Trump's Tariffs, Redacted

Implications of SCOTUS Ruling on Trump's Tariffs

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- SCOTUS ruled 6–3 that IEEPA does not authorize presidential tariff powers, voiding Trump's reciprocal/emergency tariffs; Section 232 and legacy Section 301 tariffs remain intact.
- The White House responded with a 15% "global" tariff under Trade Act §122.
- Anticipate heavier use of narrower tools: §122, more aggressive §232/§301; other levers include §338, bilateral quotas/ART, or new legislation.
- ART deals face uncertainty; Malaysia's Oct-25 ART (19% rate, 1,711 lines) may be revisited post-ruling.
- Net policy shift modestly eases trade headwinds; Malaysia benefits from 15% vs 19%, but sector-specific risks (semiconductors) rise. E&E exports remained strong into Jan-26, with potential front-loading if sectoral tariffs emerge.
- Market view: near-term positive for equities and Ringgit; maintain 2026 GDP +4.6% and FBM KLCI target 1,850 amid tariff and Middle East geopolitical risks.
- Top picks: Gamuda (BUY, TP: RM6.35), Samaiden (BUY, TP: RM1.70), Pekat (BUY, TP: RM2.00), YTL Power (BUY, TP: RM4.92), AEON (BUY, TP: RM1.66), Tenaga Nasional (BUY, TP: RM16.40), RHB Bank (BUY, TP: RM9.10), Leong Hup International (BUY, TP: RM0.90), 99 Speedmart (BUY, TP: RM4.41), and Public Bank (BUY, TP: RM5.45).

LATEST TWIST TO TRUMP's TARIFF

Momentous SCOTUS ruling

After the oral arguments in the US Supreme Court in Nov-25, the Supreme Court of the US (SCOTUS) reached a verdict last Friday. In a 6–3 ruling, the Court held that the International Emergency Economic Powers Act (IEEPA) does not authorize the President of the US to impose tariffs. Chief Justice Roberts wrote for the Court; Justices Thomas, Alito, and Kavanaugh dissented.

SCOTUS invalidates Trump's IEEPA tariffs

The Court stressed that tariffs are taxes, Congress holds taxing powers, and nothing in IEEPA's "regulate … importation" language clearly delegates open-ended tariff power—particularly for measures of "unlimited amount, duration, and scope." This invalidates President Trump's sweeping "reciprocal" and emergency tariffs that were justified under IEEPA including the April 2025 "Liberation Day" reciprocal tariffs and emergency fentanyl-related levies. However, the ruling does not touch tariffs imposed under other statutes (e.g., Section 232 national-security tariffs; legacy Section 301 China tariffs).

Will countries now have the tariff imposed, and what about refunds?

The question is that will countries now have to follow the tariff? In short, no, at least not in current IEEPA guise. In terms of the tariff already collected, because SCOTUS did not opine on refunds, importers will now have to litigate or seek administrative refunds of duties collected under the now-illegal IEEPA tariffs; estimates run up to ~USD175b. Nevertheless, we should expect complexity and delay.

White House reaction – different statute for global tariffs

Within hours of the ruling, the White House announced a new "global" tariff using Section 122 of the Trade Act of 1974 (a different law), initially 10% and then raised to 15% the next day. However, this tariff is time-limited to 150 days unless Congress extends.

What tariff remain?

What is still in force are the non-IEEPA tariffs:

- Section 232 tariffs (e.g., steel 50%, aluminum 50%, autos/parts generally 25%; plus, copper, furniture, trucks, etc., per 2025–26 proclamations/investigations.
- Section 301 China tariffs (2018–19 lists remain, with evolving exclusions).

What other options are there for the White House?

While President Trump may have lost the IEEPA tariffs, he has other options to continue imposing tariffs. One of the options he has already used (Section 122). Other options as follows:

1. Lean on Section 122 (Trade Act of 1974)
    - Already done by the White House.
    - What it allows is a temporary, across-the-board import surcharge up to 15% for 150 days to address "large and serious" balance-of-payments deficits.
    - The constraints is the rate cap (15%) and time limit (150 days); whereby extensions likely require Congress approval – and judging by recent events, this may be difficult with a razor thin majority by the Republicans.
    - In addition, it is vulnerable to court challenges on BOP findings and scope.

