Thematic Strategy Report

Navigating the US-China Trade War Escalation

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- **China imposed sweeping export controls** on rare earth elements (REE), battery tech, and related equipment effective 8 November 2025, citing national security
- **US retaliated** with 100% tariffs on Chinese imports and tech export restrictions starting 1 November 2025
- Escalation includes **port fees, entity blacklists, and agricultural trade tensions** (soybeans, cooking oil)
- **Global implications:** Supply chain disruptions for EVs and semiconductors, higher input costs, and increased market volatility
- **Malaysia impact:** Negative on semiconductor exports and production; potential FDI opportunities in REE processing
- **Market view:** Wall Street fell sharply but partially recovered; local markets relatively resilient
- **Strategy:** Focus on domestic-centric sectors; maintain **2025 KLCI target at 1,650 points**
- **Companies mentioned:** F&N (BUY, TP: RM32.08), Aeon (BUY, TP: RM1.77), Leong Hup (BUY, TP: RM0.90), Padini (BUY, TP: RM2.49), Pharmaniaga (BUY, TP: RM0.32), Petronas Dagangan (BUY, TP: RM25.19), Gamuda (BUY, TP: RM6.35), MCement (BUY, TP: RM7.49), Mah Sing (BUY, TP: RM1.51) and Matrix Concepts (BUY, TP: RM1.65)

BACKGROUND - A TIT-FOR-TAT RESPONSE BETWEEN US AND CHINA

New opening salvo from China?

Recently, we observed a flare-up in the trade tension between the US and China, seemingly out of the blue. On 9 to 13 October 2025, China imposed sweeping export controls on rare earth elements (REE), lithium battery technologies, cathode/anode materials, and related production equipment. According to China's Ministry of Commerce announcement on 9 October, it will not allow the export of rare earth materials for use by foreign militaries. China also imposed broad controls that require foreign companies to obtain an export license if rare earths processed in China make up as little as 0.1% of their products' value. Firms will also need licenses for products that rely on Chinese rare earth technology for mining, smelting, separation, magnet manufacturing and recycling. These rules will take effect 8 November 2025. China cited national security and non-proliferation obligations as reasons.

Why does this matter?

REE are crucial components in US weapons systems. On more peaceful application, REE are critical for chips and electric vehicle (EV) to name a few. Currently, China dominates the global supply chain for REE. According to the International Energy Agency, it controls 60% of mining and more than 90% of refining worldwide. Meanwhile, according to the US Geological Survey, it is dependent on China for around 70% of its rare earth imports. This means that an export control or outright restriction could hamper its defence industry as well as semiconductor and EV industries.

Retaliation from the US.

On 10 October 2025, US President Trump announced an additional 100% tariff on all Chinese imports, effective 1 November, in addition to the existing duties - effectively pushing rates on many goods above 130%. He also pledged export controls on "any and all critical software" by the same date. These measures were framed as retaliation for China's expanded rare earth export controls.

Could be part of negotiation tactics.

Based on what have been observed since the US announcement of tariffs in April 2025, it is reasonable to think that this latest trade tension escalation may be more of negotiation tactics. Recall, there have been 4 rounds of negotiations since April 2025; Geneva Talks (May 2025), London Round (June 2025), Trump-Xi meeting (June 2025) and Stockholm Talks (July 2025). Negotiators in Geneva agreed to a 90-day truce reducing rates, followed by the Trump–Xi meeting that eased rare earth export curbs and some US tech restrictions. Meanwhile, rounds in London and Stockholm focused on non-tariff barriers but achieved limited progress.

But could be not...

It was expected that the US–China negotiations in Madrid (14 to 17 September) could see further de-escalation, aimed to extend the tariff truce beyond 10 November. Nevertheless, progress stalled after China's rare earth curbs and Trump's tariff threats. Both sides had signalled willingness to meet at the APEC Summit in South Korea (31 October), though rhetoric remains volatile currently.

…seems different this time around

Initially, we viewed this development as temporary and more posturing than anything else. However, it seems that there is more escalation by both sides. There seems to be lack of mutual trust between the two sides driving the latest escalation, with both feeling betrayed of what perceived to be acting in bad faith by the other. Consensus saw this as a result of 'misperception" on both sides. For example, China may feel it needs to respond to a new US rule released on 29 September which expands the scope of export controls to majority owned subsidiaries of companies on a US list which the US likely saw this as a technical adjustment. Meanwhile, China may see its rare earths restrictions as mimicking US' wide-reaching effort to restrict China's access to high-end tech, whereas the US may see it as a negotiation strategy.

More tit-for-tat actions by both sides.

