STRATEGY

Possibly Reigniting Fire

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

DEVELOPMENT

- The conflict between Iran and the US has escalated again yesterday, with both belligerent exchanged fire after a US Army Apache helicopter went down near the Strait of Hormuz.
- The media reported that a US official said the helicopter collided with an Iranian drone, though intent remained unclear. The US subsequently launched airstrikes on Iranian air-defense, ground-control and surveillance-radar sites, while Iran retaliated against US-linked targets in Bahrain, Kuwait and Jordan.
- Meanwhile, President Trump earlier this morning said the US will hit Iran "hard again today," escalating his threats while pressing Tehran to sign a deal. Subsequently, the US has targeted several Iranian sites in a fresh wave of attack.

OUR VIEW

- **Applying pressure for diplomatic closure.** The US appears to be using military pressure to force diplomatic closure, while Iran is using regional retaliation and Hormuz leverage to avoid negotiating from weakness. However, we cannot foresee a situation where Iran will cede any of the US demands after this latest round of escalation.
- **Difficult market setup.** The situation creates a difficult market setup given the combination of headline-driven risk sentiment, oil-price volatility, and a fragile assumption that a deal eventually arrives. We opine that markets have repeatedly priced in President Trump's optimism on a deal, even though past claims of imminent progress have failed to produce a signed agreement.
- **The risk is that each side may believe escalation improves its negotiating hand.** That logic can hold for a few rounds, but it becomes unstable once strikes expand to infrastructure, shipping lanes, or regional bases. The danger is now that the resumption of escalation is earnest. Iran has also remarked that it has closed the Strait of Hormuz to all shipping. Points to monitor closely in the coming days:
    - Hormuz traffic data — any confirmed sustained closure would be the most market-moving development.
    - Iran's next retaliation — especially whether it targets US personnel, Gulf infrastructure or commercial shipping.
    - US target selection — a move from radar/air-defense sites to power, bridges or water infrastructure would signal a higher escalation ladder.
    - Diplomatic language — whether "deal is close" rhetoric is accompanied by verifiable negotiation milestones.
    - Oil price reaction — sustained moves higher would feed into inflation expectations and central-bank caution
- **Oil remains the cleanest macro transmission channel.** Any confirmed closure or severe disruption in Hormuz would likely lift crude prices sharply and tighten global financial conditions. Meanwhile, equities may stay hostage to "deal/no-deal" headlines. Markets have treated Trump's repeated peace-deal claims as a de-escalation signal, but the credibility of that signal is weakening as military action intensifies.
- **In danger of falling into Scenario 3.** Recall, based on our scenario analysis, we believed that prior to the escalation, we were in a scenario 2 situation, our "Tension Case" where the conflict persists but remains contained, resulting in a temporary disruption to oil supply. However, this latest strike brings the danger now is that the situation may devolve into our Scenario 3: where the intensity of the conflict increases which leads to sustained supply tightness, keeping oil prices elevated at USD100–120 per barrel for an extended period. At this level, the global economy faces stagflationary conditions, with persistently high inflation eroding real incomes and dampening consumption and investment. Growth in major economies slows more visibly, and global trade weakens. In this scenario, we are expecting FBM KLCI target of 1,680. Having said that,

fortunately, we do not think that we will go into scenario 4 situation as we do not expect Iran to be striking infrastructure in majority of its Middle East neighbours, at current juncture.

- **Seek cover amongst the defensive.** Tactically, we ae recommending investors seek cover amongst defensive sectors for now amid our expectation of bouts of increased volatility and uncertainty. Purely defensive stocks, such as those in REITs, utilities, healthcare, and consumer staples, tend to provide consistent dividends and stable earnings regardless of the overall market conditions. In this backdrop, we think the right posture remains a barbell one. However, we are not discounting that conflict will de-escalate again. If this happens, or a genuine breakthrough could still create relief rallies in lagging cyclicals. We believe that the stocks to navigate current situation: Axis REIT (BUY, TP: RM2.17), YTL Power (BUY, TP: RM5.65), Ranhill (BUY, TP: RM2.56), Tenaga Nasional (BUY, TP: RM16.40), QL Resources (BUY, TP: RM4.11), Leong Hup (BUY, TP: RM1.07), Mr DIY (BUY, TP: RM2.13), 99 Speedmart (BUY, TP: RM4.37).

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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