ARECA CAPITAL

FLASH

EXCLUSIVE E-MAGAZINE

ISSUE 29 | JAN 2025
For distribution to Areca Capital's Valued Investors

IN THIS ISSUE

POSITIONING FOR THE FUTURE

www.arecacapital.com @ArecaCapital invest@arecacapital.com +603-7956 3111

CONTENTS

CEO's NOTE

Dear Valued Investors,

As we enter 2025, market volatility remains, with recent uncertainties impacting Malaysian equities. However, history shows that patience and strategic positioning can turn challenges into opportunities.

At Areca Capital, we remain focused on navigating these shifts with a balanced approach. Diversification, gradual market entry, and strategic asset allocation can help manage risk and capture long-term potential. Estate planning is also key to ensuring financial security for generations to come.

Staying prepared and adaptable will be essential — we look forward to navigating the year ahead with you.

Best Regards,

Danny Wong,
Chief Executive Director
Areca Capital Sdn Bhd

EQUITY

MARKET OUTLOOK & REVIEW

EQUITY

Market Outlook & Review

by Cheng Siew,
Chief Investment Officer (Equity)

Global Economic Landscape & Opportunities

Q What is Areca's global outlook for 1H2025?

The global economic expansion is expected to continue in 2025, albeit at a more moderate pace. With inflation remaining contained, the outlook appears to be positive.

Earnings growth in 2025 is expected to broaden beyond the "Magnificent Seven" tech giants, indicating positive earnings performance across a wider range of companies. Malaysia, in particular, is projected to experience robust growth, supported by strong domestic demand, an investment upcycle, and effective policy implementations. For example, in less than 3 years, there have been RM76 billion worth of investments in data centres.

Given the continuing US-China trade tensions, we are, and have been seeing investments into sectors such as manufacturing. Malaysia approved RM254.7 billion in investments for January-September 2024 (10.7% growth year-on-year), covering sectors in the digital economy and manufacturing.*

Current weakness in the markets was largely anticipated, and we expect heightened volatility through the first quarter of 2025, mainly driven by sentiment and news flow. The outlook of 2025 is expected to have clarity once President Donald Trump's policies are unveiled and implemented. In our view, Trump's second term poses notable challenges and shifts for the dollar. If the dollar weakens (from a continuation of Fed rate cuts and, as a possible prerequisite, being part of Trump's strategy to bring manufacturers back to the US), Emerging Markets may benefit. However, the dollar's status as a global reserve currency ensures its depreciation will likely remain moderate. Should the Fed raise rates instead of cutting them, the dollar could strengthen, leading to capital outflows and substantial pressure on Asian currencies, particularly the ringgit. While a strong dollar may not harm Malaysia, especially for export-oriented firms, we must enhance our competitiveness by diversifying reserves, fostering trade partnerships, and investing in technology and infrastructure to drive growth and stabilise the currency.

Having come off a decent run in 2024, a healthy profit-taking will set a good base for 2025, though it will remain selective, hinging on valuation and earnings growth. Malaysian equities remain favourably valued from a valuation standpoint of -1 standard deviation below the historical long-term mean of 15 years. In terms of earnings growth, FTSE Bursa Malaysia KLCI is still expected to deliver a mid-single-digit range in 2025.

***The Star, MIDA**

Cont'd on Pg 02 ›

What is Areca's portfolio strategy for 1H2025?

Our portfolio strategy for 2025 is to identify thematic opportunities present, in combination with a stock-picking strategy. We are overweight towards construction and property sectors given the robust domestic investment cycle in Malaysia and as market sell-down presents opportunity.

We will continue to be opportunistic in this current environment, for instance, to increase equity exposure to approximately 90% on weak market sentiment and position in fundamentally strong names. For our existing funds, in December 2024, we raised a higher cash position in anticipation of this environment and have recently started deploying selectively during pullbacks. We believe sentiment will stabilize, bringing the focus back to fundamentals.

However, potential risks to this positive outlook must be acknowledged. Escalating trade tensions could trigger a risk-off sentiment in the market, while a rapid rise in global inflation could hinder the anticipated rate cut cycle. Geopolitical instability in the Middle East also poses a potential risk.

What is President Trump's policies and Areca's views about it?

