



AmInvestment Bank

Sector Report

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STRATEGY

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Unpacking tariff scenarios

Rationale for report: Market Update

Quick Take

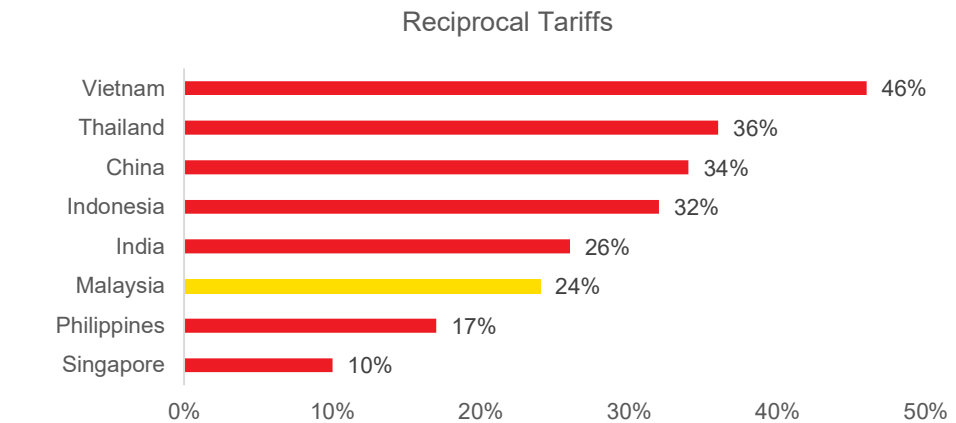
As the trade truce approaches its expiry on 9th July, we examine the likely outcomes and potential impact to the market. If tariffs are:

- **≥24% (unlikely).** This is the worst-case scenario, which will lead to a broad market sell down. However, this is unlikely with reports indicating that Malaysia's discussion with the US has been progressing well ([see here](#)). Both sides intend to finalise negotiations before the expiry of the 90 days pause.
- **Between 10-24% (base case).** We expect a Neutral market reaction in the short term. However, frontloading effects are likely to fade over time, shifting investor focus toward potential risks in end demand. Successful negotiations with the US will likely lead to reciprocal tariffs being lower than the earlier imposed 24%. On Wednesday, President Trump struck a trade deal with Vietnam, where it would face a 20% tariff on Vietnamese goods and a 40% transshipping tariff. This compares to the 46% tariff initially imposed on Vietnam during Liberation Day ([see here](#)).
- **10% (best case).** Being the best deal, markets are likely to rally, with Malaysia potentially having a relative advantage over other countries. If President Trump's intent is to isolate China but preserve the rest of Asia's supply chain, Malaysia might benefit long-term from tariff clarity, especially via 'friendshoring' tailwinds. This repositions Malaysia as a secondary beneficiary even beyond AI (artificial intelligence) and DC (data centre) themes.

How sensitive will the KLCI index be to tariff outcomes? It could be more resilient than expected. The KLCI index is trading +1% above its Pre-Liberation Day levels. The market has staged a strong rebound, recovering +9% from its low. Unrelated to the outcome of tariffs, the rebound has been driven by AI/DC (YTLP, GAM) and domestic centric stocks (MRDIY, CDB, MAXIS) - which thesis should still hold.

Which sector stands to benefit most? Potentially banks, which has fallen 5% since Liberation Day. In our view, this has fully reflected the negative impact of a 25bps OPR cut. While our base case is still for a 25bps OPR cut to 2.75% (due to lack of growth drivers), favourable tariffs would lower the probability.

Which sectors are most at risk? Outward facing sectors like Tech, Plantations and Oil & Gas. End demand is dependent not only on a deal for Malaysia, but other trading partners as well. For countries that are uncooperative, tariffs could return to punitive levels. This means the average effective US tariff rate of 15.8% could inch closer to previous Liberation Day levels of 22.5%.

