

# FLASH

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# CEO's NOTE



*Dear Valued Investors,*

Markets in 2025 have been volatile, but not without opportunity. Despite tariff shocks and rate uncertainty, equities rebounded and fixed income remains supported by policy shifts and attractive yields. Malaysia's market performance has lagged the broader recovery, but this divergence presents selective opportunities for investors willing to look beyond the headlines.

At Areca Capital, we continue to adopt a barbell strategy—balancing domestic demand plays with future-ready sectors, and pairing high-quality bonds with tactical flexibility.

As always, agility remains key. We look forward to navigating the road 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

## Global Economic Landscape & Opportunities

Markets were rattled at the start of 2025 as President Trump unleashed a sweeping round of global tariffs—this time not just targeting China, but extending to close allies including the EU, Japan, Korea, and Canada, etc. The initial reaction was sharp and emotional. But what followed was a surprisingly swift V-shaped recovery across major markets after TACO trade (Trump Always Chicken Out) rhetoric surfaced due to his flip-flop tariff decisions.

This rebound highlights an important shift in investor mindset: while Trump's trade rhetoric is aggressive, markets have learnt to expect eventual deal-making over escalation. The 90-day tariff pause announced reinforced this belief. Investors saw through the noise, anticipating that Trump's end goal is leverage—particularly for reshoring manufacturing—not full decoupling.

Importantly, China's more prepared and coordinated response this time helped stabilise regional sentiment. On the other hand, the US market is showing fragility—sensitivity to inflation, interest rates, and political uncertainty. Overall, the recovery demonstrated that while policy shocks can trigger volatility, they are also opportunities for investors who stay disciplined.

In this environment, being reactive can cost more than staying invested. The right response is not to exit but to reposition—focus on fundamentals, maintain agility, and take advantage of dislocations as the macro narrative evolves.



### What is Areca's global outlook for 2H2025?

The global outlook for 2H2025 remains volatile on the surface but offers selective upside beneath. Trump's sweeping tariffs initially rattled markets, but a sharp V-shaped rebound followed as investors recognised a familiar pattern: bold threats followed by policy softening. We call it the "TACO Trade"—Trump Always Chickens Out.

Markets are also buoyed by the expansionary One Big Beautiful Bill, which has turbocharged risk appetite and pushed US equities to record highs. Despite policy noise, both the US and China continue to anchor global growth—led by their dominance in AI, semiconductors, and digital infrastructure. The US remains the epicentre of innovation, while China's self-reliant tech ecosystem and long-term policy alignment have restored investor confidence.

In a world of headline risks and shifting narratives, we remain selectively constructive. Staying agile, focusing on structural winners, and tuning out the noise will be key to generating alpha.



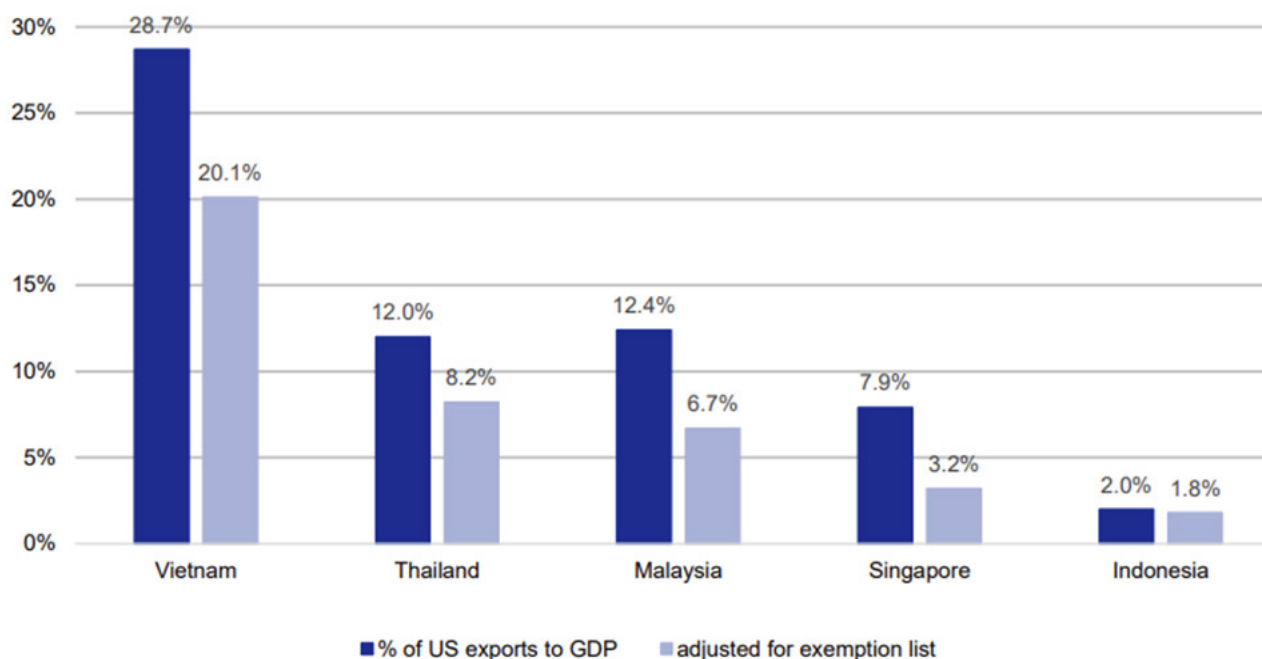
## What about the Malaysian equity market?

