Kenanga Investors

ASEAN'S Q3 INVESTMENT PLAYBOOK

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Amid intensifying global economic headwinds, Southeast Asia offers a compelling, albeit complex, investment landscape. Kenanga Investors Berhad's Chief Investment Officer, Lee Sook Yee, shares her insights on the region's opportunities and challenges for investors.

The third quarter of 2025 promises to be a defining period for Southeast Asian markets. Investors will grapple with evolving US trade policies and shifting monetary landscapes. While global uncertainties loom, the region's domestic fundamentals remain resilient, creating a nuanced investment environment that rewards strategic positioning.

THE TARIFF TANGO AND EXTERNAL FORCES

US trade policy continues to cast a long shadow over ASEAN markets. Lee Sook Yee frames the current environment succinctly: "As we turn the corner into Q3, the tone for ASEAN assets will be impacted by two external forces: the final form of tariffs, which are still reverberating through global supply chains, and monetary policy from the Federal Reserve. Analysts expect the US Fed to cut interest rates as growth slows, but inflation could prove to be a constraint."

"Against that backdrop, Southeast Asia's domestic growth drivers remain comparatively resilient, supported by healthy household balance sheets, government spending and infrastructure pipelines," Lee notes, highlighting the region's underlying strength. However, she cautions that growth will still be impacted by any tariff related slowdown in exports.

Currency dynamics add another layer of complexity. A weaker US dollar, while potentially boosting import-based sectors and domestic consumption, could simultaneously pressure export-oriented industries. "Hence, investors should adjust their strategies to differentiate between tariff-insulated, consumption-led stories and export names whose earnings might be impacted by tariffs and a weaker USD," Lee advises.

THREE WINNING INVESTMENT CLUSTERS

Despite the challenging backdrop, certain sectors emerge prominently in the Q3 landscape. Lee identifies ‘three clusters’ that stand out for their growth potential and resilience to external shocks.

“The first cluster focuses on the data centre and broader AI infrastructure build-out, where hyperscalers continue to accelerate capacity across Malaysia, Thailand, and Indonesia. The scale of this build-out is impressive— Malaysia expects facilities with around 1 gigawatt (GW) of power capacity to come online over the next two years, with an additional 3 GW announced. This represents not just incremental growth but a fundamental reshaping of the region’s technological infrastructure,” says Lee.

The second opportunity lies in “renewables and transition utilities, underpinned by a deep pipeline of projects funded through a fast-growing regional sustainable bond market.” This sector benefits from both regulatory tailwinds and genuine economic demand.

Perhaps most intriguingly, opportunities exist in value-for-money consumer plays—particularly those geared to increasingly price-conscious Gen Z households. “This demographic shift carries significant long-term implications, as Gen Z’s spending power is expected to reach US$12 trillion by 2030, with a significant focus on affordability and essential goods,” Lee highlights.

GLOBAL MONETARY POLICY SHIFT CREATES NEW DYNAMICS

The global monetary policy landscape is experiencing a significant shift, with central banks increasingly aligning on interest rate cuts. “Global central banks such as the European Central Bank (ECB), Bank of England (BOE) and People’s Bank of China (PBoC) have already begun cutting interest rates in response to slower growth and inflation,” Lee observes

For ASEAN economies, this creates a unique opportunity. “Regional central banks are also in a better position to cut rates to mitigate a slowdown in domestic growth given the recent weakness of the USD. The weaker dollar provides more leeway for regional central banks to cut by lessening concerns about currency depreciation post-cuts,” Lee explains.

Malaysia's central bank exemplifies this cautious but opportunistic approach. "We expect a 'wait and see' stance from Bank Negara Malaysia (BNM) while they assess the Fed's next move and downside risks to domestic growth," Lee notes. This positioning creates attractive opportunities in Malaysian bonds, as Lee anticipates steady demand for Malaysian bonds as investors position for rate cuts by BNM in the latter half of the year.

MITIGATING GEOPOLITICAL RISKS

Heading into Q3 2025, US tariff policies remain the most closely monitored geopolitical risk. "A 90-day trade tariff pause (9 April - 8 July 2025) has created a window for numerous countries to negotiate actively with the US on trade tariff reductions. All eyes are on the pivotal trade tariff discussions between the US and China, along with other major economies like Japan and India. These negotiations are expected to be protracted, with significant implications for future trade relations."

For Malaysian portfolios, Kenanga Investors Berhad suggests focusing on domestic-centric sectors that are less vulnerable to trade tariffs. These include banks, construction, healthcare, telco, utility, renewable energy and property/REITs.

GREEN FINANCE GOES MAINSTREAM

The ESG landscape is transforming, moving beyond compliance to active investment opportunities. Lee identifies two key trends driving this evolution: the rise of 'green digital' infrastructure and the institutionalisation of carbon markets.

"Investments in renewable-powered data centres and electric vehicle (EV) charging networks are expected to be spurred by regional frameworks like the ASEAN Responsible AI Roadmap," she explains. This convergence of sustainability and technology opens new financing opportunities, including sustainability-linked sukuk and sovereign-led green finance.