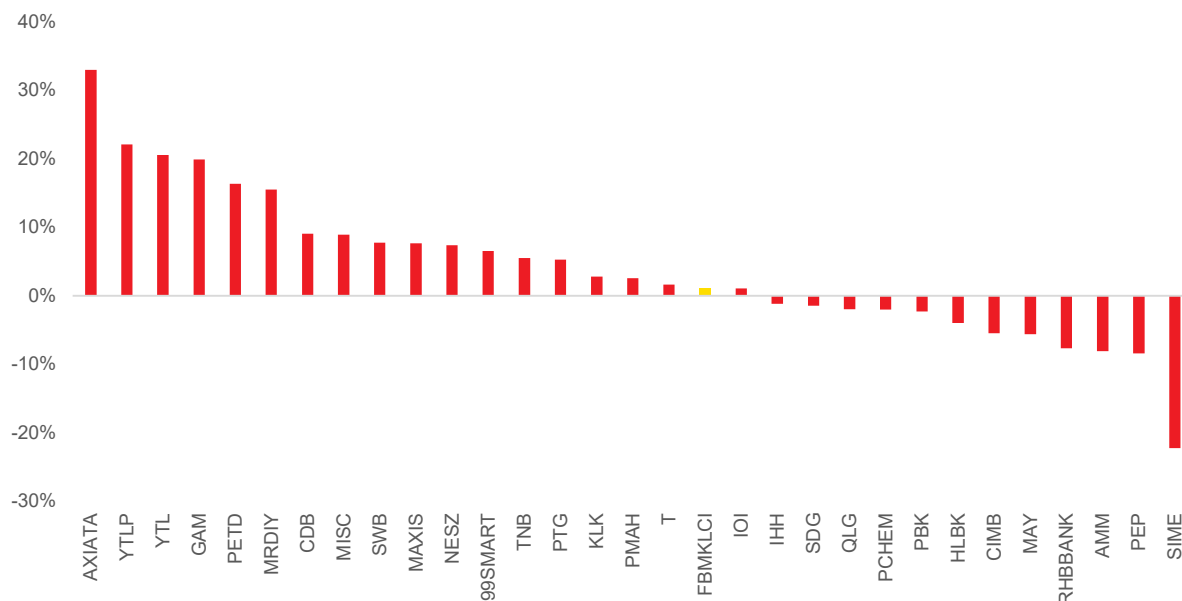
EXHIBIT 1: PREVIOUSLY ANNOUNCED RECIPROCAL TARIFFS ON EXPORT COMPETITORS

Source: AmlInvestment Bank

EXHIBIT 2: U.S. TRADE DEALS SECURED (POST-LIBERATION DAY)

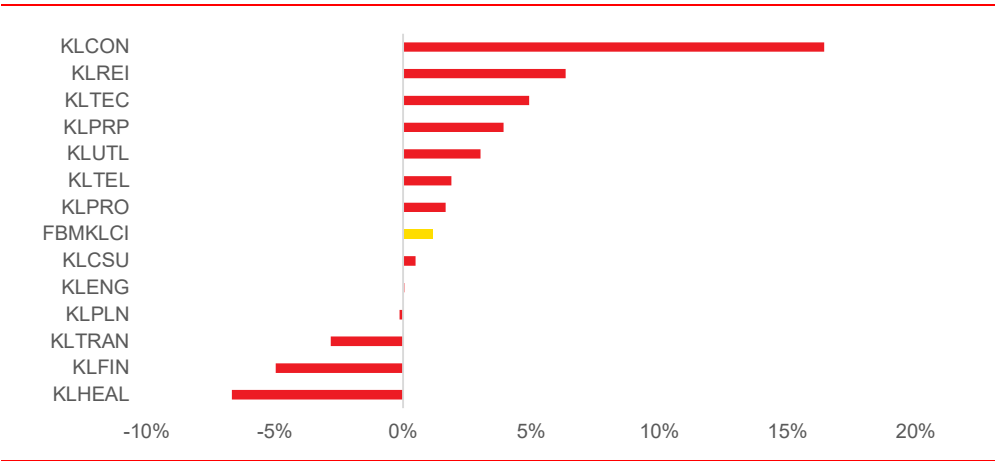
Trade Deal	Details
UK	<ul style="list-style-type: none"> - 10% Tariff on most UK exports - First 100k vehicle exports subject to 10%, any additional subject to 25% - No tariff on aircraft engines and parts - Negotiations on steel and aluminum exports (<i>Present preferential tariff rate of 25%</i>)
Vietnam	<ul style="list-style-type: none"> - 20% Tariff on Vietnamese exports - 40% Tariff on goods deemed transshipped
China	<ul style="list-style-type: none"> - Tariff of 30% on Chinese exports (<i>20% fentanyl related tariff+ 10% universal tariff</i>) - De Minimis tariff rate reduced to 54% - China agrees to facilitate rare earth mineral and magnet shipments to U.S. - U.S. rescinds ethane export restrictions to China - U.S. lifts restrictions on export of chip design software to China - Steel, aluminum & household appliances subject to 50% tariff rate

Source: Bloomberg, AmlInvestment Bank

EXHIBIT 3: PERFORMANCE OF KLCI CONSTITUTENTS SINCE LIBERATION DAY

Source: Bloomberg, AmlInvestment Bank

EXHIBIT 4: PERFORMANCE OF INDEXES SINCE LIBERATION DAY



Source: Bloomberg, AmlInvestment Bank

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