STRATEGY

War and Weather

FBM KLCI Target: 1,770
FBM Emas Shariah: 12,900
FBM 70 Target: 18,600

DEVELOPMENT

- Renewed tensions between the US and Iran have returned Middle East risk premium back into global oil markets, reviving concerns over energy supply security, shipping routes and inflation expectations.
- The Strait of Hormuz has again become the centre of the conflict, with reports that traffic through the waterway has fallen significantly, while oil prices have risen on renewed fears of supply disruption. The Strait of Hormuz remains a key global energy chokepoint, with any escalation carrying the potential to disrupt crude oil and LNG flows.
- The US-Iran conflict has escalated further, with the US launching fresh strikes on Iranian targets and confirming that its naval blockade targeting vessels travelling to and from Iranian ports is now in effect. News reports also noted that more than 20 US Navy warships and hundreds of aircraft are deployed across the region.
- The latest US strikes reportedly targeted Iranian capabilities used to attack commercial shipping in the Strait of Hormuz, while Iran has retaliated with missile and drone attacks against US-linked regional facilities, including Bahrain and Jordan, according to live updates.
- Brent crude rose to USD87.49/bbl after earlier surging more than 9%, reflecting renewed concern over the Strait of Hormuz, shipping disruption and energy supply risk.
- President Trump has reportedly dropped the earlier proposed 20% Hormuz transit fee, replacing it with trade and investment arrangements with Gulf countries, while maintaining that the US blockade will continue to apply to Iranian ports.
- Despite the weaker regional risk backdrop, the FBM KLCI was resilient yesterday, ending 21.50 points higher or +1.27% to 1,719.94 at midday, supported by banking, plantation and commodity heavyweights.

OUR VIEW

- **From de-escalation back to escalation.** The latest developments suggest that the US-Iran situation has moved back into an escalation phase. This means that the conflict returns to directly affect shipping behaviour, naval operations and commercial vessel safety around the Strait of Hormuz. In our view, this raises the risk premium not only for crude oil but also for freight, insurance, LNG, petrochemicals and broader supply-chain costs.
- **The Strait of Hormuz is again the key market transmission channel.** The Strait matters because it is not merely a geopolitical symbol; it is one of the world's most important energy arteries. Any disruption there has direct consequences for crude oil, LNG flows, freight rates, shipping insurance, inflation expectations and global risk appetite.
- **Oil is now back above our comfort zone.** In our 2HCY26 outlook, we assumed Brent crude would normalise into the USD80–90/bbl range in 2HCY26, after earlier spikes during the conflict period. With Brent now reported at USD87.49/bbl, the price is still within that range but moving toward the upper end. If the conflict worsens and Brent breaks decisively above USD90/bbl, the market may begin to price a more disruptive inflation shock.
- **Will the conflict last?** At current juncture, we believe that this latest round of escalation may not last as we believe that the US does not have escalation capabilities. We expect that the renewed conflict may last another 3-4 weeks at most before there may be another round of ceasefire or de-escalation at the very least.
- **Markets seem to agree.** The FBM KLCI's move above 1,700, while its peers in ASEAN and the US also ended higher. For example, US Dow Jones and Nasdaq rose +0.02% and +0.90% respectively yesterday. The fact that FBM KLCI's rally appears supported by selected heavyweights, not just by commodity-linked names, but also banks and utilities which reinforce our view that markets may be pricing in a short re-escalation rather than a full restart of the war.
- **War supports commodity-linked counters, but the Fed remains the constraint.** We believe that for 2HCY26, the market's bigger concern had shifted from geopolitics alone to the possibility of a hawkish US Fed, as energy, freight and input-cost

pressures feed into inflation expectations. The latest escalation strengthens that concern. In other words, the conflict can help commodity beneficiaries, but it can also increase the probability that the Fed stays hawkish.