The maturation of carbon trading platforms represents another significant development. "The maturing of carbon credit platforms like Bursa Malaysia's voluntary carbon market and Singapore's Climate Impact X is enabling early investors to gain alpha in climate-aligned assets," Lee observes.

REGIONAL CHAMPIONS AND MARKET LEADERS

Looking across ASEAN markets, Lee's analysis reveals distinct winners and opportunities. "In Q3 2025, the Philippines stands out as our top ASEAN pick, driven by resilient consumer spending, election-fuelled fiscal stimulus and potential monetary easing—favouring consumption, infrastructure and financials."

Malaysia follows closely, benefiting from “structural reforms and tech/green transitions boosting semiconductors, renewables, and domestic sectors,” Lee adds. “Meanwhile, Vietnam emerges as the region’s dark horse, with its electrifying tech/EV export boom—powered by foreign direct investment and infrastructure upgrades positioning it for potential breakout growth.”

Disclaimer: This material is solely for general information purposes. The material has not been reviewed by the Securities Commission Malaysia (“SC”). The information contained herein does not constitute any investment advice. Past performance is not indicative of future performance. Kenanga Investors Berhad 199501024358 (353563-P).

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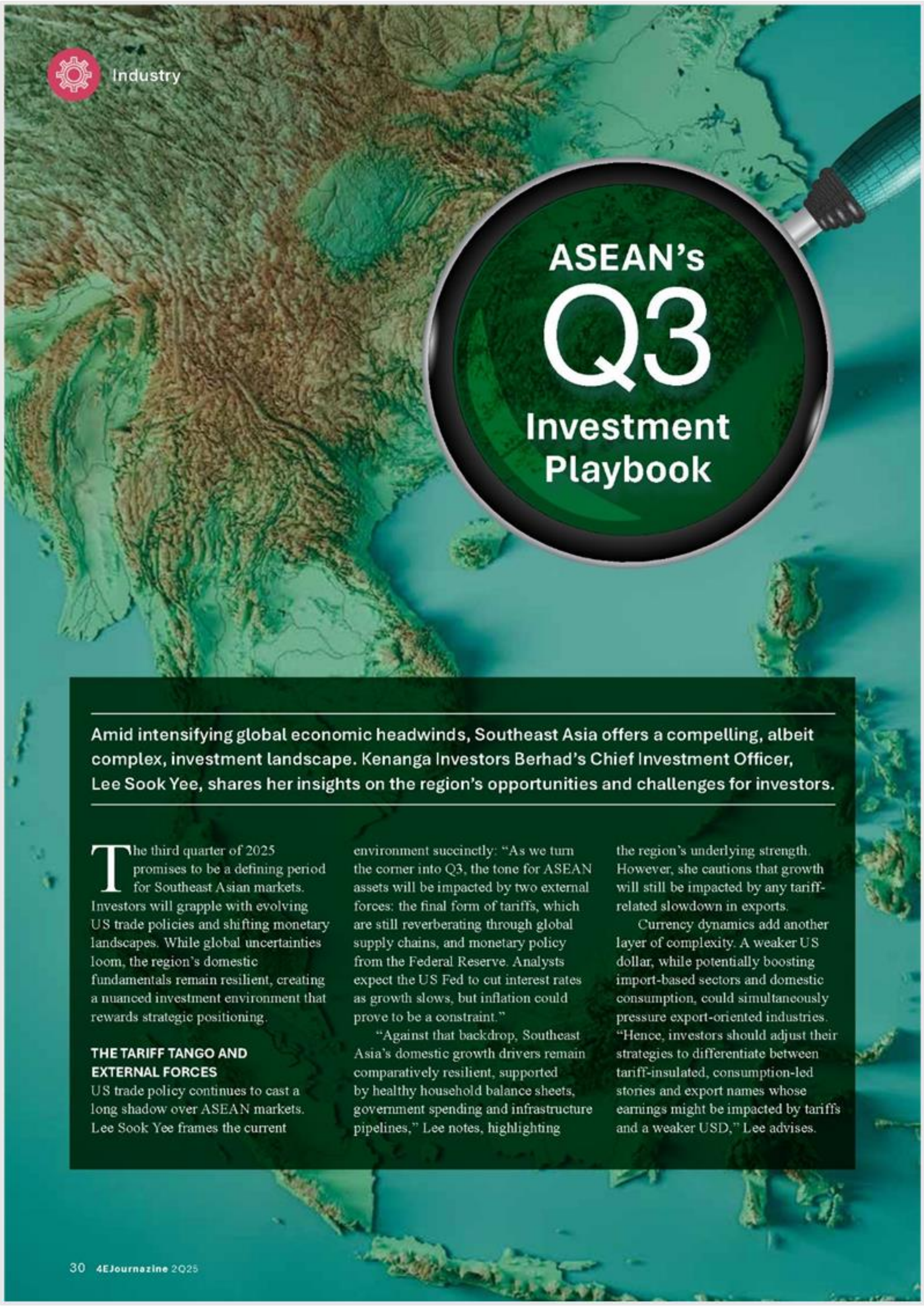

Industry

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Lee Sook Yee, Chief Investment Officer at Kenanga Investors Berhad

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