.5**	**11.8**	**6.0**	**7.6**	**7.4**	**1.3**	**7.3**	N/A	**14.2**
2024	**12.9**	8.6	5.2	**16.1**	7.0	**17.2**	12.5	**14.5**	5.4	**13.6**	6.4	**23.8**	9.5
Jan-25	-5.20	**-4.68**	**-4.57**	**-2.19**	**-2.18**	**-4.93**	-6.04	-7.65	**-1.10**	-8.96	**1.85**	**-2.27**	**1.39**
Feb-25	1.14	-2.86	-3.99	-1.15	-3.61	-3.47	-4.37	-7.33	0.07	-4.90	-2.46	**4.22**	-2.07
Mar-25	-3.88	**-2.23**	-4.36	**-0.90**	**-1.89**	-4.94	-4.60	**-1.39**	**-2.05**	**-1.66**	-8.33	**-0.93**	-9.29
Apr-25	1.76	-1.28	-2.89	0.34	-0.87	-1.29	-3.55	-2.40	-3.26	-3.04	-4.11	-2.35	-3.18
May-25	-2.07	**-0.03**	**-1.46**	**-0.57**	**-0.90**	-2.90	**-1.00**	**1.93**	**2.48**	**0.81**	**4.95**	**0.09**	**11.17**
YTD	-8.16	-10.66	-16.14	**-4.41**	-9.12	-16.39	-18.15	-16.04	**-3.89**	-16.78	-8.35	**-7.95**	**-3.06**

Note: Composite returns on all accounts, including new injections, as provided by IT Dept

Bold *- Out-performed KLCI* ** Typical Account, Moderate Risk* *# Less than one year*

Source: PCM, 31 May 2025

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PMB Unit Trust Fund Performance

Fund	Type	Launch Date	Fund Size (in RM'm)	2023 Return (%)	2024 Return (%)	2025 YTD Return (%)
Local						
Phillip Dana Aman *	Equity Malaysia	16/4/1998	30.03	+4.09	+13.38	-8.17
Phillip Dividend Fund	Equity Malaysia Income	18/11/2003	26.67	+0.95	+10.93	-7.61
Phillip Master Equity Growth Fund	Equity Malaysia	18/6/2003	50.27	+1.34	+13.59	-16.78
Phillip Pearl Fund	Equity Malaysia Sm&Mid Cap	6/1/1997	37.72	+3.72	+20.44	-19.55
Phillip Recovery Fund	Equity Malaysia	15/4/1999	15.00	+4.03	+16.30	-7.62
Phillip Dana Murni *	Bond MYR	25/3/2003	17.09	+5.50	+3.43	+2.04
Phillip SELECT Balance Fund	Mixed Asset MYR Bal - Malaysia	11/8/2003	27.00	+5.17	+14.27	-7.06
Foreign						
Phillip Dana Dividen *	Equity Global Income	26/7/2007	2.86	+20.30	+6.88	-5.58
Phillip Global Disruptive Innovation MYR H Fund	Equity Global	22/4/2019	4.80	+9.15	+6.54	-3.37
Phillip Global Stars Fund	Equity Global	20/7/2006	4.14	+26.60	+9.06	+0.34
Phillip AsiaPac Income Fund	Mixed Asset MYR Bal - Global	28/11/2006	6.97	-0.49	+7.52	+2.41
Phillip Focus China Fund	Equity Greater China	19/5/2009	10.19	-16.41	+16.67	+3.37

Note: * denotes Shariah funds

Source: Lipper, PCM, 31 May 2025

Thank you!

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