Fixed Income Market Outlook 2025

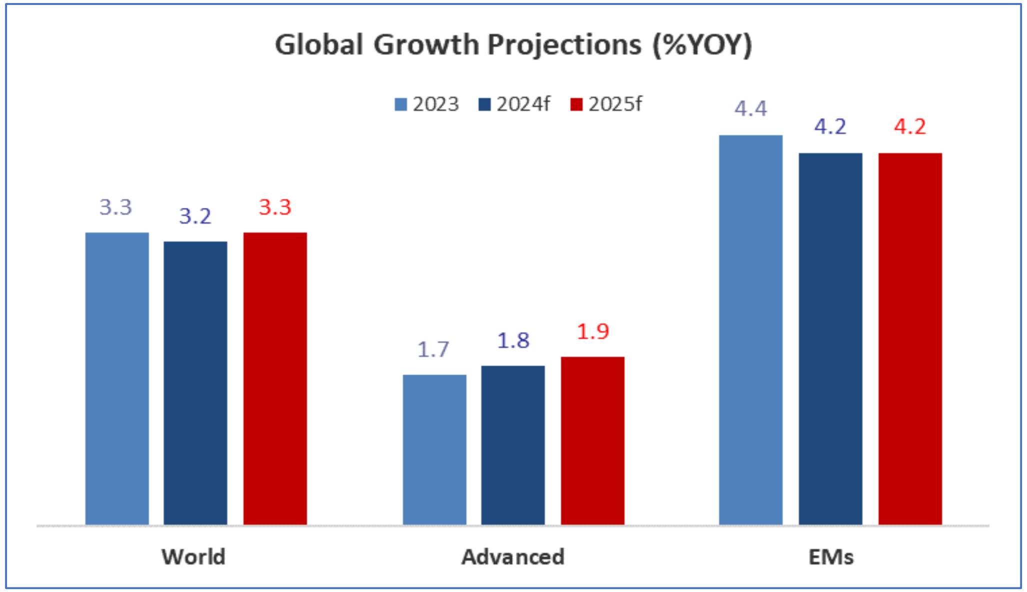
Global Markets

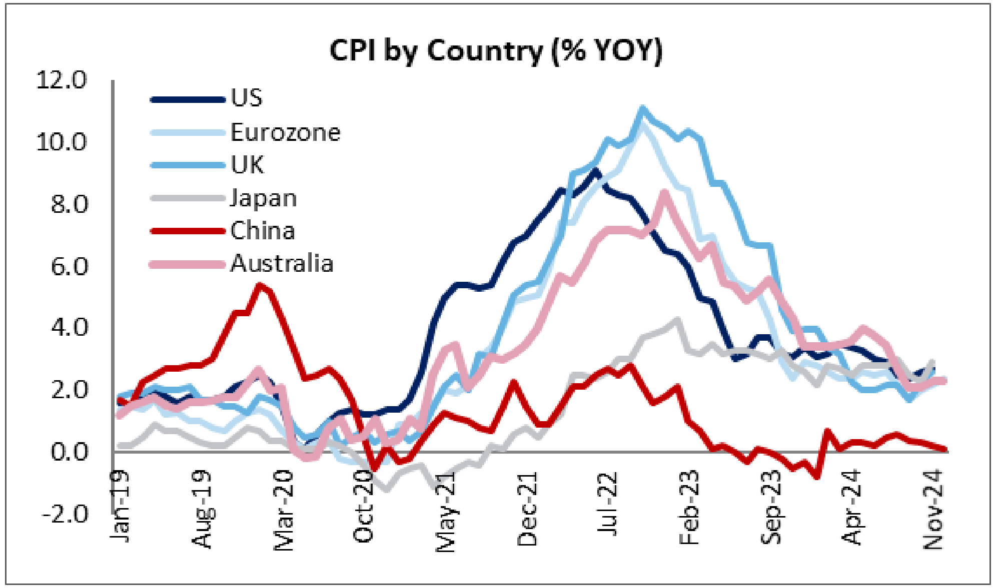
January 2025

Key Themes and Outlook for 2025

- Trumponomics and potential retaliation from the world
- Return of stagflation?
- Deglobalization - trade diversion and supply chain reconfiguration
- Increased volatility – uncertainties the only certainty!
- Inflation management – policy divergence
- China’s structural and debt issues
- Debt/fiscal sustainability concerns – reemergence
- Persisting geopolitical concerns
- Constructive on fixed income markets

