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Equities poised to rebound 2H25 as tariff concerns ease

The Malaysian Reserve, Malaysia

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Clearer trade policy and strong domestic fundamentals may boost equities, particularly in construction, utilities and consumer sectors

by RUPINDER SINGH

THE first half of 2025 (1H25) was anything but smooth for global financial markets, and Malaysia was no exception.

Heightened volatility, sweeping US tariff measures, a renewed wave of geopolitical tensions and policy unpredictability under US President Donald Trump's second term defined the period.

At home, the FTSE Bursa Malaysia KLCI (FBM KLCI) declined by 7% year-to-date (YTD) as at June 2025, retracing some of the previous year's gains.

Investors retreated in response to a combination of profit-taking, reduced corporate earnings guidance and unabated foreign fund outflows.

The benchmark index closed the first half at 1,532.96.

MIDF Amanah Investment Bank Bhd (MIDF Research) aptly described the period as "a turbulent 1H", noting that they had underestimated the magnitude of market shocks stemming from a trio of developments: The artificial intelligence (AI) diffusion rule introduced during the final days of the Joe Biden administration, the reintroduction of aggressive tariffs under Trump and renewed conflict in the Middle East.

The situation intensified in early April when the White House announced a broad set of reciprocal tariffs, triggering knee-jerk market selloffs.

Despite that, markets rebounded somewhat by May and June, helped by a 90-day pause on tariff implementation.

Although only the US-UK deal had been finalised by late June, the temporary pause restored a degree of investor confidence.

MIDF Research noted that the "pause itself was enough to calm investor nerves and inject optimism into the markets", particularly in developed markets which recovered more rapidly than their emerging counterparts.

Malaysia, like many in the ASEAN region, remained subdued as risk-averse global investors shifted allocations away from emerging markets.

Apex Securities Bhd, in its half-year strategy note, highlighted that "foreign funds continue to pare down Malaysia equities along with most emerging markets as investors unwind their position amid uncertainties posed by US flip-flop trade policies".

YTD, the FBM KLCI has seen net foreign outflows of RM12.2 billion.

Trading activity has also cooled, with average daily traded volumes down to three billion shares and daily traded value shrinking to RM2.47 billion from RM3.15 billion a year earlier.

Sector performance has been largely disappointing.

Out of 13 major sectors tracked on Bursa Malaysia, 12 were in negative territory.

The real estate investment trusts (REITs) segment emerged as the sole outperformer, up 3.1% YTD, owing to its defensive characteristics.

Technology and healthcare were the hardest hit, declining 21.5% and 28.7% respectively.

The technology sector was rattled by the temporary implementation of the AI diffusion framework in January, while glovemakers in the healthcare sector were affected by front-loading by US buyers ahead of tariffs.

Top recommendations 2H25

Company	FYE	Price (RM) @ 20/6/2025	P/E (x) CY25	P/E (x) CY26	P/B (x) CY25	P/B (x) CY26	Dividend Yield (%)	Target Price (RM)	Potential Upside (%)	ESG Rating
CBH Engineering Holding Bhd	Dec	0.23	11.8	9.1	1.7	1.4	0	0.38	65.2	★★★
Inari Amertron Bhd	June	1.87	26.3	19.1	2.5	2.4	5.9	2.94	57.2	★★★
Kerjaya Prospek Group Bhd	Dec	2.06	13.1	12.4	2.2	2.1	5.6	2.50	21.4	★★★
Lagenda Properties Bhd	Dec	1.19	5.2	4.1	0.8	0.7	5.6	1.53	28.6	★★★
QES Group Bhd	Dec	0.36	20.9	13.1	1.5	1.4	1.7	0.42	16.7	★★★
Samaiden Group Bhd	June	1.02	27.2	19.7	3.0	2.5	0	1.60	56.9	★★★
Solarvest Holdings Bhd	March	1.84	19.4	14.9	3.1	2.5	0	2.61	41.8	★★★
Tenaga Nasional Bhd	Dec	14.22	19.7	19.3	1.3	1.3	3.3	16.04	12.8	★★★
UUE Holdings Bhd	Feb	0.78	15.7	11.2	3.3	2.6	0	1.09	39.7	★★★

Source: Apex Securities

Overall top stock picks (ranked by total returns)

Company	Rec	Price (RM) @ 30/6/2025	Target Price (RM)	Price Return (%)	Dividend Yield (%)	Total Returns (%)	FBM ESG Rating	FTSE4 Good?
Malayan Cement	Buy	5.02	7.49	49.2	2	51.2	3	No
Pekat	Buy	1.36	1.86	36.8	0	36.8	–	–
Life Water	Buy	0.83	1	21.2	1.6	22.8	–	–
Hong Leong Bank	Buy	19.6	23.09	17.8	4.1	21.9	4	Yes
IHH Healthcare	Buy	6.82	8.18	19.9	1.5	21.5	3	Yes
Mah Sing	Buy	1.19	1.37	15.1	4.1	19.2	4	Yes
Tenaga Nasional	Buy	14.38	16.4	14	3.8	17.8	3	Yes
UOA Development	Buy	1.78	1.98	11.2	5.6	16.9	3	No
Gamuda	Buy	4.79	5.42	13.2	2.1	15.2	3	Yes
Fraser & Neave	Buy	29.46	32.68	10.9	2.6	13.5	4	Yes

Source: Companies, Bursa Malaysia, FBM KLCI, Bloomberg, MIDF Research

Global Uncertainty, Domestic Stability

The global macroeconomic narrative remains dominated by a slowdown in trade, recalibration of monetary policies and ongoing geopolitical uncertainties.

According to the International Monetary Fund (IMF), world GDP is projected to expand by 2.8% in 2025, down from 3.3% in the previous year.