Going beyond the REE controls and tariffs, it seems that both countries are as escalating into other areas. For example, both countries announced reciprocal port fees on each other's vessels starting 14 October 2025. US fees target China-owned or China-operated ships, while China responded with higher tonnage fees on US-linked vessels. These charges will escalate annually through 2028.

Targeting entities.

Both countries are also targeting each other's entities (i.e. companies). The US Commerce Department added 26 entities (19 in China) to the Entity List on 8-9 October 2025, citing involvement in supplying Iran with drone components and US origin electronics whereby license applications for these firms will face a "presumption of denial." Earlier, on 12 September 2025, the US added 23 Chinese companies, including semiconductor and biotech firms, for activities deemed contrary to US national security.

Spillover to agriculture.

The latest escalation saw President Trump saying his administration is considering "terminating business with China having to do with Cooking Oil" in retaliation for Beijing refusing to buy US soybeans on Tuesday. "As an example, we can easily produce Cooking Oil ourselves, we don't need to purchase it from China," an excerpt from his Truth Social post. Traditionally, China has been the top buyer of US soybeans, importing USD12.8b worth in 2024. It was a key element in the Phase One US-China trade deal in 2020. Nevertheless, China has not bought a single US soybean since May 2025 on the backdrop of the tariff, preferring to buy from South American countries such as Brazil. Meanwhile, China's exports of used cooking oil came in at USD2.64b in 2024, with the U.S. accounting for 43% of the total.

Possible implications of a new US-China trade war.

We believe that one of the most obvious implications of this latest round of escalation is supply chain disruption as REE and battery curbs could disrupt EV and semiconductor inputs, threatening production continuity for automakers and chipmakers globally. Malaysia being part of a global semiconductor supply chain may experience spillover effect. We have also observed its impact to increasing financial market volatility. More medium-to-long term effect

could be heightening geopolitical risk, tech fragmentation (accelerated ecosystem bifurcation), US-China decoupling and strategic realignment (such as accelerated nearshoring to Mexico, Vietnam, and India, China doubles down on self-sufficiency in critical technologies). We discuss below the possible implication to Malaysia's trade and navigating this period of uncertainty.

ECONOMICS & POLICY – POSSIBLE IMPACT TO MALAYSIA's EXTERNAL TRADE

Renewed supply disruption to global semiconductor

China's further restriction on the supply of rare earth is expected to negatively impact the supply chain. For context, China control about 70% of global rare earth mining and 90% of global processing capacity. This is expected to affect the production of advanced semiconductors and memory chips. ASML, manufacturers of machines that make advanced semiconductors, already raised concerns that there could be weeks-long delay in shipments. Note that rare earth elements are used in etching, lithography and testing machines. The restriction move on rare earth elements would also raise the prices of these materials. All in, we would expect such developments to negatively impact on the local semiconductor industry, who is a global player in the semiconductor back-end.

Adverse impact on Malaysia's trade…

Although REE only covers around 0.4% of total Malaysia's total exports in 9MCY25, the sub-sector accounted for nearly 6.8% of Malaysia's mining exports. Thus far this year, exports of REE declined by -9.6%yoy to around RM4.5b due to weaker demand particularly from China, Thailand and Japan. We believe that this weaker demand reflects the moderate demand this year, in addition to fears of supply disruptions due to the tighter trade rules. From trade perspective, disruptions to the global semiconductor supply chain will have negative implications to Malaysia's production and trade outlook.

…and domestic production

On the production side, the major concern is how the reduced supply of REE will affect global production of various products. Looking at the 12 of 17 REEs which China included in the export control list, we expect the supply shortages will affect various industries such as E&E and semiconductors, LED displays, medical devices, transport industry and utility. The shortage could lead to higher input costs and affecting the stability of production and delivery of E&E products, automotive (particularly electric vehicles), and green-energy supply chain in Malaysia.

Table 1: List of REEs restricted under China's export controls and the sectoral applications

Rare Earth Element (REE)	Symbol	Primary Industrial Products and Applications
Samarium	Sm	**High-Performance Magnets:** Samarium-Cobalt (SmCo) magnets, which are highly resistant to demagnetization and temperature, essential for missile guidance, aerospace components, and specific defence systems.
Gadolinium	Gd	**Medical Technology:** Contrast agents for Magnetic Resonance Imaging (MRI). **Nuclear:** Neutron absorbers (control rods in reactors). **Electronics:** Data storage media and specialized magnets.
Terbium	Tb	**Green Energy & Defence:** Essential component in Dysprosium-containing magnets (for heat stability in EV motors and wind turbines). **Displays:** Green phosphors for LEDs and fluorescent lamps. **Acoustics:** Magnetostrictive alloys (e.g., Terfenol-D) used in sonar and sensors.