Policies & Impacts

Not Achieved
In Progress
Achieved

Category	Policy/Promise	Status	Impact/Notes
Immigration	Seal the border and stop the migrant invasion		Border wall construction resumed, but migrant crossings continue. 11m of undocumented immigrants. To see higher inflation and supply chain issue. Decrease in services but increase in prices
	Carry out the largest deportation operation in American history		
Economy	End inflation and make America affordable again		Few EO have been issued (eg: to bring house price down)
	Stop outsourcing & turn the US into a manufacturing superpower		No major legislative action yet to bring back outsourced jobs
Energy, Environment	Withdrawal from the Paris Agreement		Slow down plan to cut down green house emission
	Make America the dominant energy producer		Declared Nation Energy Emergency, tax breaks. Increase in oil supply and lower oil price
	Cancel the electric vehicle mandate & cut regulations		Slow down of EV industry
Education/Culture	Remove mentions of gender ideology and critical race theory		EO issued with enforcement such as cutting education funding, only Male/Female in official documents
Government Reform	Establishing the Department of Government Efficiency		Increase transparency and accountability of government agencies
	End the weaponization of government		
Foreign Policy	Prevent World War III & restore peace in the Middle East		Proposal introduced, but met with international backlash
Military/Defense	Strengthen & modernize the military		No major new funding bills passed yet, strengthen military force
Social Media	Granted 75-day extension of Tik Tok ban in US		Further ban after 75 days may cause ByteDance to divest from US
	Restoring Freedom Of Speech And Ending Federal Censorship		EO signed, pending law enforcement
Trade	Implement a Universal Baseline Tariff (10%-20% on all imports)		Several tariff announced
	Abolish Federal Income Tax and replace it with tariffs		No formal legislative action taken

Source: AP News, Business Insider, Forbes, Reuters, The Guardian, The New York Times, The Times and other news sources.

Cont'd on Pg 03 ›

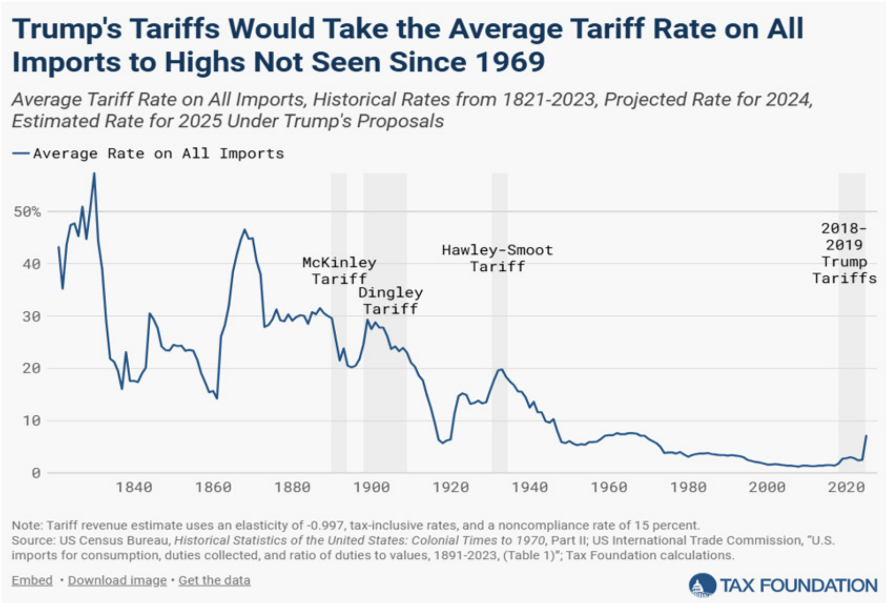
Tariffs Imposed and Retaliatory Actions

Date	Tariff Details	Affected Countries	Notes
01-Feb-25	25% tariff on general imports	Canada, Mexico, China	Includes automotive, electronics, and industrial goods
01-Feb-25	10% tariff on energy exports	Canada	Applied to oil, natural gas, and hydroelectric power
01-Feb-25	10% tariff on imports from China	China (effective 4 Feb)	Covers consumer goods, electronics, machinery
03-Feb-25	Temporary pause on Canada/Mexico tariffs	Canada, Mexico	In exchange for enhanced border security cooperation
08-Feb-25	Trump to announce reciprocal tariff to many countries	Many	Pending details

Source: AP News, Business Insider, Forbes, Reuters, The Guardian, The New York Times, The Times and other news sources.