Global Growth and Inflation Outlook



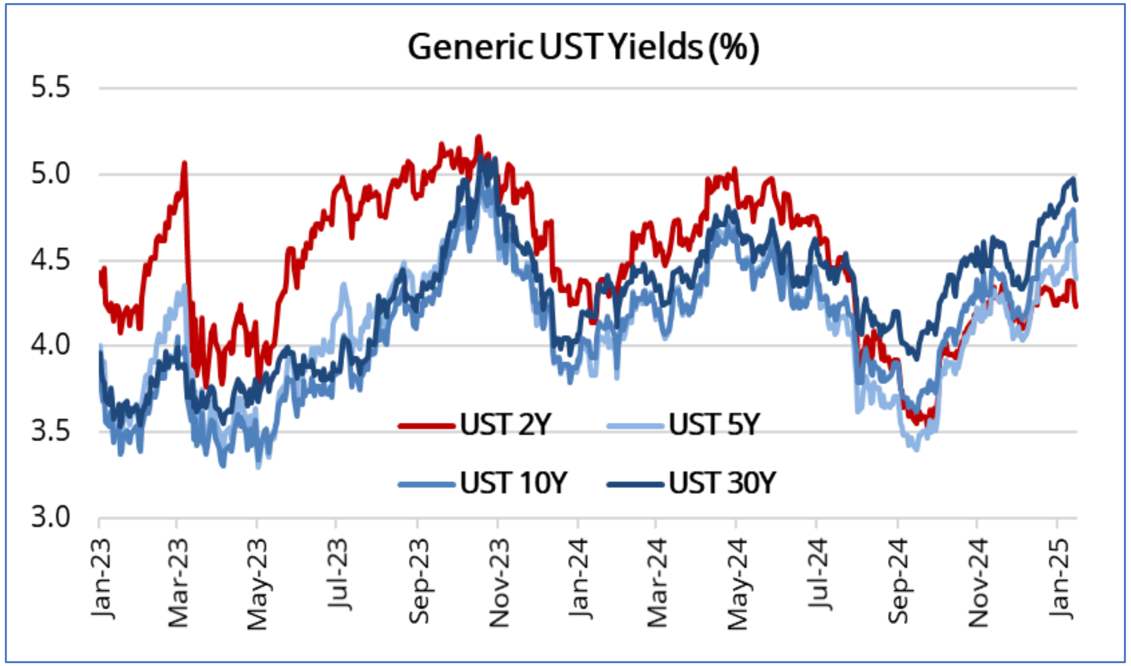


Source: IMF, HLBB Global Markets Research

- Overall growth outlook in 2025 – latest IMF projections point to marginal higher growth versus that of 2024, expected to be driven by quicker growth in the advanced economies, and sustained growth in EMs
- We foresee a more bumpy road ahead and a possible slowdown in 2H25, with potential US trade tariffs and the likely retaliatory action from other countries likely to kick in by then and soften the growth picture

- After the moderation in price pressures seen in 2024, the year ahead sees risk of higher inflation rates as a result of the impending US trade tariffs and the response from affected countries.
- A more conducive environment for the oil/energy sector under the new US administration, should result a reduction in energy prices which will help keep a lid on growing price pressures.

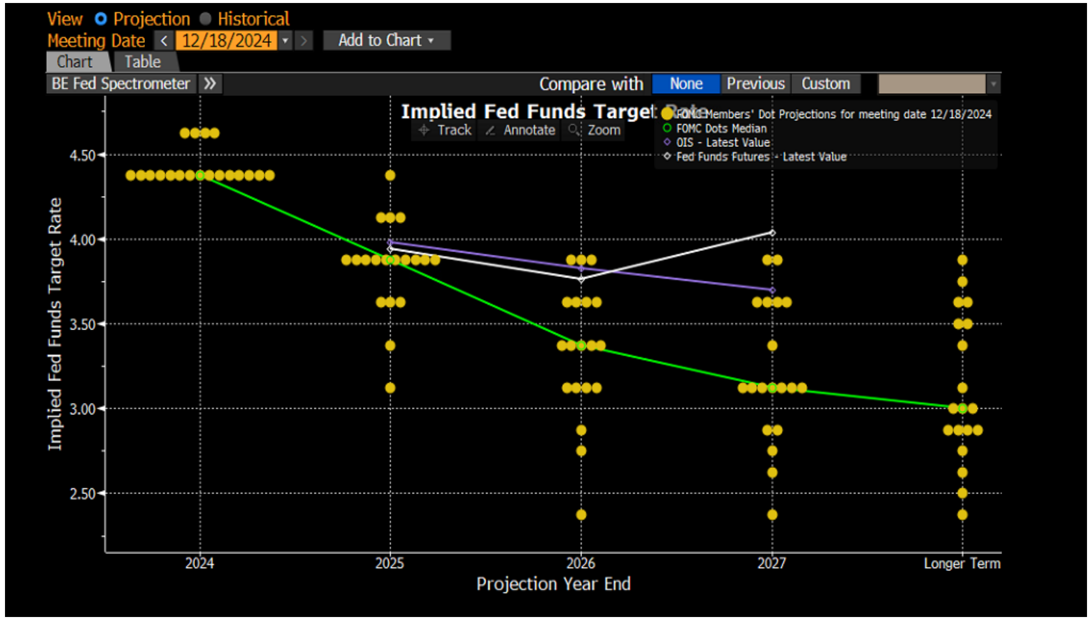
US Fixed Income – UST yields rose in 2024 despite Fed cutting rates