Malaysia's equity market remains vulnerable to external shocks following the imposition of the 25% US tariff, which now affects a broad range of goods. Based on adjusted data, US exports account for 6.7% of Malaysia's GDP—third highest in ASEAN, after Vietnam (20.1%) and Thailand (8.2%), reflecting significant exposure (see Figure 1). Compounding this is the Ringgit's appreciation against the USD, which has pressured exporters' margins further.

While sentiment remains cautious, it is worth noting that trade negotiations are still ongoing, and no country has officially signed any new bilateral agreement with the Trump administration. This leaves room for policy reversals or adjustments—especially as global supply chains push back.

Domestically, the outlook is more constructive. Budget 2025, infrastructure execution, and strong FDI pipelines offer upside potential. We maintain a barbell strategy—focusing on domestic recovery plays while staying selective on exporters with pricing power and diversified market exposure.

**Figure 1: Countries' share of US exports to GDP before and after adjustments for tariff exemption list**



Source: United Nations, CGSI Research



## What are some sectors and themes in Malaysia to look out for?

The China+1 relocation trend might be temporarily paused, in our view, as multinationals reassess risks amid Trump's tariff unpredictability. That said, the long-term structural shift remains intact. For now, investors are refocusing on domestic drivers. Bank Negara's recent rate cut and an expected expansionary Budget 2025 set the stage for stronger fiscal support—boosting prospects for construction, infrastructure, and utilities.

Meanwhile, the AI boom continues to power data centre investments, especially in Johor and Negeri Sembilan, while a recovery in semiconductor demand—driven by AI, cloud, and automation—underpins medium-term tech optimism.

We also see value in exporters with secular growth stories that have been unjustifiably sold down, particularly those with pricing power and diversified global exposure.

Sarawak remains a strategic domestic theme, supported by increased federal development spending and growing relevance in renewables and industrial infrastructure.

We favour a barbell strategy—balancing domestic catalysts with future-ready sectors.



## What should an investor do?

In a world of policy swings and tariff threats, investors need clarity, not emotion. Our advice: stay invested, but stay selective. Volatility may persist, but expansionary policy and structural trends offer attractive entry points.

We favour a barbell approach—anchoring in domestic demand beneficiaries while allocating to future-ready sectors like AI, semiconductors, and green infrastructure. At the same time, hold some cash to capitalise on market pullbacks and policy-induced dislocations.

Regional diversification is essential. We like US and China, both leading in AI—but China offers a cheaper valuation entry point with policy tailwinds and signs of recovery. Select exporters with strong fundamentals and diversified demand also present tactical upside.

Above all, adopt the “Shield, Strike, Squat” strategy: defend capital, strike opportunistically, and squat patiently. In a noisy world, resilience and readiness will ultimately outperform reaction and fear.