Country	Retaliatory Actions	Details
Canada	25% tariffs on US goods	Targets $155 billion worth of US imports, implemented in 2 phases. First phase: $30 billion
	Ban of America liquor products	Removal of US liquor from store shelves
Mexico	Has vowed retaliation	To affect $322 billion in US exports, including agricultural products and steel
China	15% tariffs on US coal & LNG, 10% on crude oil	Aims to reduce dependence on US
	10% tariff on agriculture machinery, trucks, motor	
	Export controls on critical minerals	Restricts exports of rare earth materials needed for US tech and defense industries

Source: AP News, Business Insider, Forbes, Reuters, The Guardian, The New York Times, The Times and other news sources.



Source: US Tax Foundation

- Retaliatory measures from countries has started.
- Higher tariffs on major countries could disrupt global supply chain, increase production costs leading to **higher inflation**.
- Deportation of US would further **elevate inflationary pressure**.
- This could **halt the Fed's rate-cut cycle**, and when combined with higher borrowing costs, could dampen both consumption and investment.
- **Malaysia**, if not to be mentioned as tariff target, should benefit from global trade war while also facing risks linked to global trade volatility.

This article was written in Jan 2025.

FIXED INCOME

MARKET OUTLOOK & REVIEW

FIXED INCOME

Market Outlook & Review

by Edward Iskandar Toh,
Chief Investment Officer (Fixed Income)

Global Economic Landscape & Opportunities

Q A Summary of 2H2024

In the US, rate cuts began in September 2024, marking the Federal Reserve's ("FED") first turnaround since its Covid-era rate hikes. Reducing by 50 basis points, the Federal Funds Rate ("FFR") was brought down to 5.25% from its decade-high of 5.75%. Following this initial cut, the FED implemented 2 consecutive rate cuts reducing 25 basis points ("bps") each, resulting in the FFR standing at 4.50%-4.75% as of December 2024.

The easing cycle was largely driven by a significant drop in the annual inflation rate measured by the US Consumer Price Index ("CPI"). After peaking at a 10-year high of circa 9% in 2022, inflation saw a steady decline, reaching 2.9% in December 2024. The US economy added 256,000 jobs in December surpassing expectations and marking the largest increase since March 2024 ending the year on a solid footing. Benchmark 10-year US Treasuries ("UST") hit an eight-month high after better-than-expected data pointing to a strong economy.

Globally, the Bank of Japan surprised markets by hiking rates in July 2024 in an attempt to stabilize the weakening Japanese Yen and to curb capital outflow. Since then, it has held rates steady at 0.25%. Other major central banks like the European Central Bank ("ECB"), Bank of England ("BOE") and Bank of Canada ("BOC") towed the US line in kicking off their own monetary policy easing cycle. Even China got in on the act of cutting their Loan Prime Rate from 3.45% to 3.10% attempting to shore up their domestic slowdown.

In Malaysia, the Malaysian Ringgit recorded its largest gain and hitting a 3-year high at 4.125, primarily driven by the weakening of the US Dollar following the FED's first rate cut; stable domestic political environment and positive economic policies. Despite the rationalization of diesel subsidies, Malaysia's inflation remained contained, coming in below forecasted of 2.1% as of November 2024. Bank Negara Malaysia ("BNM") kept Overnight Policy Rate ("OPR") steady despite the FED's rate cuts in the US. The Malaysian Government Securities ("MGS") yield curve displayed a bullish steepening, reflecting positive market sentiment with benchmark MGS yields dipping by about 1-3 bps across the curve heading into the new year.

Q What is Areca's global outlook for 1H2025?

Looking ahead in the US, yields are likely to bullishly steepen, a trend already evident as markets respond to expectations of further rate cuts by the FED. However, aggressive anti-globalisation policies under the Trump administration are to be anticipated and will likely infuse volatility in their yield curve path. Potential higher tariffs and import/export bans could influence interest rate expectations, although the actual impact is more likely to happen in the latter part of the 1st half of 2025, if not the 2nd half of the year.

Cont'd on Pg 05 ›

On a hopeful note, there is optimism for "peace on Earth," as President Donald Trump has pledged to end all wars. There is some hope in the unpredictability of the man that sits in the 'most powerful chair' in that he may have learnt from his first tenure as President that there is more benefit to the US in collaboration rather than instigation and provocation. Interestingly he has mentioned that the US and China can solve many of world's problems together; the closest one can expect of an olive branch from a person of his psyche and disposition. For the next four years, central banks and governments globally will have to manoeuvre around with policies of their own to mitigate or insulate against imminent US protectionists policies.