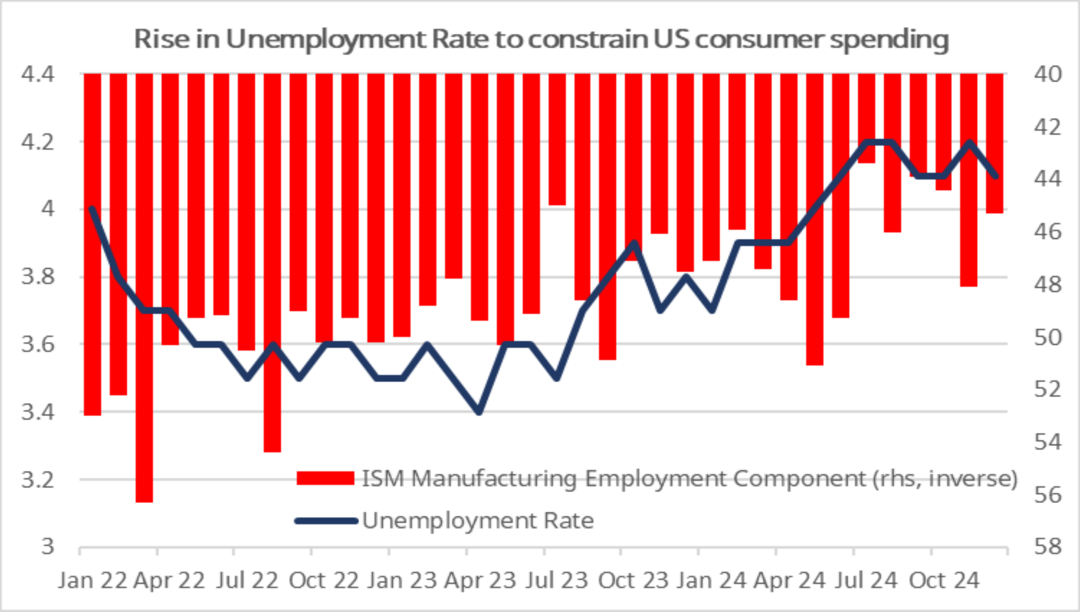


Source: Bloomberg, HLBB Global Markets Research

- It was a volatile year for Treasuries, with yields ending 2024 higher after gyrating in both directions during the year, with the 10yr UST trading within a 3.62% to 4.70% range.
- The first four months saw yields rise, as the Fed pushed back planned rate cuts as inflation remained elevated, with the core PCE being sticky around the 3% handle. The May to Sep period then saw core inflation resuming its decline, and the labour market starting to show signs of weakness, leading to a sharp rally in USTs, with the Fed finally beginning their rate cut cycle in Sep with an aggressive 50bps reduction.
- Yields then started to rise again post September and the election victory by Donald Trump and the Republican party resulted in a further rise in yields on the expected fiscal stimulus by the new administration and inflationary concerns that such polices would result in, despite the Fed continuing to reduce rates by a further 50bps in 4Q24.
- 10yr USTs closed the year 69bps higher at 4.57%, with the yield curve bear-steepening as the front end remained anchored by the Fed cuts and finishing 2024 back in positive territory with 2s10s at +33bps from -37bps at the end of the year before.