Dysprosium	Dy	**Critical Magnet Additive**: Used with Neodymium (NdFeB magnets) to maintain high magnetic performance at elevated temperatures. Absolutely crucial for Electric Vehicle (EV) motors and high-power wind turbine generators.
Lutetium	Lu	**Medical Imaging & Lasers**: High-density crystals used in Positron Emission Tomography (PET scanners). Dopants in specialised optical fibres and laser crystals.
Scandium	Sc	**Aerospace & Automotive Alloys:** Aluminium-Scandium alloys are extremely light, strong, and corrosion-resistant, used in high-performance aircraft and sports equipment. **Energy:** Solid Oxide Fuel Cells (SOFCs).
Yttrium	Y	**Displays & Lighting:** Red phosphors (often with Europium) for LEDs, TVs, and monitors. **Metallurgy**: Stabilizer in Zirconia ceramics. Lasers: Yttrium-Aluminium-Garnet (YAG) lasers (industrial cutting, medical surgery).
Holmium	Ho	**Specialty Lasers:** Used in surgical and dental lasers (operating in a specific infrared wavelength that is safe for human tissue). **Magnetism**: High-power magnetic field generators.
Erbium	Er	**Telecommunications:** Erbium-Doped Fiber Amplifiers (EDFAs) for boosting signals in fibre-optic cables, forming the backbone of the internet. **Medical:** Specialized surgical and aesthetic lasers.
Thulium	Tm	**Portable X-rays & Lasers:** Radioisotopes used in portable X-ray devices. High-efficiency solid-state lasers.
Europium	Eu	**Displays & Security:** Red phosphors (critical for colour displays). Used in anti-counterfeiting phosphors on currency and security markings.
Ytterbium	Yb	**High-Power Fiber Lasers:** Dopant used in industrial fibre lasers for high-speed cutting and welding applications. Radiation: Portable X-ray sources.

Source: various sources

Opportunity to attract more investment

On a positive side, Malaysia could attract more investment into this industry, potentially getting more FDI from the US to de-risk their supply chains. We could gain from being a larger player in the REE sector. Therefore, Malaysia would potentially benefit from the value-chain upgrading, hence, developing an alternative regional processing hub in Asia. However, Malaysia may need to navigate the geopolitical environment to strike a balance. We understand that Malaysia has been actively negotiating for China's technical assistance to develop a domestic downstream processing.

MARKET STRATEGY – NAVIGATING THE LATEST ROUND OF UNCERTAINTY

Wall street selloff on re-escalation of US- China trade spat.

After the summer lull, Wall Street was again jolted by a re-escalation in US-China trade spat. The S&P 500 tumbled -2.7% last Friday, its largest daily decline since 10 April this year. The selloff was in reaction to a threat by US President Trump to impose additional 100% tariffs on Chinese goods. The additional tariffs threat was a tit-for-tat response to rare earth (and related equipment) export restrictions by China which could negatively impact certain US sectors such as semiconductor and defense.

US market partially recovered on President Trump assurance.

However, the equity selloff was short-lived as Wall Street partially recovered after President Trump unilaterally remarked that trade relations with China will 'all be fine'. As of Tuesday close, the S&P 500 rebounded +1.4% this week or fell -1.5% post-selloff.

On sectoral basis, S&P 500 IT index (which represents various semiconductor stocks) underperformed as it rebounded merely +0.8% this week or fell -3.2% post-selloff. On this score, it is notable to note that the China authority has thus far remained steadfast on its latest rare earth export restrictions despite the 'all be fine' remark by President Trump.

US tech stocks lagged as China rare earth restrictions remain.

Meanwhile, most equity markets around the world retreated in sympathy with Wall Street. Comparatively, local and regional reactions to the selloff on Wall Street were rather muted. In Kuala Lumpur, as of Wednesday close, the benchmark FBM KLCI index fell -0.7% post-selloff this week. Moreover, regionally, the FTSE Asean 40 index fell -0.8% post-selloff this week.

Local and regional markets outperformed Wall Street thus far post-selloff.

On sectoral basis, in the local market, BM Consumer P&S index outperformed while BM Technology index underperformed. As of Wednesday close, the former climbed +2.4% while the latter dropped -2.4% post-selloff this week.

Local consumer stocks outperformed while tech underperformed.

However, despite the hitherto muted local equity market reaction to the recent escalation in US-China trade spat, we advise investors to remain vigilant on any further escalations and to navigate accordingly. Going forward, we reckon sectors with heavy reliance on external factors such as semiconductors may be susceptible to unforeseen tariffs or other restrictions. On the other hand, domestic-centric sectors are the safer bets.

