STRATEGY

Time to Go Defensive

FBM KLCI Target: 1,800 (under review)

DEVELOPMENT

- US markets continued their downtrend overnight as concerns have been increasing on the US economy this past month.
- S&P500 fell -2.7% to close at 5,614.56. Nasdaq Composite saw the sharpest decline as it was down -4% for its worst session since September 2022 and closing at 17,468.32. Meanwhile, the Dow Jones shed at -2.08%, closing at 41,911.71.
- The worries over the economy were initially sparked by some soft data that appeared to be in reaction to the tariff policy back-and-forth. This was then exacerbated by recent comments by the White House.
- Treasury Secretary Scott Bessent on Friday told the media that there could be a "detox period" for the economy as the new administration cuts government spending. Meanwhile, in a separate media interview, President Trump did not rule out the possibility of a recession this year but insisted this weekend that the economy was in a "period of transition".

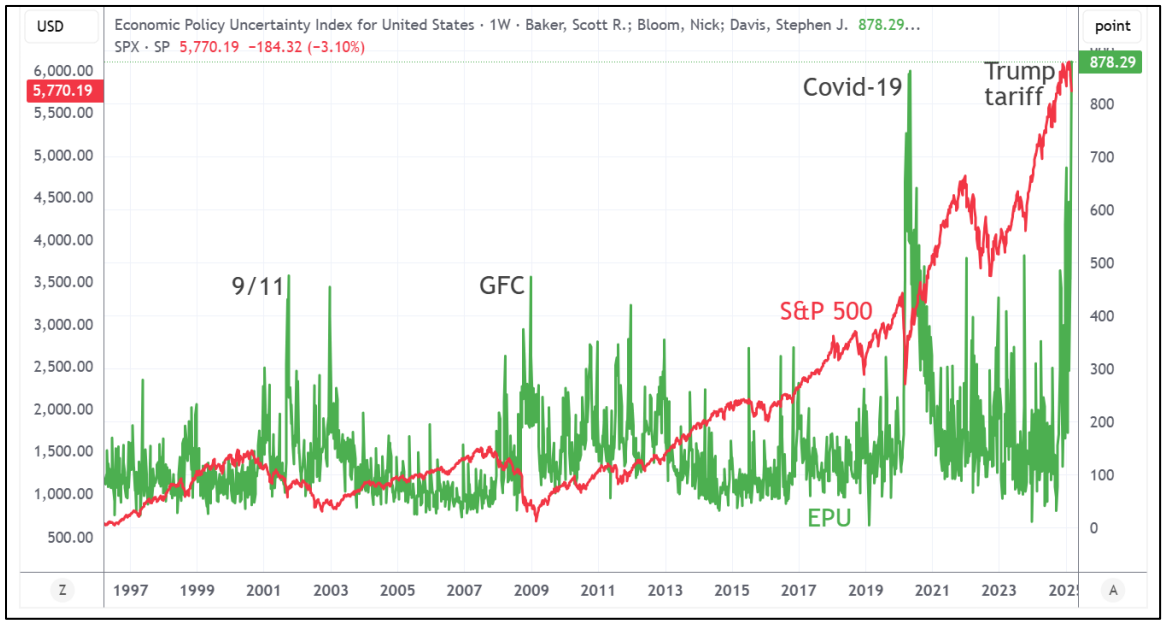
OUR VIEW

- **Growing talks about recession.** The recent fall in consumer spending has led to building concerns about the risk of US economy heading into recession. According to the US Bureau of Economic Analysis, the personal consumption expenditures (PCE) decreased by -0.2%mom in Jan-25, in contrast to the continued +0.9%mom rise in disposable personal income. The monthly decline in PCE was the first contraction in almost 2 years. In line with that, the US retail sales also fell -0.9%mom in Jan-25 (Dec-24: +0.7%mom), steeper than market expectations of -0.1%mom. Taking into account the decline in consumer spending, the US economy will likely register an annualised -2.4%qoq contraction in 1QCY25, based on the nowcast estimate by the Atlanta Fed. Based on this projected quarterly decline, from the year-on-year perspective, the US GDP growth would be moderating to +1.5%yoy (4QCY24: +2.5%yoy). If the momentum persists into the coming quarter, the US GDP growth could ease further to around +0.1%yoy in 2QCY25.
- **Confidence worsened in response to the policy changes**. As the trade war intensifies, this caused growing concerns among Americans that the tariff hikes on imports could cause inflation to go higher and buying conditions for durable goods could deteriorate. This resulted in the sharp fall in the University of Michigan's US Consumer Sentiment Index, which dropped for the second straight month to 64.7 in Feb-25. The monthly jump in the 1-year inflation expectations to +4.3% (Jan-25 survey: +3.2%) was also the sharpest since May-21. The survey by the Conference Board also indicated a sharp drop in consumer confidence as the index fell to 98.3 in Feb-25 (Jan-25: 105.3), the largest monthly drop since Aug-21. The weakening consumer confidence signals that consumers could continue to be cautious in their future spending and this will weigh down on the broader US economic outlook this year.
- **Job market looks resilient, yet to show sharp deterioration.** The job market remains the key factor underpinning the resilience in the US economy. Based on the Feb-25 nonfarm payrolls data, +151K jobs were added into the US economy, more than +125K in Jan-25. Although the Feb-25 job creation was below +160K predicted by market consensus and with the jobless rate rising slightly to 4.1% (Jan-25: 4.0%), the job creation remained in the positives. New filings for unemployment benefits also hovered around 200-220K in the recent weeks, showing no significant surge thus far. Although the deterioration in the job market may take some time to reflect the weakening economic conditions, eventually the decline in aggregate demand will hurt companies' hirings and labour demand.
- **Expect more rate cuts to counter slowdown.** We believe the growing concerns about the growth outlook has caused a shift in the market expectations, now pricing in more rate cuts by the Fed likely to be in Jun-25 and 2 more in the 2HCY25. Despite concerns that inflation outlook could remain elevated and amid still healthy job market, we opine the Fed could be shifting its policy focus from curbing inflation towards supporting the economy. In other words, more policy easing will be needed if