US Fixed Income – Lower bond yields seen as economic conditions moderate in 2025

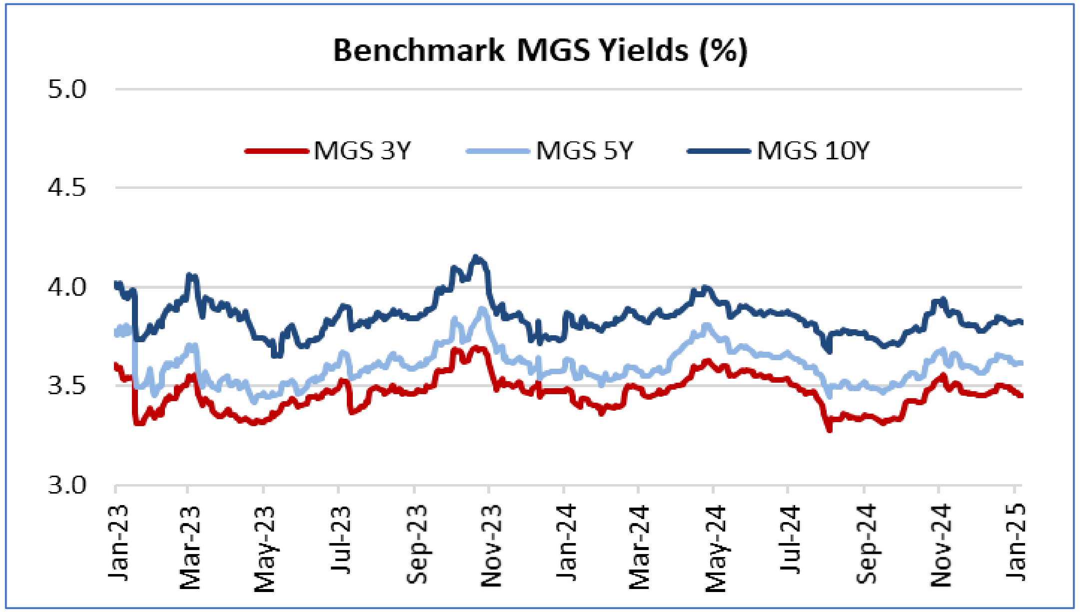




Source: Bloomberg, HLBB Global Markets Research

- The bearish tone that we saw the previous year looks set to carry on as we begin 2025, driven by expectations of an expansionary fiscal policy and a higher inflationary environment under the incoming US administration.
- Economic conditions however is seen to moderate this year, with US consumer spending likely to be adversely affected by a cooling labor market (the unemployment rate appears to have bottomed at 3.4% in mid-2023) and as the lagged effect of higher longer-term rates continues to materialize throughout the course of the year.
- The high base effects from Q124 for core PCE is likely to result in a further cooling in the annual rates, allowing the Fed to continue to reduce the Funds rate at a more gradual pace. The latest dot plot from the Dec24 FOMC indicates a further two reductions in 2025, matching our house view, down from the four penciled in in the previous dot plot.
- **We are mildly constructive on USTs for the year with the expected moderation in economic conditions, but potential gains may be capped by a rise in inflation later in the year as the impact of expected trade tariffs begin to materialize. We see a decline in the 10yr UST yield towards 4.20% for the year ahead.**

Malaysia Fixed Income – 2024 saw yields closing mixed and corporate spreads tighten



Source: BNM, Bloomberg, HLBB Global Markets Research

- MGS/GII yields were mixed in 2024, closing between -16 to +8bps for the year amidst strong growth, modest inflation and improving government finances as subsidy recalibration exercises were done in diesel prices, electricity tariffs and in the poultry sector.
- BNM kept rates on hold throughout the six scheduled MPC meetings during the year.
- GII generally outperformed MGS for the year across all maturities save for the 20yr sector, with yields of most GII benchmarks mostly converging versus their MGS counterparts.
- The belly of the curve (5 to 10 year) underperformed the wings, with the longer end of the maturity spectrum registering the largest gains.
- Corporate spreads compressed during the year with 10yr AAA spreads tightening from 44 to 25bps, and 10Y AA spreads coming in from 67 to 41bps, with the solid demand for paper continuing to outstrip supply.