To remain vigilant and navigate accordingly.

Overall, we foresee a situation whereby the local equity market would remain generally sanguine premised on baseline expectations of continued resilient macro economy and corporate earnings performance. Moreover, the prospect of return inflow of foreign funds (in view of burgeoning world's monetary liquidity with further US Fed rate cuts) would generate an additional fillip to the equity market.

Overall, still sanguine on equity market outlook…

On the flip side, we advise investors to tread cautiously and be wary of evolving risk of US recession. This concern is in view of the recent weakness in its labour market situation which may be exacerbated by any unbridled escalation in trade war.

…albeit wary of potential downside.

In view of the still positive baseline fundamental and monetary liquidity prospects, we maintain our FBM KLCI, FBM Emas Shariah, and FBM 70 targets for 2025 at 1,650 points or PER25 of 15.2x, 12,500 points or PER25 of 19.8x, and 18,100 points or PER25 of 18.2x, respectively.

Maintain our 2025 targets.

Moreover, we reiterate our FBM KLCI, FBM Emas Shariah, and FBM 70 preliminary targets for 2026 at 1,730 points or PER26 of 15.0x, 13,000 points or PER26 of 18.8x, and 18,800 points or PER26 of 18.9x, respectively.

Reiterate our 2026 preliminary targets.

As we are cognizant of the downside risk stemming from an escalation in US-China trade tensions, we recommend a tactical strategy of focusing on domestic centric companies at least until some clarity after the intended meeting between Presidents Trump and Xi scheduled in 31 October during the APEC summit in South Korea. Below is list of stocks that investors could consider.

Stocks to consider while navigating this volatile period.

Stock code	Companies	Recomm.	TP (RM)	Investment highlights
FNH MK	Fraser & Neave Holdings	BUY	32.08	• Strong earnings defensiveness and resilient consumer base. • Demand for essential food and beverage products remains stable despite inflationary pressures and global macroeconomic uncertainties. • Benefit from rising mobility and tourism-led consumption. • The group's upstream dairy investments in Gemas and expanded capacity in Cambodia are set to reinforce long-term earnings visibility.
AEON MK	AEON Co. (M)	BUY	1.77	• Well placed to capture mass-market demand through its extensive retail footprint. • Steady contributions from its Property Management Services segment, alongside tenant mix optimisation and rental reversions, provide additional earnings support.
LHIB MK	Leong Hup International	BUY	0.90	• Stable feed input costs from corn and soybean meal and structural growth opportunities in chicken and egg consumption per capita across its key markets. • Supported by a softer USD, a diversified footprint and essential food portfolio.
PAD MK	Padini Holdings	BUY	2.49	• Affordable pricing strategy and strong value-for-money positioning. • Macro environment has turned more supportive, with stable employment trends, recent government cash handouts. • Stronger ringgit offers a further tailwind by easing imported input costs.
PHRM MK	Pharmaniaga	BUY	0.32	• Main positive driver for the group lies in its continued collaboration with the government to distribute its products to government hospitals. • We expect that manufacturing biopharmaceuticals, consumables trading and improvements in its Indonesia segment will be the growth areas for the group moving forward.
PETD MK	Petronas Dagangan	BUY	25.19	• Actively implementing proactive strategies to mitigate any risk. • BUDI95 ensure demand will remain robust.
GAM MK	Gamuda	BUY	6.35	• Top pick for the construction sector, premised on its all-time high orderbook of RM38.4b. • Geographically diversified construction and property portfolio, and rapid expansion in the utilities space
LMC MK	Malayan Cement	BUY	7.49	• Main direct beneficiary of the sectors upcycles.

				• Demand is expected to be underpinned by a robust pipeline of civil and private projects, including warehouses, data centres, and residential developments, while the anticipated rollout of MRT3 is set to provide an additional multi-year catalyst.
MSGB MK	Mah Sing Group	BUY	1.51	• Exposure to affordable property market segment should sustain new property sales outlook while the extension of Home Ownership Campaign until 31 December 2027 bodes well for the companies' new sales prospect. • New sales prospect is stable, underpinning by launches of affordable residential projects. • New sales on track to hit new sales target of RM2.65b for FY25. • Date centre ventures provide recurring income.
MCH MK	Matrix Concepts Holdings	BUY	1.65	• Exposure to affordable property market segment should sustain new property sales outlook while the extension of Home Ownership Campaign until 31 December 2027 bodes well for the companies' new sales prospect. • MVV City is the next growth earnings catalyst to Matrix Concepts. • New sales momentum remains strong, supported by landed homes projects in Negeri Sembilan

Source: Bloomberg, MBSBR

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
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