**This article was written in Jul 2025.**



# FIXED INCOME

## MARKET OUTLOOK & REVIEW





by Cheng Siew,  
Chief Investment Officer

# FIXED INCOME

## Market Outlook & Review

### Global Economic Landscape & Opportunities



#### A Summary of 2H2025

The Trump 2.0 era set off the year with yields spiking and making its impact felt across financial markets globally. The 30-year US Treasuries ("UST") yield pushed above 5%, the highest level since 2007, on concerns that the proposed tax and spending bill working its way through Congress to support stronger growth, raise the budget deficit, and increase the size of total US ("United States") government debt.

In April, headline tariffs shocked the markets, causing US assets to sell off sharply—both stocks and bonds. Though the US Personal Consumption Expenditure (PCE) price index gauge edged higher in May, with PCE rising 2.3% while core PCE was at 2.6%, these figures remained within a tolerable range and did not indicate any renewed acceleration in inflation.

Treasuries have been selling off in July, with the 10-year UST rising to 4.33% from 4.23% at the end of June, amidst concerns over the US fiscal position with the signing of Trump's big beautiful bill and a better-than-expected monthly employment report for June. However, this is likely to be tempered by renewed concerns over the global economy, with the White House sending out letters to a few countries so far this month about the reciprocal tariff rate that will be applied effective 1 August, with some countries facing a more punitive rate than those originally announced in early April.

The US dilemma as to whether to cut interest rates to support growth or wait for hard data first is clearly having an impact on Emerging Markets ("EM") central banks, causing them to pause too. In June, the Fed held its benchmark interest rate steady at 4.25% to 4.50%. We believe that this pause will only be temporary and expect easing cycles to resume in the second half of 2025, prompted by downward revisions to growth, lower energy prices, declining inflation, and stronger EM currencies.



#### Given the changes in the markets, do we have any bond preferences?

We maintain our preference for high credit quality due to the risk of a slowdown in the economy. We continue to prefer the so-called belly of the yield curve, i.e., the 'Goldilocks' 3-to-7-year maturities, which provide the best balance of both reinvestment and duration risks.





## Going into the second half of 2025, what opportunities do we see for investors?

Bouts of volatility may continue in the second half of 2025 as bond market investors navigate evolving tariff policy, US government debt, and economic uncertainty. Over the long run, we believe the Treasury market will continue to be considered a safe haven during times of turmoil. However, it wouldn't be surprising to see more of these temporary dislocations in the markets due to shifting policies. We anticipate a rate cut in 3Q25, as the Fed has indicated it wants time to evaluate the impact of various policies on the economy and inflation.

In Malaysia, Bank Negara delivered its first rate cut in July since 2020, lowering the OPR by 25 bps from 3.00% to 2.75%. The move was described as pre-emptive, aimed at supporting domestic growth in the face of rising external headwinds. The central bank acknowledged risks from slowing exports and weakening private consumption. While the accompanying policy statement was neutral in tone, it left the door open for future easing, emphasising a data-dependent approach for future rate cuts.

Government bonds yields are expected to head lower, taking cue from the expected constructive tone in major government bond markets. Corporate and Sukuk bonds spreads are expected to widen as government bond yields head south, but continued solid demand for bonds is expected.

While potential uncertainties persist, the current environment presents an opportune time for investors to lock in higher yields as corporate bonds credit spreads are expected to remain compressed in the second half of 2025.

**This article was written in Jul 2025.**

by Areca Capital



# BULLETIN BOARD



## ARECA INVESTORS' FORUM 2025 (KUALA LUMPUR)

On 15 May 2025, Areca Capital hosted its inaugural Areca Investors' Forum 2025 (Kuala Lumpur) in collaboration with AIA, held at M Resort & Hotel Kuala Lumpur.

This half-day forum explored key market trends, global economic shifts, and actionable investment strategies. In a time when uncertainty continues to shape the global landscape, the event created a platform for diverse perspectives—from macroeconomic insights to personal wealth and legacy planning.

Watch the event highlights of Areca Investors' Forum 2025 (Kuala Lumpur) by clicking on the play button below.

For more information about the event, visit: <https://arecacapital.com/areca-investors-forum-2025/>



Event Highlights

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