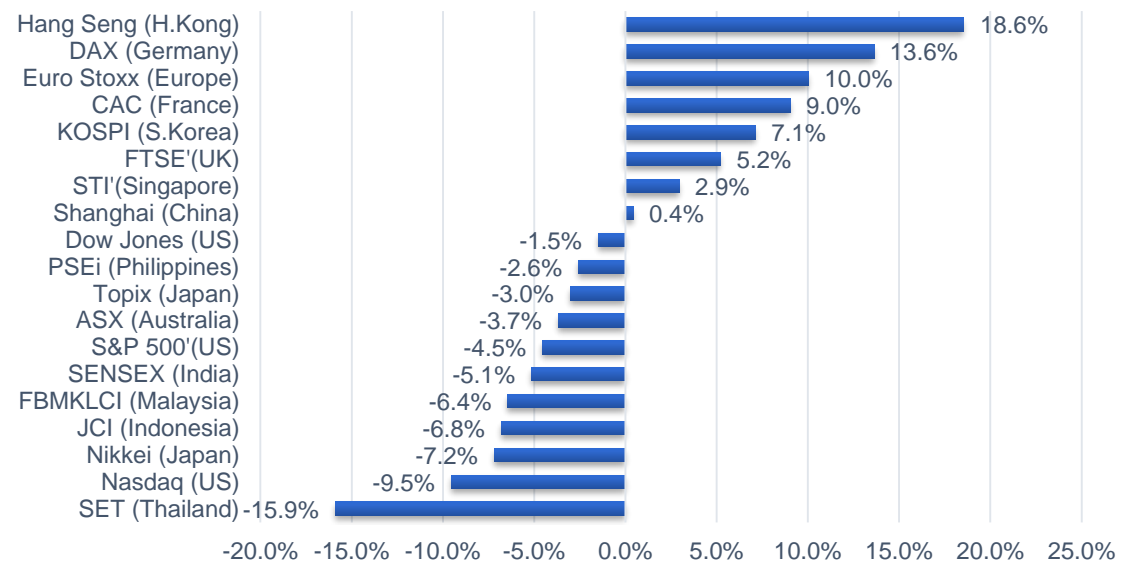


# Playing Defense: Markets Turns Risk-Shy

**Global equities performance on year-to-date basis (31 Dec 2024 - 10 Mar 2025)**



**CBOE Volatility Index (VIX)**



Source: Bloomberg

The global equities market has been on a rollercoaster ride recently, a stark contrast to the optimism seen in early November following President Donald J. Trump's election victory. At that time, markets were buoyed by expectations of expansionary fiscal policies that would drive corporate earnings growth. However, that enthusiasm has quickly faded, giving way to renewed concerns over a potential U.S. recession. The CBOE Volatility Index (VIX) surged to 27.86 points yesterday as the U.S. equities market underwent a correction, with the NASDAQ index plunging 12.9% to 17,468.32 points from its recent peak of 20,056.25 points on February 19, 2025.

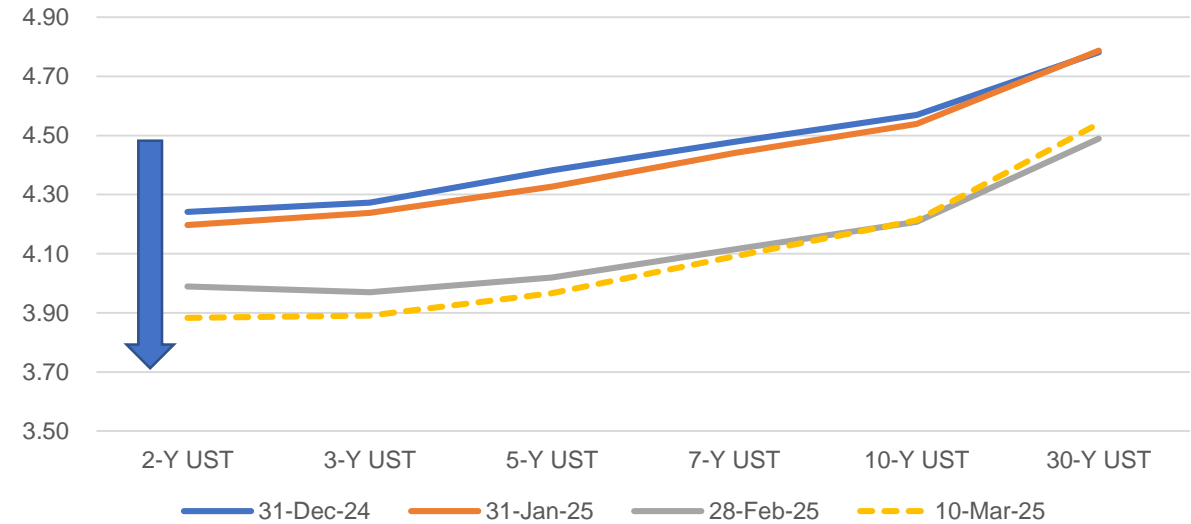
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# Short-term rates have gone down