Malaysia Fixed Income – Constructive in 2025 as growth holds up and BNM stands pat

FEDERAL GOVT REVENUE & EXPENDITURE RM (Billion)	2023	2024E	2025F
Revenue	315.0	322.1	339.7
Operating Expenditure	311.3	321.5	335.0
Current balance Surplus/(Deficit)	3.7	0.6	4.7
Gross Development Expenditure	96.1	86.0	86.0
less: loan recoverables	1.0	1.2	1.3
Net Development Expenditure	95.1	84.8	84.7
Overall surplus/(deficit)	(91.4)	(84.3)	(80.0)
Fiscal Deficit as a % of GDP	5.0	4.3	3.8

Source: MOF, HLBB Global Markets Research

RM (Billion)	2023	2024E	2025E
Federal Govt deficit	91.4	84.3	80.0
MGS/GII Maturities	78.2	93.0	83.5
Net Govt Bond Supply (MGS/GII)	93.3	82.0	80.5
Gross Supply (MGS+ GII only)	**171.5**	**175.0**	**164.0**

- We are constructive on the Malaysian bond space in 2025 and foresee a slight decline in yields for the year.
- Economic conditions remain vibrant, although we think GDP growth in 2025 (exp: 4.5%) may lag that of 2024 (exp: 5.2%), with significant uncertainty of how the external sector performs with trade tariffs likely to be implemented by the incoming US administration. We expect inflation to hover between 2-3% for the year, with the rise attributable to expected petrol subsidy removals at mid-year.
- BNM maintained their neutral bias at the most recent MPC and are expected to continue to hold rates steady throughout 2025
- The fiscal situation is expected to continue to register improvement with the budget deficit projected by the government to come down to 3.8% of GDP this year, as savings from previous and incoming subsidy removals help to keep expenditure in check.
- In view of projected lower fiscal deficit of RM80.0bn in 2025 (2024e: RM84.3bn), gross MGS and GII bond supply is expected to decline to RM164.0bn (2024: RM175.0bn).
- **Expect the 10Y MGS yield declining from 3.82% at the close of 2024 to around 3.70% by the end of 2025**
- **Corporate spreads are expected to be stable after 2024's tightening**

Govt bond supply – smaller gross issuance in 2025; switch to longer-dated issuances

MGS/GII issuance pipeline in 2025

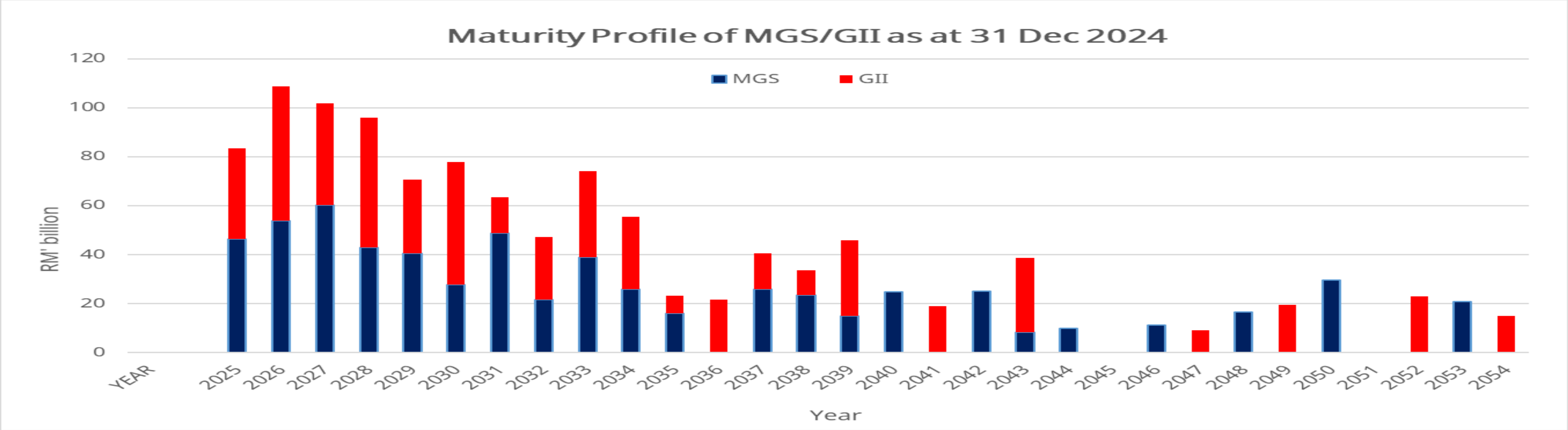
No	Stock	Tenure (yrs)	Tender Month	Quarter	Projected Issuance Size (RM mil)	Private Placement
1	7-yr Reopening of MGS 07/32	7	Jan	Q1	4,000	
2	15.5-yr New Issue of MGII (Mat on 07/40)	15	Jan	Q1	5,000	*
3	3-yr Reopening of MGII 07/28	3	Jan	Q1	4,000	
4	30-yr Reopening of MGS 03/53	30	Feb	Q1	5,000	*
5	7-yr Reopening of MGII 10/31	7	Feb	Q1	4,000	
6	20-yr Reopening of MGS 05/44	20	Feb	Q1	5,000	*
7	5.5-yr New Issue of MGII (Mat on 08/30)	5	Feb	Q1	4,500	
8	15-yr Reopening of MGS 04/39	15	Mar	Q1	5,000	*
9	30-yr Reopening of MGII 03/54	30	Mar	Q1	5,000	*
10	10-yr Reopening of MGS 07/34	10	Mar	Q1	4,000	
11	15-yr Reopening of MGII 07/40	15	Apr	Q2	5,000	*
12	3-yr Reopening of MGS 04/28	3	Apr	Q2	4,000	
13	10-yr New Issue of MGII (Mat on 04/35)	10	Apr	Q2	4,500	
14	5-yr New Issue of MGS (Mat on 05/30)	5	May	Q2	4,500	
15	20-yr New Issue of MGII (Mat on 05/45)	20	May	Q2	5,000	*
16	15-yr Reopening of MGS 04/39	15	Jun	Q2	5,000	*
17	30-yr Reopening of MGII 03/54	30	Jun	Q2	5,000	*
18	10-yr New Issue of MGS (Mat on 07/35)	10	Jun	Q2	4,500	
19	7-yr Reopening of MGII 10/31	7	Jul	Q3	4,000	
20	30-yr New Issue of MGS (Mat on 07/55)	30	Jul	Q3	5,000	*
21	10-yr Reopening of MGII 04/35	10	Jul	Q3	4,000	
22	20-yr Reopening of MGS 05/44	20	Aug	Q3	5,000	*
23	15-yr Reopening of MGII 07/40	15	Aug	Q3	5,000	*
24	5-yr Reopening of MGS 5/30	5	Aug	Q3	4,000	
25	20-yr Reopening of MGII 05/45	20	Aug	Q3	5,000	*
26	3-yr Reopening of MGS 04/28	3	Sep	Q3	4,000	
27	30-yr New Issue of MGII (Mat on 09/55) (I	30	Sep	Q3	5,000	*
28	15-yr Reopening of MGS 04/39	15	Sep	Q3	5,000	*
29	3-yr Reopening of MGII 07/28	3	Sep	Q3	4,000	
30	30-yr Reopening of MGS 07/55	30	Oct	Q4	5,000	*
31	5-yr Reopening of MGII 08/30	5	Oct	Q4	4,000	
32	20-yr Reopening of MGS 05/44	20	Oct	Q4	5,000	*
33	10-yr Reopening of MGII 04/35	10	Nov	Q4	4,000	
34	7-yr Reopening of MGS 07/32	7	Nov	Q4	4,000	
35	20-yr Reopening of MGII 05/45	20	Nov	Q4	5,000	*
36	10-yr Reopening of MGS 07/35	10	Dec	Q4	4,000	
	Gross MGS/GII supply in 2025				164,000	

Source: BNM, Bloomberg, HLBB Global Markets Research

Number of Issuances			
Tenure	2024	2025	Change
3Y	4	4	0
5Y	5	4	-1
7Y	6	4	-2
10Y	6	6	0
15Y	5	6	1
20Y	5	6	1
30Y	5	6	1
Total	36	36	0

- **Overall we expect a reduction in government bond supply this year to RM164bn** from RM175bn in 2024.
- We project quarterly issuances to be concentrated in 1Q2025 and 3Q2025 before tapering off in the final quarter of the year.
- The 7Y sector could see some outperformance this year, given the reduction in the number of planned auctions in that tenor this year, as the government switches to more longer-dated issuances instead.
- The supply dynamics could result in a slight steepening bias for the government bond yield curves.

