STRATEGY

Hanging in the Balance – But Looks Like Iran-US negotiations will proceed (for now)

FBM KLCI Target: 1,800
FBM Emas Shariah: 13,100
FBM 70 Target: 18,900

DEVELOPMENT

- Following from the announcement of the ceasefire between US and Iran on Wednesday, it seems that it may have collapsed the following day.
- This comes as Iranian officials say the US and Israel reneged on agreed terms by claiming Lebanon was not included in the pause in fighting.
- Israeli forces launched a brutal bombardment across Lebanon after US and Iran agreed to a two-week ceasefire.
- As such, the IRGC came out with a statement saying that this is a violation of the ceasefire, and then the Iranian Revolutionary Guard were halting or suspending all the passages through the Strait of Hormuz.
- However, in has been reported in the media that Israel's Prime Minister Benjamin Netanyahu had ordered his ministers to seek direct talks with Lebanon.

OUR VIEW

- **Fragility of the ceasefire.** We believe that the development in 48 hours highlights the fragility of the situation. As we mentioned yesterday, we welcome the news of the ceasefire, but we remain wary of any re-escalations given the recent history. This is coming from the two previous rounds of US-Iran negotiations which ended with strikes against Iran. As a result of this fragility, we observed that market volatility has increased.
- **Possible for a bit of a calm.** Markets may cheer the potential Israel-Lebanon talks as this means that the negotiations between Iran and the US can proceed this Friday. What is more important is that the Straits of Hormuz may now look to be reopen should the ceasefire holds. Overnight US markets extended its rally on Thursday, even as oil prices gained, amid continued optimism among traders that the fragile two-week ceasefire between the U.S. and Iran could be sustained. Nevertheless, we opine that the next two weeks will be one that requires full alert.
- **Still firmly in Scenario 2.** Despite the potential of negotiations being called off, we believe that we are firmly in a Scenario 2 situation given the announcement of the ceasefire. While there may be situations that may cause concerns that the ceasefire may not hold, we observed that there seems to be efforts by mediators to ensure that it does. Recall Scenario 2 (the "Tension Case") of our scenario analysis assumes that there no formal ceasefire for 6 weeks, but conflict is contained, and disruption to oil supply persisted. While our Scenario 1 (the "Blue Sky Case") fits the latest development somewhat (immediate ceasefire reached within 4 weeks. Hormuz chokepoint reopens), we believe that it is not the right conditions to call for a Scenario 1 moment yet. This is based on recent history which leads us to remain alert of possible re-escalation (albeit with less conflict intensity).
- **Markets will be volatile, but there may be trading opportunities.** We saw that there was a "relief" reaction from the markets with laggard sectors (since start of the conflict) outperforming on Wednesday. However, this was reversed yesterday due to concerns of a halted negotiation. Having said that, since there are efforts to ensure negotiations proceed, we believe that our investment thesis still holds during these two weeks. Recall, we recommend investors to exploring the laggard sectors given the improved sentiment following the ceasefire. This is as long as there is no indication of a complete breakdown in negotiations between Iran and the US, that could lead to renewed escalation. Some of our top picks amongst the laggard sectors are as follows: Gamuda (BUY, TP: RM5.60), Sunway Construction (BUY, TP: RM7.30), Malayan Cement (BUY, TP: RM10.00), Leong Hup (BUY, TP: RM1.07), Mr DIY (BUY, TP: RM2.13), 99 Speedmart (BUY, TP: RM4.37), Pavilion REIT (BUY, TP: RM2.00), Axis REIT (BUY, TP: RM2.17), Mah Sing (BUY, TP: RM1.49), Matrix Concept (BUY, TP: RM1.66), Celcomdigi (BUY, TP: RM3.54), Hong Leong Bank (BUY, TP: RM30.50), AMMB (BUY, TP: RM7.47), Tasco (BUY, TP: RM0.56).

- **Don't abandon the defensive.** Meanwhile, with the still current backdrop of uncertainties and cloudy outlook, we are recommending investors to tactically seek cover amongst defensive sectors in case situation turns for the worse. While this stability and attractive dividend yields should moderate the downside risks, we are not discounting the potential for price appreciation due to undervaluation as we have observed defensive sectors also being a bit of a laggard. Our top picks as highlighted in our 2QCY26 update are: YTL Power (BUY, TP: RM4.94), Ranhill (BUY, TP: RM2.29), Tenaga Nasional (BUY, TP: RM16.40), QL Resources (BUY, TP: RM4.28), AMMB (BUY, TP: RM7.47), Leong Hup (BUY, TP: RM1.07), Mr DIY (BUY, TP: RM2.13), 99 Speedmart (BUY, TP: RM4.37), Pavilion REIT (BUY, TP: RM2.00).

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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