2. Expand or accelerate Section 232 national-security tariffs
    - What it allows: Product- or sector-specific tariffs/quotas with no statutory rate ceiling or duration, after Commerce investigation (270-day window).
    - There is an ongoing or mooted probes beyond metals (autos/parts, chips equipment, pharmaceuticals, timber, furniture, heavy trucks).
    - We can expect the intensified use of this section.

3. Use Section 301 (unfair trade practices)
    - What it allows: Tariffs targeted at "unreasonable/discriminatory" foreign practices (e.g., IP theft).
    - However, the US Courts have narrowed "modification" authority to keep actions tethered to findings while overbroad backfilling risks new litigation.

4. Dust off Section 338 (Tariff Act of 1930)
    - What it allows: Tariffs up to 50% against countries that "discriminate" against U.S. commerce.
    - However, there has been little used in modern era and it would invite WTO disputes and retaliation.

5. Negotiate bilateral quotas/exemptions or deals
    - Swap blanket rates for country-specific deals (e.g., past auto tariff adjustments with U.K./Japan); use tariff threats as bargaining leverage.
    - Legal terrain is firmer if anchored in 232/301 or congressional approval.

6. Seek congressional cover
    - Push for new legislation explicitly delegating broader tariff authority
    - This is unlikely to be done quickly but could be a medium-term play.
    - Nevertheless, Congress may bulk given the razor thin margins.

In essence the White House retains narrower, slower, and more litigable tools. In the near-term, we expect President Trump to be using Section 122 and an aggressive 232/301 use as the most probable pathway.

What about ART?

The Agreement on Reciprocal Tariff (ART) is a new type of bilateral trade deal the Trump administration has been using to exempt "aligned" partners from its global tariff threats. These are often "asymmetrical" deals where countries agree to lower their own trade barriers, purchase U.S. goods (like LNG, aircraft, or soybeans), and align with U.S. national security goals in exchange for a lower U.S. tariff rate (typically 15–19% instead of higher baseline rates). Since the SCOTUS ruling struck down the *threat* that forced these deals, the legal necessity for countries to follow them is now in question. Some legal experts suggest these agreements could be rendered void if they were predicated on illegal tariff orders

Malaysia signed the ART deal in Oct-25 to secure a lower 19% rate and exemptions for 1,711 product lines. Since the ruling removed the "illegal" tariff threat that forced the deal, it has been suggested that Malaysia may be able to seek to revisit and rebalance the ART. Meanwhile, experts suggest this is an opportunity for Malaysia to reinforce its economic autonomy and reduce dependency on volatile U.S. trade policies.

ECONOMICS & POLICY

Easing trade policy positive to trade outlook…

The US Supreme Court's decision to invalidate the reciprocal tariffs imposed by the Trump administration represents a notable shift in the global trade landscape. The ruling effectively limits the President's ability to impose sweeping tariffs unilaterally, reaffirming that the authority to set tariffs rests with Congress.

…but shifting to 15% global tariffs in the near term

Nevertheless, the subsequent announcement by President Trump to introduce a 15% global import tariff was largely expected, as the administration seeks to preserve a degree of trade protection through alternative legal channels. This also raises the likelihood of a gradual shift toward more sector-specific tariffs, given that broad-based measures have now been deemed to lack sufficient legal basis. The 15% global tariff may be imposed for up to 150 days, and further extension will require Congressional approval.

Malaysia to benefit from lower tariffs

For Malaysia, the reduction from a previously indicated 19% reciprocal tariff to a 15% global tariff somewhat mitigates the downside risks to export competitiveness. Lower tariff pressure may ease potential drag on US final demand for Malaysian goods, although the move still signals a more restrictive trade environment that could weigh on external demand going forward.