- **Meanwhile, weather is also a factor.** At the same time, the risk of a strong-to-very strong El Niño event continues to build. We previously highlighted that the probability of a strong to very strong El Niño rises sharply into end-2026, potentially mirroring the 2015/16 episode. Historically, very strong El Niño periods have led to material declines in Malaysian FFB yields and subsequently stronger CPO prices due to tightening supply conditions. During the 1997/98 and 2015/16 events, CPO prices increased by +75.1%yoy and +21.5%yoy respectively.
- **War is the first leg; weather is the second leg.** The renewed conflict supports crude oil and energy-linked sentiment. Meanwhile, the emerging strong-to-very strong El Niño risk supports the palm oil story through potential FFB yield stress and tighter future supply. This makes plantation the more interesting Malaysia-specific beneficiary because it sits at the intersection of energy substitution, biodiesel economics and weather-driven supply risk.
- **Weather may matter more for earnings than war.** A geopolitical premium can reverse quickly if there is a ceasefire or negotiated shipping arrangement. However, El Niño is different. Once moisture stress affects oil palm, the production impact can appear with a lag and last several quarters. Our earlier thematic work highlighted that the most critical crop-stress period may fall between 4QCY26 and 1QCY27, with the production impact likely more pronounced in CY27.
- **The clearest beneficiary remains plantation.** In our view, the clearest Bursa Malaysia beneficiary of the renewed conflict is not a blanket oil-and-gas call, but plantation. Oil and gas earnings transmission can be uneven across upstream, midstream and downstream. Plantation has a simpler channel: higher energy prices support the vegetable oil complex, while El Niño may tighten CPO supply.
- **The latest escalation strengthens the need for a defensive spine.** While commodity beneficiaries should perform, the broader market faces rising inflation, stronger US dollar risk, Ringgit volatility and possible foreign fund outflows. Therefore, we would not recommend moving into a fully aggressive portfolio. Instead, we retain defensive anchors while adding commodity torque selectively. We retain utilities, banks, telcos and essential consumer names as the foundation of the portfolio, consistent with our 2HCY26 strategy of balancing defensive resilience with selective recovery exposure.
- **Add plantation as the key tactical overweight.** Plantation offers the clearest "war and weather" exposure, supported by higher energy prices and rising El Niño risk. Our top picks are **SD Guthrie (BUY, TP: RM7.00), Genting Plantation (BUY, TP: RM5.80) and Ta Ann (BUY, TP: RM6.08)**.
- **Be selective in oil and gas but keep recovery names due to Fed.** We prefer midstream and infrastructure-style O&G exposure over broad-based energy beta, as the sector outlook remains dependent on the resolution of the Middle East conflict and the durability of energy demand. Meanwhile, if any Fed hike proves to be an adjustment hike rather than the start of a prolonged tightening cycle, selected recovery names could regain momentum later in 2HCY26.
- **We retain our revised index targets.** Reflecting the latest 2HCY26 outlook, we maintain the revised targets of **FBM KLCI at 1,770**, **FBM Emas Shariah at 12,900**, and **FBM70 at 18,600**.
- Below are our top picks:

	Rec.	Price (RM) @ 14/7/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns	FBM ESG Rating	FTSE4Good?
Petronas Chemicals	BUY	4.35	6.60	51.7%	3.1%	54.9%	4	Y
Hong Leong Bank	BUY	22.24	30.50	37.1%	4.6%	41.8%	4	Y
Inari Amertron	BUY	2.17	2.95	35.9%	2.3%	38.2%	4	Y
Gamuda	BUY	4.15	5.60	34.9%	2.4%	37.3%	4	Y
YTL Power	BUY	4.33	5.65	30.5%	1.8%	32.3%	3	Y
Mr D.I.Y.	BUY	1.69	2.13	26.0%	3.2%	29.2%	3	Y
CIMB Group	BUY	7.77	9.29	19.6%	6.0%	25.5%	4	Y
CelcomDigi	BUY	3.02	3.54	17.2%	4.7%	21.9%	4	Y
99 Speed Mart	BUY	3.70	4.37	18.1%	1.1%	19.2%	2	N
Tenaga Nasional	BUY	14.40	16.40	13.9%	3.9%	17.7%	4	Y

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