Growth in advanced economies is expected to slow to 1.4%, while developing markets are projected to post a collective growth of 3.7%.

China's economic momentum is forecast to decelerate to 4%, below the government's 5% target, amid structural issues in the property sector and deflationary pressures.

In contrast, Malaysia's domestic growth prospects remain more resilient.

MIDF Research projects GDP growth at 4% for 2025, down from 5.1% last year, but still supported by robust domestic demand.

The research house noted that "domestic consumption will continue to anchor Malaysia's economic growth, supported by favourable labour market conditions, improving wage prospects, increased tourism activity as well as policy measures such as cash handouts from the government".

The unemployment rate reached a 10-year low of 3% in April, while labour force participation hit a record high of 70.8%.

On the monetary front, MIDF Research expects Bank Negara Malaysia (BNM) to maintain the Overnight Policy Rate (OPR) at 3%, maintaining an accommodative stance to support growth.

The ringgit is forecast to strengthen, averaging RM4.30 to the US dollar in 2025 and potentially ending the year at RM4.25.

This projection is buoyed by expectations of a narrowing interest rate differential as the US Federal Reserve (Fed) is anticipated to implement two rate cuts in 2H25.

Nonetheless, external risks remain.

Bloomberg

Glovemakers in the healthcare sector are affected by front-loading by US buyers ahead of tariffs

MIDF Research highlighted the potential escalation of trade disputes, unpredictable US foreign policy and commodity market volatility as key risks.

Brent crude is forecast to average between US$65 and US$68 (RM297.16) per barrel, down from nearly US$80 in 2024, owing to high stockpiles and the easing of Iran-Israel tensions.

Crude palm oil is expected to remain supported around RM4,100 per tonne due to climate-related supply disruptions.

Market Outlook

Looking ahead to 2H25, both MIDF Research and Apex Securities acknowledge that the market's recovery path will be uneven, influenced by ongoing US trade policy developments.

MIDF Research projects the FBM KLCI to reach 1,590 by year-end, supported by undemanding valuations and potential foreign fund inflows.

Apex Securities maintains a slightly higher target of 1,680, assigning a forward price-to-earnings ratio (PER) of 14.5 times, below the five-year historical average of 15.1 times.

Apex Securities described the outlook as one of "steering through a patchy recovery", urging caution amid the uncertainty surrounding the final shape and scope of reciprocal tariffs.

The full impact of these tariffs will likely be felt only from the third quarter (3Q) onwards, as they are tentatively scheduled to take effect in July.

"With final tariff rates yet to be confirmed, the ongoing uncertainty may keep investors on edge," the brokerage warned.

It added that many companies have adopted a wait-and-see approach, delaying investment and capital expenditure (capex) plans.

Nonetheless, both houses see room for upside.

MIDF Research said "the balance of risk is tending towards positive", supported by an expected resolution in trade negotiations, geopolitical de-escalation and global liquidity easing.

The US and China are also expected to sustain growth, albeit at a slower pace.

If Malaysia manages to secure favourable trade terms, especially for its strategic sectors, it could act as a significant catalyst for market re-rating.

The FBM70 and FBM Small Cap indices, which have lagged significantly, could also see rotation if sentiment improves. For now, however, the investment climate remains cautious and selective.

Sector Themes

Sectoral strategy for 2H25 is shaped by a preference for domestically focused, fundamentally strong counters that are less exposed to global trade risks.

Construction continues to be a favoured pick.

Both MIDF Research and Apex Securities see strong earnings visibility, driven by resilient order books and the ongoing data centre construction boom.

MIDF Research noted that the sector is "shielded somewhat from tariffs given its domestically driven nature".

The consumer sector is expected to remain defensive, supported by steady wage growth and social assistance.

The rebound in tourism and festive spending patterns are likely to provide additional tailwinds. MIDF Research describes consumer stocks as "the defensive shield of 2H25".

The power and utilities segments are similarly favoured, particularly in light of government-led infrastructure upgrades and the broader push for decarbonisation.

The upcoming large-scale solar 5 (LSS5) awards are expected to catalyse activity in the renewable energy space.

Apex stated: "Utilities and power ancillary players may thrive from grid infrastructure upgrades and a growing push toward a low-carbon economy."

Technology is viewed with guarded optimism. While current valuations are depressed following a sector-wide correction, Apex Securities believes that "greater clarity on tariff developments would enhance policy certainty and help restore investor confidence in the sector".

Glovemakers, on the other hand, face ongoing headwinds. Front-loaded orders from the US and price pressures from Chinese competitors have delayed any meaningful recovery in margins or volumes.

Stock Selection

MIDF Research's top recommendations for 2H25 include large-cap names like Tenaga Nasional Bhd (TNB), Hong Leong Bank Bhd and IHH Healthcare Bhd, as well as mid-sized counters such as Gamuda Bhd, Mah Sing Group Bhd and UOA Development Bhd.

These stocks are viewed as proxies to domestic infrastructure and consumption, offering potential upside ranging from 15% to over 50%.

Notably, Malayan Cement Bhd tops MIDF Research's list with a projected return of 51.2%.

Apex Securities' selections reflect a tilt toward growth and thematic exposure, with strong emphasis on construction and renewable energy plays.

These include Solarvest Holdings Bhd, Samaiden Group Bhd and Kerjaya Prospek Group Bhd, as well as technology names such as Inari Amertron Bhd and QES Group Bhd.

TNB appears on both firms' lists, reflecting its dual appeal as a dividend play and green energy enabler.

Despite the broad-based weakness in 1H25, both firms see ample opportunities for selective accumulation.

With valuations still trading below historical averages and multiple sectors offering visibility of earnings growth, investors may find 2H25 more palatable — if not more predictable.