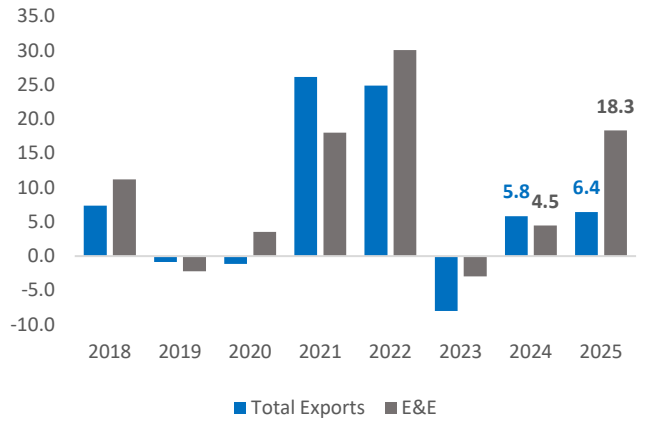
Concerns about targeted sector-specific tariffs

Beyond this immediate shift, US trade policy may increasingly pivot toward targeted measures. When broad tariff authority is constrained, the US government has historically relied on alternative instruments such as Section 232 (national security) and Section 301 (unfair trade practices) to impose duties on strategic industries. This raises the possibility that sectors such as semiconductors, advanced electronics, green technologies and critical minerals could become the next focus of protectionist action. For Malaysia, this presents renewed vulnerability given the integration in global semiconductor supply chains and the significant share of E&E products in Malaysia's exports to the US.

Strong E&E exports persisted into early 2026

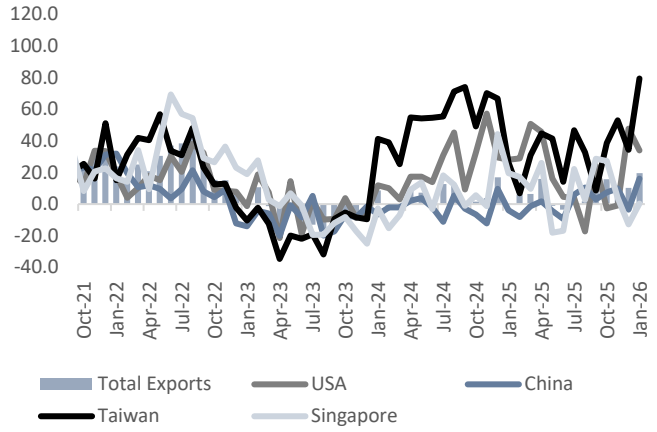
Malaysia has thus far benefited from resilient global demand for E&E products. Despite concerns surrounding higher tariffs, front-loading activities supported strong export performance last year, with E&E exports expanding by +18.3% (2024: +4.5%). E&E shipments to the US —accounting for 62.5% of Malaysia's exports to the US— grew by +21.2%, contributing 23.2% of overall E&E export growth in 2025. The current technology upcycle may continue to provide near-term support, as reflected in robust Jan-26 E&E export performance (+47.5%yoy to the US and +39.5%yoy overall). Some degree of front-loading could persist should sectoral tariffs be pursued, although future tariff extensions will now require Congressional approval.

Chart 1: Malaysia's Yearly Export Growth (%)



Source: Macrobond, MBSBR

Chart 2: Malaysia's Exports to Selected Countries (YoY%)



Source: Macrobond, MBSBR

We do not rule out the possibility that Malaysia may seek to revisit the terms of the Agreement on Reciprocal Tariffs (ART) signed with the US last year. This will depend on how the blanket 15% global tariff and evolving US trade policy — following the Supreme Court's ruling — affect bilateral trade dynamics. While Malaysia is likely to continue honouring existing commitments in the near term, certain provisions may be reviewed or recalibrated should they be deemed inconsistent with the revised legal framework governing US tariff authority.

Potential review and re-negotiation parts of ART, particularly involving tariffs

Although easing trade rules may be positive to trade outlook, we are keeping our GDP growth projection for 2026 at +4.6% for now. We view there may be increased uncertainty once again from the changing US trade policy. Meanwhile, we are also concerned how the renewed escalation of geopolitical risk in the Middle East has led to increased oil prices, potentially higher inflation outlook and ultimately negative implications to the global economic growth later this year. Therefore, we are not making changes to our baseline projection so far. We believe the resilience in Malaysia's domestic economic activities will help to cushion the potential drag from uncertainties, mainly from the external front.