aggregate demand weakens further. If the slowdown continues into 2QCY25, this increases the chances for the US economy heading into a technical recession.

- **More signal of continued volatility in the market.** Based on past observations, the period of elevated US Economic Policy Uncertainty (EPU) Index corresponded with falling equity prices. The inverse relationship transpired post-9/11, during the global financial crisis (GFC) in 2008, and at the height of Covid-19 in the first half of 2020. Last Friday, the EPU Index jumped to a record high weekly close mainly blamed on continued uncertainties over Trump tariff policy.

US Economic Policy Uncertainty (EPU) Index



Source: TradingView, MIDFR

- **S&P 500 did not have a good week.** In the equity market, the S&P 500 slumped -3.1%wow (week-on-week) last week. The S&P 500 fell again overnight by -2.7% to 5,614 points as Wall Street was gripped by recession fears with President Donald Trump tacitly acknowledging in an interview over the weekend that there could be some short-term pain for the economy and markets before it gets better.

S&P 500 Index



Source: TradingView, MIDFR

- **Technically, the S&P 500 broke below its short-term trend** channel support of 5,700 points and could next head towards its correction (-10% off peak) threshold of 5,533 points. Other equity markets around the world, including ours would likely not be spared the latest selloff on Wall Street.
- **In fact, the heightened economic risks were felt weeks earlier.** Hence, in our 4QCY24 earnings report dated 4 March 2025, we announced the reassessment of our equity valuation for possible downgrade due to rising economic risks particularly surrounding the US tariff threats. We also announced putting our 2025 targets for FBM KLCI (of 1,800 points or PER25 of 15.9x), FBM Hijrah (of 14,500 points or PER25 of 23.3x), and FBM70 (of 20,400 points or PER25 of 16.8x) under review for possible downgrade. The reassessment shall be deliberated in our 2QCY25 outlook report to be published later this month.
- **More pertinent to go on defensive stance now.** We have anticipated the current bouts of increased volatility and uncertainty, especially stemming from US government policies. The VIX index has shot up to 27.86 and is the highest since Aug'24. Hence, the rationale for our defensive stance recommendation for this year as per our CY25 outlook, released in December. Given current market conditions, we reiterate with our recommendation of a more defensive approach. At least until the dust clears and clearer picture emerges from new U.S. policies and geopolitical situations.
- **Maintain sectoral recommendation of banks, REITs and consumer staple.** Defensive stocks, such as those in banking, REITs, utilities, healthcare, and consumer staples, tend to provide consistent dividends and stable earnings regardless of the overall market conditions. This stability and attractive dividend yields should moderate the downside risks, while not discounting the potential for price appreciation due to undervaluation. As such, we maintain our top picks for 2025, for now:

Overall top picks

	Rec.	Price (RM) @ 10/3/25	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Fraser & Neave	BUY	24.22	36.77	51.8%	3.2%	55.0%	4	Yes
Leong Hup	BUY	0.61	0.90	47.5%	6.1%	53.6%	2	No
Malayan Cement	BUY	4.84	7.10	46.7%	2.1%	48.8%	3	No
Pet. Dagangan	BUY	17.22	22.25	29.2%	5.7%	35.0%	3	Yes
CIMB	BUY	7.52	9.15	21.7%	5.2%	26.9%	4	Yes
Hong Leong Bank	BUY	20.48	24.60	20.1%	4.0%	24.2%	4	Yes
Public Bank	BUY	4.55	5.35	17.6%	4.3%	21.9%	3	Yes
Malayan Banking	BUY	10.58	12.11	14.5%	6.6%	21.0%	4	Yes
Pavilion REIT	BUY	1.52	1.69	11.2%	5.4%	16.6%	3	No
Axis REIT	BUY	1.85	2.02	9.2%	4.8%	14.0%	3	Yes

Source: Bloomberg, MIDFR

Author(s)
Imran Yassin Yusof
Head of Research
imran.yassin@midf.com.my

Syed Kifni Kamaruddin
Head Strategy
smkifni@midf.com.my

Abdul Mui'zz Morhalim
Chief Economist
abdul.muizz@midf.com.my

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology