

Turm(oil)

Escalation in Middle East shifts focus towards value-style stocks

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The US and Israel have jointly struck Iran over the weekend, which ushers in a uncertain period. Unlike the June 2025 strike on Iran which targeted nuclear capabilities, a longer conflict and turmoil can't be ruled out as US presses for regime change in Iran. At time of writing, other than striking back, Iran may retaliate by restricting oil tanker movement over the Straits of Hormuz, which could threaten to spike oil prices, inflicting broader economic pain.

In terms of performance for equities post geopolitical events, Malaysia fares better versus overall ASEAN in terms of downside protection; and within local equities space, the big cap FBM KLCI edges the FBM Small Cap Index. All said, geopolitical risks have been manageable in terms of impact to markets. Based on past data (exhibit 1), we see a 6% decline from the current FBM KLCI, or to 1,610 being the floor, although dropping to this levels is not likely in our view.

With the situation still developing as the US pushes for regime change, and without being able to fully discount the risk of a spillover to a broader conflict, we believe the interest in the immediate term will likely be less on growth-style stocks, but more in value-style stocks, spotlighting utilities, banks and telcos (exhibit 2). Within these sectors, we like AMBANK (OP; TP: RM7.45), TENAGA (OP; TP: RM17.00) and TIMECOM (OP; TP: RM6.60). Elsewhere, positive reaction is likely oil and gas stocks, where proxies are HIBISCUS (N-R), MISC, DIALOG. We also broadly keep an eye out on commodities prices and knock-on impact to inflation.

Duration of the conflict being protracted is the risk. Over the weekend, Iran was struck via a joint operations by US and Israel. Notwithstanding the move's legality now being challenged by US lawmakers ([link](#)), US President Donald Trump carried this out in the name of protecting US security interest, and came amid pressure on Iran to give up nuclear and long-range missile programmes. But unlike the June 2025 strikes on Iran intended to remove nuclear capabilities, this joint operations to strike at Iran comes with a view for regime change ([link](#)), according to President Trump, who has called the strikes a massive ongoing conflict. As such, the risk is of a prolonged tension given the complexities in toppling a regime.

Geopolitics risks rises and we watch for any potential spillover. In the immediate term, the risk premium comes from the risk of retaliation. Countries that have been struck include the United Arab Emirates, Israel, Bahrain, Kuwait, Qatar, Jordan and Cyprus; these targets include US military bases which are within Iran's reach using its arsenal of short-range missiles, but also include radar systems ([link](#)). Thereafter, we will have watch for reactions from supowerpowers. Geopolitically speaking, China for example would also have indirect interest given its position a large buyer of Iranian oil ([link](#)), where Reuters reports about 13% of its seaborne oil imports have originated from Iran. So far, China has urged a return to negotiations. Meanwhile, Russia's foreign ministry has labelled the attacks "a pre-planned and unprovoked act of armed aggression against a sovereign and independent U.N. member state."

Energy cost ramifications. As a retaliatory measure to inflict more economic pain, Iran could also block the straits of Hormuz, whereby around 20% of global oil trade passes through, serving not just Iranian oil exports but other gulf countries as well. Signs of supply choke are already evident - oil and gas majors and traders have suspended crude oil, fuel and LNG shipments via the straits of Hormuz ([link](#)), citing that the Iran Revolutionary Guard has prohibited ships from crossing, although there has not been any news of formal closure; historically, straits of Hormuz has never been closed.

Potential oil proxies. In recent memory on supply concerns, back in early 2022, Brent crude prices likewise jumped when sanctions on Russian exports including oil were inflicted. Since last Friday, Brent crude price has risen to USD73 (+4%), now higher than Kenanga's expectation for oil prices at an average of US\$67/bbl for 2026. The most direct proxy is **HIBISCUS (N-R)**. In addition, we also believe that **DIALOG** (OP; TP: RM2.28) would also be able to benefit given the anticipated ramp up in demand for crude storage for national security purposes if geopolitical tensions sustains for an extended period of time. **MISC** (OP; TP: RM8.60) historically gains from better tanker rates and could be a beneficiary if a blockade is sustained. Historically, **PCHEM** (OP; TP: RM4.10) might benefit from sustained uptrend in crude oil prices albeit with a lag (months).

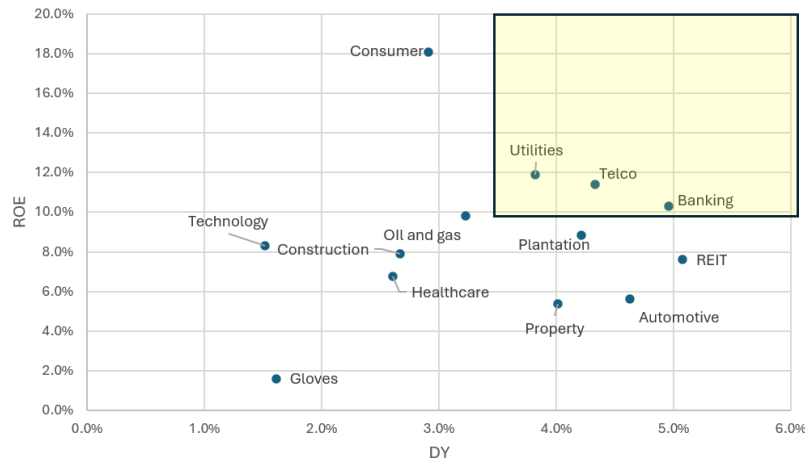
Malaysia has fared well during periods of geopolitical risk. In the past, Malaysia been a relative place for refuge in terms of having smaller 1-month drawdowns versus ASEAN (exhibit 1). Within Malaysia, the large caps had also offered more protection in terms of negative drawdowns relative to the FBM Small Cap index. The maximum draw down would be c11%, as that would commensurate with the pain inflicted during the September 11 terrorist attacks. It is nevertheless our observation as well that most of the time, the negative moves have been relatively shallow. Using the average of instances with negative 1-month returns, we derived an average of 6% (skewed by September 11 attacks), being our downside risk to the FBM KLCI, although not likely in our view.

Exhibit 1: 1-week and 1-month performances of FBM KLCI and other indices following geopolitical events									
Index returns		FBM KLCI		FBM Small Cap		ASEAN*		S&P500	
Events	Dates	1W	1M	1W	1M	1W	1M	1W	1M
Sept 11 attack	Sept 01	-12%	-11%	-20%	-15%	-13%	-15%	-20%	-15%
US-Iraq war	Mar 03	0%	0%	-1%	3%	0%	0%	-1%	3%
London bombings	Jul 05	2%	5%	2%	4%	2%	8%	2%	4%
Paris attacks	Nov 15	0%	-1%	0%	0%	1%	-3%	0%	0%
Turkey coup attempt	Jul 16	-1%	1%	1%	3%	-1%	1%	1%	3%
US iran escalation	Jan 20	-1%	-6%^	-1%	-8%	0%	-7%	-1%	-8%
Ukraine war	Feb 22	2%	1.5%	1%	0%	0%	0%	1%	0%
Hamas attacks Israel	Oct 23	2%	2%	1%	2%	1%	1%	1%	2%
Israel military ops on Iran	Jun 25	-1%	1%	0%	0%	-3%	2%	0%	0%

Source: Kenanga, Bloomberg *ASEAN is based on the MSCI ASEAN index (Ticker: MSXO Index) ^ Covid-19 concerns.

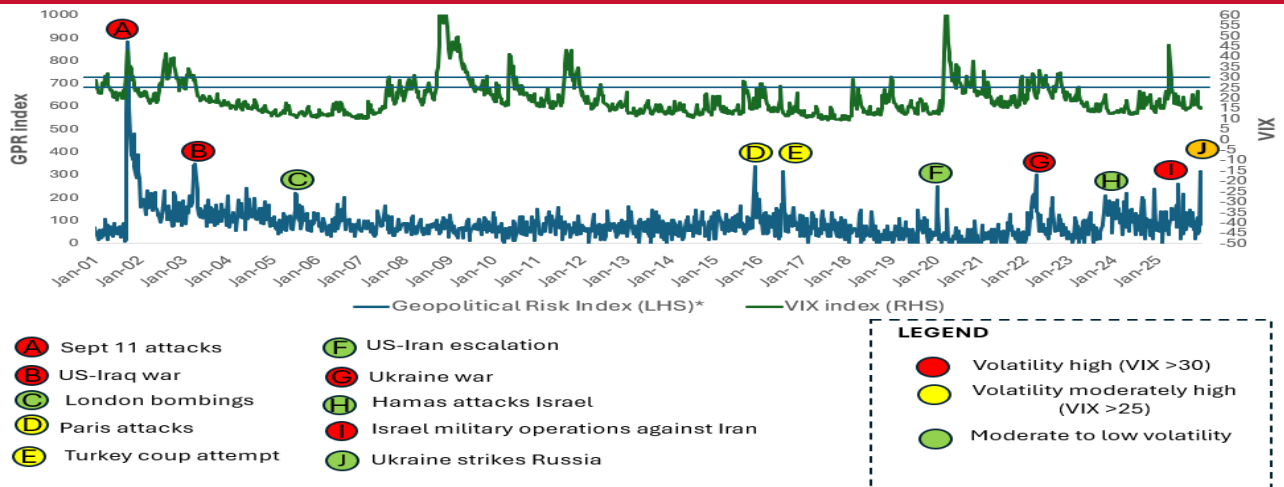
More interest for value-style plays in near term versus growth-style names. We believe that given the fact that pushing for regime change could be more complicated and that the risk of spillover can't be fully discounted, the near-term interest will lean towards value-style stocks (which typically exhibit good yields and ROE). This is compared to growth-style stocks which are more sensitive to cyclical slow down. The view is also supported by our belief that volatility will stay high for now. The VIX index, which reflects the US stock market's expected volatility, tended to hit levels commensurate with high volatility (i.e. at 30 or more) when a geopolitical event involves a broader conflict (fig 3).

Exhibit 2: Sector ROE and dividend yield



Source: Kenanga Research, Bloomberg.

Exhibit 3: Volatility of US Market Based on Options-Implied VIX Index Plotted Against Significant Geopolitical Events



Source: Kenanga Research, Bloomberg. *based on Caldara Iacoviello Geopolitical Risk Index

02 March 2026

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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