Keeping GDP growth outlook for now

MARKET STRATEGY

Ceteris paribus, we view the IEEPA tariff decision by SCOTUS as a positive development to the equity market.

Positive development to equity market

The potential lower tariffs would reduce downside risks to external trade due to relief for US companies burdened by various tariff costs. This could support export momentum by Malaysian companies and help improve our external position.

Improve external trade

Moreover, the tariff decision would ease concern about sticky US inflation and therefore heighten the likelihood of more Fed rate cuts later this year. This may lead to a further appreciation of the Ringgit against the US Dollar as global capital diversifies away from the US due to falling interest rates. The firmer Ringgit outlook could bolster capital inflows into the local equity market.

Dampen inflation, lower interest rate, stronger Ringgit & capital inflows

Counteraction by US administration

Nonetheless, the US administration imposes a new 15% tariff under Section 122 (for a maximum of 150 days unless extended by the US Congress) in reaction to the SCOTUS decision. Furthermore, it has declared intent to use other legal avenues such as Section 232 and Section 301. Moreover, Malaysia may still need to renegotiate its ART with the US in view of the latest development.

FBM KLCI 2026 target of 1,850 points

In the short term, the local equity market may react positively to the latest US tariff decision in tandem with the positive knee-jerk reaction on Wall Street last Friday. However, we maintain our FBM KLCI 2026 target of 1,850 points or PER26 of 16x in view of the tariff uncertainties as the US administration seems determined to pursue the other legal avenues. Meanwhile, on the geopolitical front, the situation is rather dicey with the US-Iran standoff that could lead to kinetic engagement which may further escalate into a regional war in the Middle East.

No change to our top picks

In regard to our top picks for CY26, we believe that there is no impetus for a change despite the latest development. Our top picks for this year predicates on domestically driven themes such as Visit Malaysia Year 2026 and continuing prospects of data centre developments (with AI elements). Furthermore, the imposition of 15% tariff and the uncertainties surrounding White House future actions led us to not consider exporters at current juncture. Having said that, we do not discount positive knee-jerk reaction for exporters such as the tech sector today. Our top picks are as follows:

MBSBR Top Picks

	Rec.	Price (RM) @ 20/2/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4 Good?	Investment Highlights
YTL Power	BUY	3.02	4.92	62.9%	2.6%	65.6%	3	Y	Attractive entry point, strategic expansion into data centre and RE
Pekat	BUY	1.24	2.00	61.3%	0.8%	62.1%	-	-	LSS5, LSS5+, upcoming LSS & ELP business due to the growth in DC. EPE Switchgear to be crucial contributor
Samaiden	BUY	1.08	1.70	57.4%	2.8%	60.2%	3	Y	LSS5, LSS5+, upcoming LSS, CRESS
Gamuda	BUY	4.21	6.35	50.8%	2.4%	53.2%	3	Y	Geographically diversified portfolio. Rapidly expanding in the utilities space
AEON Co.	BUY	1.27	1.66	30.7%	3.4%	34.1%	4	Y	Well-positioned to capture higher mall footfall and sustained demand across general merchandise and supermarkets
99 Speedmart	BUY	3.62	4.41	21.8%	1.2%	23.0%	2	N	Unmatched proximity-based retail moat, highly scalable operating model built on standardisation and discipline, defensive earnings profile.
Tenaga Nasional	BUY	14.16	16.40	15.8%	3.6%	19.5%	3	Y	Sustained electricity demand growth, clearer tariff visibility
Leong Hup	BUY	0.78	0.90	16.1%	3.2%	19.4%	2	N	Stable poultry demand and a broadly manageable feed-cost environment
RHB Bank	BUY	8.18	9.10	11.2%	5.4%	16.6%	4	Y	High dividend yields, recoveries in multiple loan cat., good loan recovery
Public Bank	BUY	5.03	5.45	8.3%	4.0%	12.3%	4	Y	Optimism on fee income, special dividend payout, loan growth

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