Maturity profile of MGS/GII for 2025 and beyond

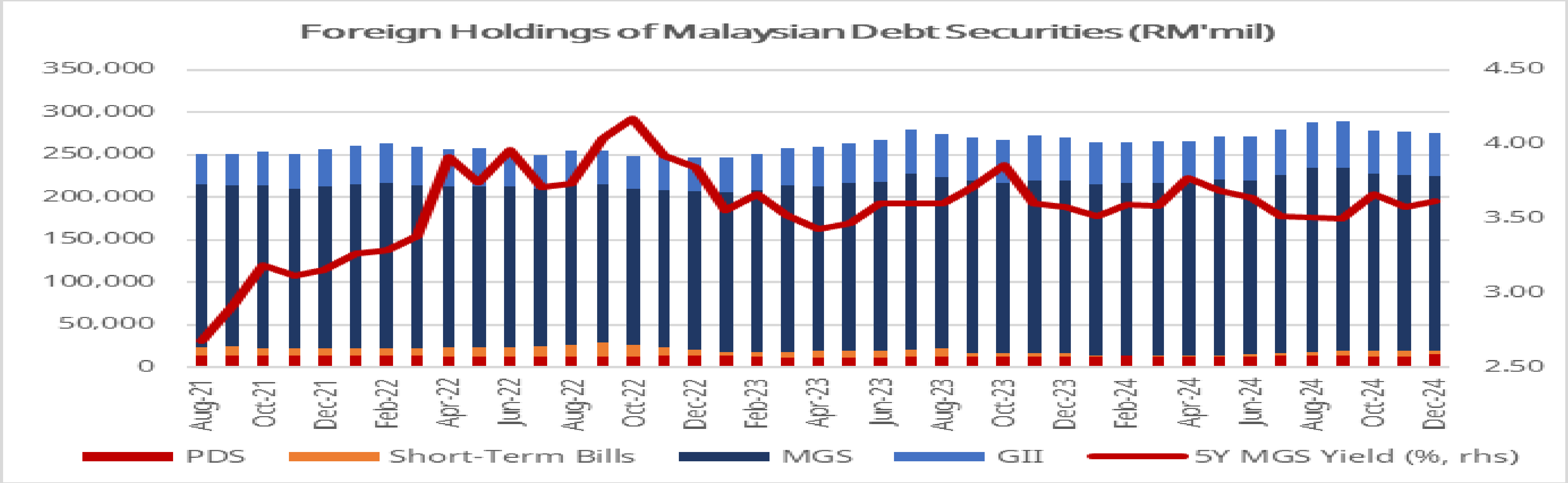


Quarter	2025	Stock	Monthly Maturity (RM'm)	Quarterly Maturity (RM'm)
	JAN			
1	FEB			
	MAR	MGS 3/25	16,720	16,720
	APR			
2	MAY			
	JUN			0
	JUL	MGS 7/25	3,000	
3	AUG	GII 8/25	12,500	
	SEP	MGS 9/25	26,757	42,257
	OCT	GII 10/25	24,500	
4	NOV			
	DEC			24,500
	Total		83,477	83,477

Source: Bloomberg, BPAM, HLBB Global Markets Research

- Government bond maturities for the new year will decline slightly to RM83.5bn (2024: RM 93.0bn)
- With the reduced issuance expected this year of RM164bn, net supply is expected to inch lower to RM80.5bn (2024: RM82.0bn)
- The supply dynamics looks to be brighter in the second half of the year as the bulk of the maturities will take place between Aug through Oct
- The maturity of the USD1bn of MALAYS 25 in April is expected to be refinanced with a new non-MYR issuance in line with continued efforts to develop the global sukuk market

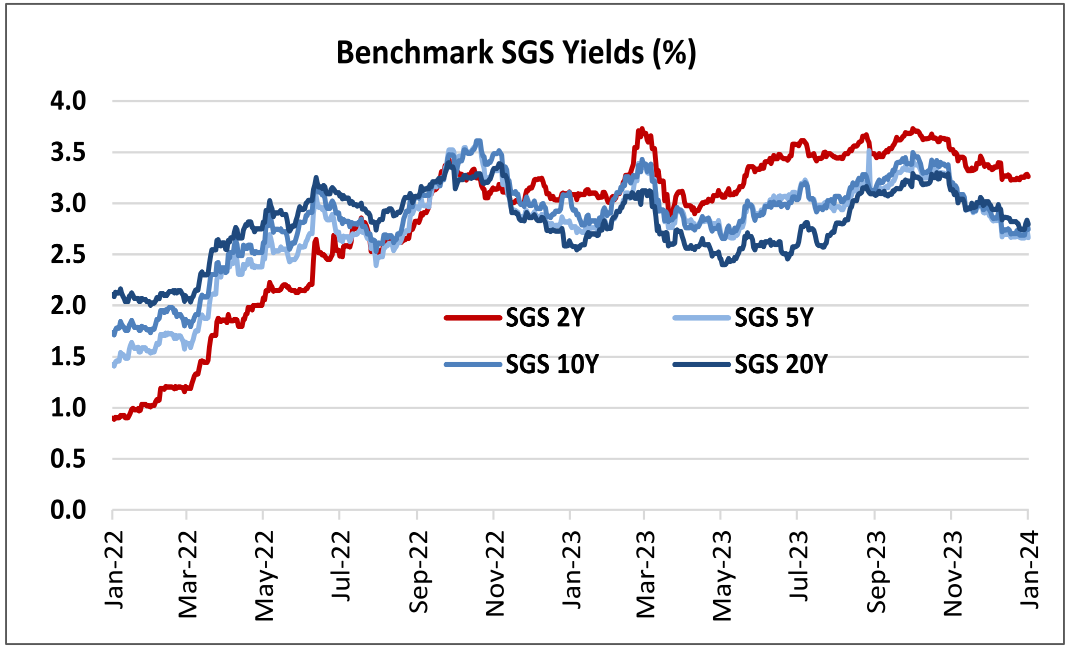
Foreign holdings of MYR Debt Securities – marginal rise in 2024



Source: Bloomberg, HLBB Global Markets Research

- 2024 witnessed a marginal increase of RM4.8bn in foreign holdings of MYR debt securities with RM275.2bn held as at year end (2023: RM270.4bn), driven by rises in MGS, PDS and bills holdings:
  - MGS holdings: RM204.7bn (2023: RM202.9bn)
  - GII holdings: RM50.3bn (2023: RM50.7bn)
  - PDS holdings: RM15.0bn (2023: RM13.0bn)
  - Short-term bills: RM5.3bn (2023: RM3.8bn)
- In terms of share, foreign holdings of government bonds were lower at year end, representing 32.3% (2023: 34.4%) of overall outstanding issuances of RM633.8bn for MGS, and 8.8% (2023: 9.5%) of overall outstanding issuances of GII of RM570.8bn as at December 2024.

Singapore Fixed Income – Mildly bullish tone expected in 2025



Source: Bloomberg, HLBB Global Markets Research

- We have a constructive bias for SGS in 2025, mirroring our views in the UST markets for the year.
- Economic conditions in 2025 are unlikely to replicate the strong pace of growth seen in 2024, with slower GDP growth expected amongst the country's largest trading partners. Domestic consumption has and may remain weak due to increased outbound tourism and GST hike. Externally, the strong performance of the export sector in 2024 also looks unlikely to repeat with the global trade environment likely to be adversely affected by expected rise in US tariffs.
- Risks to inflation are balanced we feel, possibly allowing MAS the leeway to ease if need be later in the year.
- Bond supply is likely to increase gradually, with MAS announcing during the release of the 2025 auction calendar that outstanding SGS bonds are expected to grow at a slightly faster pace than in 2024.
- **The 10yr SGS yield is seen to decline to around the 2.75% level in 2025.**

2025 projections

	CURRENT	1Q2025	2Q2025	3Q2025	4Q2025
UST 10Y	4.67%	4.50%	4.40%	4.30%	4.20%
MGS 10Y	3.82%	3.85%	3.80%	3.75%	3.70%
SGS 10Y	2.96%	2.90%	2.85%	2.80%	2.75%

Sovereigns – Constructive outlook for bonds in 2025 overall on moderation in economic conditions. MGS/GII to underperform in the near term on possible further foreign outflows

UST	Bond yields see to head lower in 1Q and throughout 2025. The FOMC is likely to ease policy in a more gradual manner as we veer closer to the perceived neutral rate, with 25bps reduction seen in 1Q versus 50bps reductions in each of the past two quarters Risks – the anticipated expansionary policies of the incoming administration result in a renewed and sustained bout of higher inflation
MGS	Solid growth and muted inflation will allow BNM to continued to keep OPR stable. MGS/GII expected to trade in a range in 1Q, and head lower as the year progresses. Risks – foreign outflows seen in 4Q24 persist and/or pick up pace
SGS	Positive correlation with USTs likely to result in SGS yields declining. MAS is expected to continued to maintain an unchanged policy stance at its quarterly meeting in Jan Risks – Rise in trade tensions/tariffs adversely affect the export sector

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