In Malaysia, concerns about the rationalization of the RON 95 petrol subsidy remain. However, with crude oil prices relatively stable, the price of RON 95 is expected to be around RM2.70 - RM2.80 per litre. Any potential movement in interest rates is likely to be driven by domestic inflation and consumption trends as well as consideration towards interest rates differentials and its impacts. The outlook on Malaysia remains upbeat, supported by several key developments. The recent agreement on the Johor-Singapore Special Economic Zone, increased inflows of foreign direct investments, and ongoing mega infrastructure projects are all expected to spur growth. Additionally, substantial funding allocated for development in East Malaysia further strengthens this optimistic outlook.

In the last Monetary Policy Committee ("MPC") meeting in November 2024, Bank Negara maintained its rates and kept their tone neutral. We expect to see maintained rates and neutral stance at the upcoming MPC in January amidst a continued absence of price pressures domestically, with the implementation of further major subsidy reforms only likely to take place in the middle of the year.

Q How should investors position their portfolios?

While potential uncertainties persist and there is a probability that the pace of rate cuts may slow down, signalling interest rates could remain higher-for-longer, the current environment presents an opportune time for investors to lock-in higher yields as corporate bonds credit spread are expected to remain compressed in the second half of 2025.

This article was written in Jan 2025.

CEO'S INSIGHTS

MARKET OUTLOOK & REVIEW

CEO'S INSIGHTS

Market Outlook & Review

by Danny Wong,
Chief Executive Director

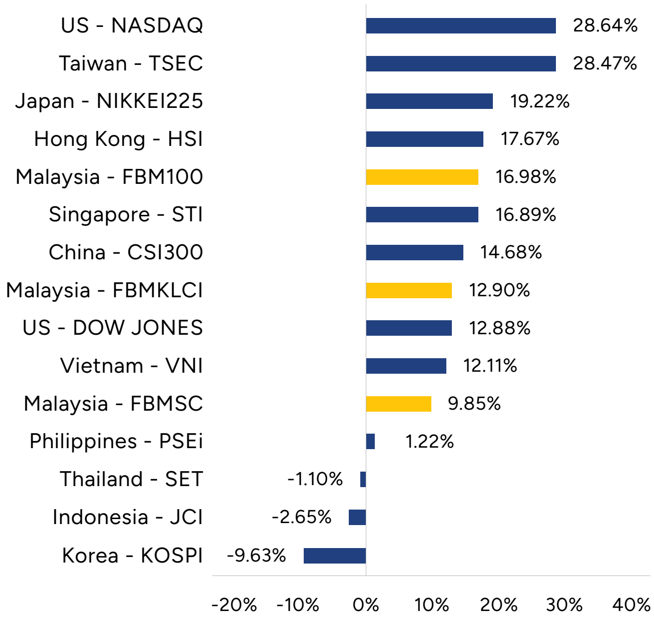
Keeping Perspective & Positioning for the Future

We have read the reviews from Edward and Cheng Siew on previous pages, so here's my take on your portfolio and what's actionable.

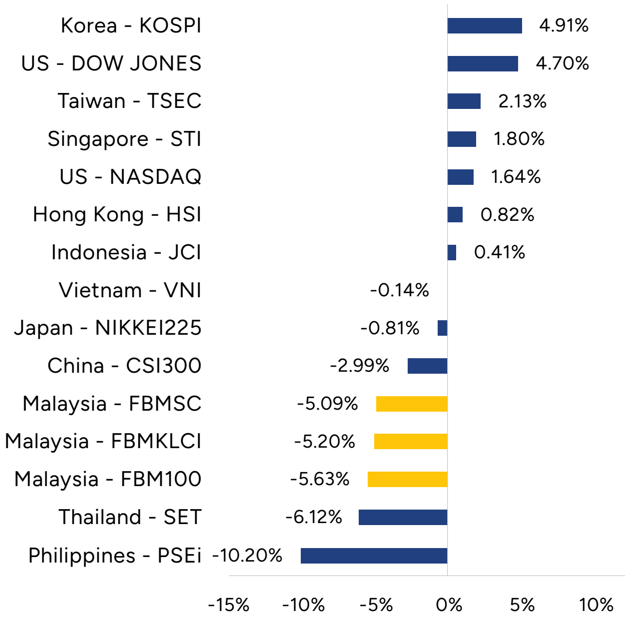
With recent uncertainties over the AI-related developments, the Malaysian markets have experienced a 5-6% pullback for the first month of 2025, but I believe in a glass-half-full view — there will always be **opportunities if you know where to look and position correctly**. Case in point: the US-China trade war led to significant supply chain reconfigurations alongside what happened during the pandemic, and Malaysia emerged as a beneficiary of this shift by capturing the trend.