2-year US Treasury note yield-to-maturity (%)



US Treasury yield curve (%)



Source: Bloomberg

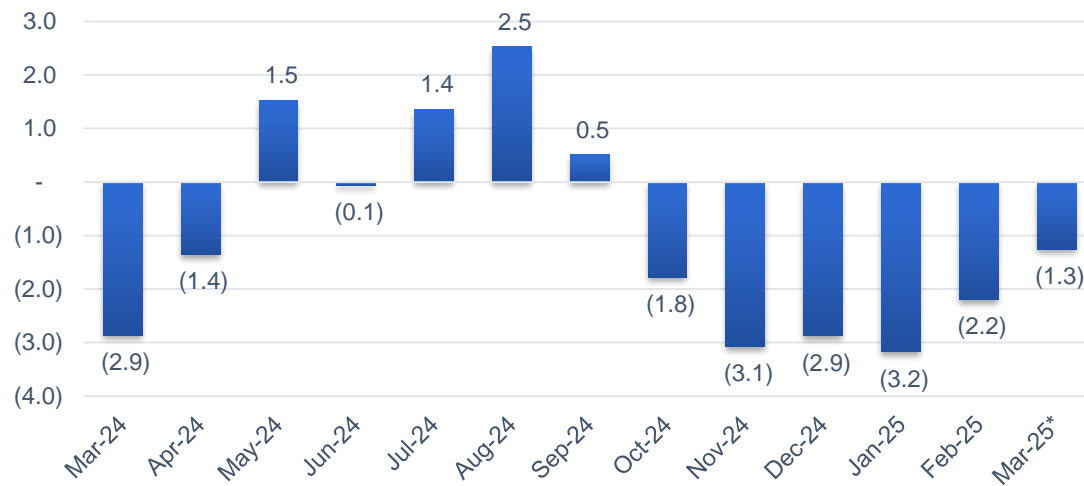
In response to current market conditions, traders and investors are seeking refuge in safe-haven assets to mitigate potential losses from riskier investments. The yield on the 2-year U.S. Treasury note has declined by 36 basis points since the beginning of the year, currently standing at 3.88%. Similarly, the 10-year U.S. Treasury bond yield has dropped by 36 basis points year-to-date, closing at 4.21% yesterday.

The downward movement in short-term yields suggests that bond market participants anticipate further interest rate cuts by the Federal Reserve this year. Interest rate futures indicate a rising probability of rate cuts, with the likelihood of a Fed Funds Rate (FFR) reduction increasing to 54.3% (previous month: 19.7%) for May, 84.7% (previous month: 34.1%) for June, 51.0% (previous month: 17.3%) for July, 69.4% (previous month: 28.3%) for September, 36.6% (previous month: 17.7%) for October, and 41.5% (previous month: 20.9%) for December. These projections suggest the FFR could end the year at 3.50%, implying three to four rate cuts in 2025.

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# Foreign funds retreat from the Asian equities

**Net foreign fund flows in Malaysian equities (RM billion)**



Sources: CEIC & Maybank IB  
\* Up to 10 March 2025

**Net foreign fund flows in USD million**

Period	India	Indo	Korea	M'sia	Phil	Taiwan	Thai	Viet	Total
Mar-25	-2,834.4	-27.8	-187.1	-198.9	6.9	-4,764.6	-129.1	-30.3	-8,165.3
1Q25	-15,854.7	-1,331.5	-3,948.9	-1,371.7	-242.1	-9,245.7	-679.0	-656.4	-33,329.9
1Q24	1,329.4	1,685.7	12,188.7	-186.8	162.6	4,729.4	-1,933.4	-561.9	17,413.8
2Q24	-912.5	-2,112.7	4,939.1	14.3	-690.0	-347.3	-1,297.5	-1,504.6	-1,911.2
3Q24	11,637.4	3,676.1	-6,565.6	978.1	549.6	-17,723.1	650.2	-559.0	-7,356.1
4Q24	-11,930.3	-2,094.8	-8,136.4	-1,759.5	-430.5	-6,206.9	-1,551.8	-952.8	-33,062.9

Sources: MIDF Research

Foreign funds have maintained a bearish stance on Asian equities, with net selling pressure dominating the market. From early January until last week, foreign investors offloaded a total of USD33.3 billion in Asian equities. India led the sell-off with net outflows of USD15.9 billion, followed by Taiwan at USD9.2 billion and South Korea at USD3.9 billion.

In Malaysia, foreign investors have been consistent net sellers since October 2024. Between March 3 and March 10, foreign funds recorded net sales of RM1.3 billion, dragging the FBMKLCI down to 1,536.46 points yesterday—the lowest level since April last year. Investor sentiment remains cautious, driven by concerns over trade tariffs, geopolitical tensions, and growing fears of a U.S. recession.

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# Foreign investors are net sellers too in the fixed income market but they like our corporate bonds

## Foreign funds net flows in the bond market (RM billion)

Month	Total	Tbills	MITB	MGS	PDS	GII
Jan-24	(5.1)	(1.5)	(1.0)	(1.8)	(0.1)	(0.7)
Feb-24	(1.2)	0.0	(0.4)	0.6	0.1	(2.2)
Mar-24	1.7	(0.4)	0.1	0.8	(0.2)	1.4
Apr-24	0.6	(0.0)	(0.2)	1.1	(0.2)	0.1
May-24	5.5	0.0	0.7	3.3	0.4	1.0
Jun-24	(0.6)	0.5	0.7	(2.6)	(0.0)	1.4
Jul-24	7.8	0.1	0.4	5.1	0.4	1.4
Aug-24	9.0	0.6	0.7	6.2	(0.2)	0.8
Sep-24	1.0	0.7	1.4	(0.7)	(0.5)	0.3
Oct-24	(11.4)	(0.8)	0.5	(6.9)	0.5	(3.7)
Nov-24	(1.1)	1.3	(0.6)	(1.4)	0.5	(0.4)
Dec-24	(1.4)	0.1	(1.3)	(1.9)	1.7	(0.0)
Jan-25	1.2	(0.1)	(1.5)	1.6	0.7	0.4
Feb-25	(1.1)	(0.1)	(0.0)	(0.2)	0.8	(1.4)

Sources: BNM & CEIC

Foreign investors were relatively less aggressive in selling off Malaysian fixed income assets. February saw net foreign outflows of RM1.1 billion, following net inflows of RM1.2 billion in the previous month. The primary driver of the sell-off was government sukuk, particularly Government Investment Issues (GII), which recorded net sales of RM1.4 billion. Meanwhile, Malaysian Government Securities (MGS) saw a smaller net outflow of RM0.2 billion.

Despite this, foreign investors have remained net buyers of Private Debt Securities (PDS) for five consecutive months, indicating sustained demand for Malaysian corporate bonds. Market sources suggest that investor appetite for corporate debt remains strong, with oversubscription rates for primary issuances reaching as high as 5 to 7 times.

Given the heightened uncertainty, financial markets are expected to remain volatile. Investors will be closely watching the upcoming Federal Open Market Committee (FOMC) meeting on March 18-19, where the Fed staff will present their latest economic projections for the next three years. Additionally, on March 24, 2025, Bank Negara Malaysia (BNM) will release its Annual Report for 2024. It will be particularly interesting to see how BNM frames its outlook for 2025, especially in light of its dovish stance in last week's Monetary Policy Committee (MPC) meeting.