• For investors who have remained invested and seen some gyration in your portfolio, it's important to keep things in perspective. After a strong 2024, some profit-taking is natural. Once sentiment stabilizes and investors refocus on fundamentals, earnings, and valuations, the market is likely to regain strength.

Market Performance in 2024



Market Performance in 2025 (YTD Jan 2025)



Source: Lipper for Investment Management. Data for January 2025 as of 31st January 2025

If you are not making tactical switches, rest assured — it's our job as fund managers to manage this within the funds. For some of our equity funds, we have maintained higher cash levels last year and are ready to deploy them when value presents itself this year.

A **well-structured strategic asset allocation** remains crucial. Some allocation in bond funds will help to mitigate excessive volatility and prevent extreme swings in your overall portfolio.

Cont'd on Pg 07 ›

• For investors who may still be underweight on equity, now may be a good time to consider averaging into the equity markets at current levels. Markets may continue to be volatile throughout the 1st half of 2025, making **a gradual entry through cost averaging** a sound approach.

From our point of view, the current selling and uncertainty represent an opportunity to position into equity markets, especially for long-term investors that have a 1-3 years horizon.

Beyond Investments: The Importance of Estate Planning

When we talk about uncertainties in financial markets, it's not just about investments — it extends to estate planning as well. This used to be a taboo topic among Asian investors, but we've seen that this is changing, especially over the past 2-3 years. **Estate planning is not about preparing for the worst, but ensuring your wealth serves your loved ones sustainably**.

A well-managed **private trust can integrate wealth distribution with investment planning**, ensuring your assets continue to grow and support your family's needs, even in unforeseen circumstances; such as the what, how and when to distribute the assets to the desired beneficiaries or family members.

Final Thoughts: Positioning for the Future

Volatility and uncertainty are part and parcel of investing, and even life. It is how we manage it; whether it's adjusting your investment positioning by gradually entering the market, or ensuring your legacy is well-structured through estate planning.

Just as we build investment portfolios for resilience, estate planning can provide continuity and peace of mind for generations to come.

Stay invested, stay prepared, and let's navigate these market conditions together.

This article was written in Jan 2025.

by Areca Capital

BULLETIN BOARD

WE ARE TAKING ALL YOUR LIFE SAVINGS

“To create a Private Trust with investment management by Areca Capital. We’re here to provide financial stability for your future generation. Take the first step towards your legacy now.”

Click on the ‘Read More’ button below to find out more. Enjoy!

Published in TheEdge Newspaper on 24th June 2024

Read More

FIND US HERE

Areca Capital Sdn Bhd
200601021087 (740840-D)

www.arecacapital.com
invest@arecacapital.com

Head Office

107, Blok B, Pusat Dagangan Phileo Damansara 1,
No. 9, Jalan 16/11, Off Jalan Damansara,
46350 Petaling Jaya, Selangor

+603-7956 3111

Private Wealth Centre

Unit No. 3A-09-01, Level 9, Corporate Tower 3A,
Pavilion Damansara Heights, No. 3, Jalan Damanlela,
50490 Kuala Lumpur

Penang Branch

368-2-02 Belisa Row,
Jalan Burma, Georgetown,
10350 Pulau Pinang

+604-210 2011

Johor Bahru Branch

No. 105, Jalan Meranti Merah,
Taman Melodies,
80250 Johor Bahru

+607-336 3689

Ipoh Branch

No. 11, Persiaran Greentown 5,
Greentown Business Centre,
30450 Ipoh, Perak

+605-249 6697

Kuching Branch

1st Floor, Sublot 3, Lot 7998, Block 16,
KCLD, Cha Yi Goldland, Jalan Tun Jugah/Stutong,
93350 Kuching, Sarawak

+6082-572 472

Malacca Branch

95A, Jalan Melaka Raya 24,
Taman Melaka Raya,
75000 Melaka

+606-282 9111

Kota Kinabalu Branch

Unit 5-1-8, 1st Floor,
Lorong Api-Api 1, Api-Api Centre,
88000 Kota Kinabalu, Sabah

+6088-276 757