

Strategy

Resumption of reciprocal tariffs to affect near-term performance of Taixex

Key message

1. The outcome of tariff rate negotiations will influence the performance of the Taixex in the near term. A tariff rate of 15-20% can be used as a benchmark for observation.
2. A 10% tariff will result in a 10% decline in corporate earnings; a rate increase to 15% and 20% would correspond to a 15% and 20% impact on earnings, respectively.
3. We recommend investors focus on defensive plays in 3Q25 and shift in stages to the AI sector in 4Q25.

Event

The outcome of reciprocal tariff negotiations with the US, scheduled for July 9, is expected to exert a substantial influence on the near- to medium-term performance of the Taixex.

Analysis

Tariff rates tentatively agreed upon by the US range from 10% to 20% for general imports; targeted rates for specific sectors include 50% for steel & aluminum and 25% for automobiles. To date, the Trump administration has concluded preliminary tariff negotiations with only four countries. Among them, the UK has secured a tariff rate of 10%, while Vietnam's rate has been set at 20%. Under the provisions of the United States-Mexico-Canada Agreement (USMCA), goods originating from Canada and Mexico benefit from a 0% tariff rate, with over 80% of their exports to the US meeting USMCA compliance standards. In addition, the US has implemented comprehensive tariffs targeting specific sectors, including a 50% rate on steel and aluminum and a 25% rate on automobiles. Tariff rates for semiconductors and pharmaceuticals remain under active discussion. Market consensus currently anticipates that the tariff rate applied to Taiwan's exports will fall within the 15-20% range. Given that the effective global US tariff rate is also expected to align with this range, a 15-20% benchmark serves as a reasonable basis for monitoring and comparative analysis.

Taiwanese manufacturers maintain globally distributed production capacity, necessitating attention not only to Taiwan's own tariff rates but also to those of China and Southeast Asia as approximately 56% of Taiwanese manufacturing capacity is concentrated in China, followed by 26% in Taiwan and 15% in Southeast Asia.

Outcome of tariff negotiations will affect Taixex performance near term. We have conducted a scenario analysis on the near-term impact of different tariff outcomes on the Taixex: While a tariff rate between 15% and 20% may be in line with market expectations, it could still exert downward pressure on stock prices. A tariff rate exceeding 15-20% would be interpreted as a bearish signal, potentially prompting a sharp sell-off in equities. A tariff rate below 15-20% would likely be seen as an upside surprise, which could drive a short-term stock rally. However, the level of tariffs primarily affects the near-term trend of Taiwan stocks. For the medium to long term, the focus should shift to how tariffs impact corporate earnings.

10-20% tariff could result in a corresponding 10-20% decline in corporate earnings. The impact of 10-20% tariffs on Taiwan's corporate earnings can be broken down into two main types: direct impact, which occurs when companies absorb the additional tariff costs themselves; and indirect impact, which arises when these costs are passed on to consumers through higher product prices. This often leads to weakened demand and a reduction in customer orders.

Direct impact. If companies are unable to pass on tariff costs to downstream customers, they will inevitably have to absorb the costs themselves, which erodes profits. We estimate a 10% global US tariff would erode Taiwan corporate earnings by approximately 10%. Similarly, a tariff rate of 15% and 20% would correspond to an earnings impact of 15% and 20%, respectively. This estimate is based on the baseline scenario where Taiwanese companies exported approximately US\$116.3bn (around NT\$3.8tn) to the US in 2024.

Indirect impact. This impact is assessed based on the drag that tariffs may have on the overall economy. If the Trump administration imposes a blanket tariff of 10-20% globally, and potential retaliatory measures from other countries are taken into account, it is expected to reduce US GDP growth by 0.9-1.8ppts. In other words, US economic growth could fall from the current market forecast of 1.8% to 0.9%, with the most pessimistic scenario approaching zero growth.

Looking back over the past 20 years, the US has experienced three notable periods of economic slowdown, during which the earnings of Taiex-listed companies were generally revised down significantly, between 13-26%. Therefore, if the trade environment deteriorates and affects end-market demand, Taiwanese companies may face not only cost pressures but also the risk of earnings downgrades due to weakening demand.

Conclusion & top picks

The outcome of tariff rate negotiations will directly influence the near-term performance of the Taiex, with a 15-20% tariff level serving as a key reference point. However, while the tariff rate mainly affects near-term market movements, the impact on corporate earnings will be key over the medium-to-long term. We estimate a final tariff of 10% will erode Taiex earnings by around 10%, while a 15-20% rate would correspond to a 15-20% earnings impact. We recommend investors prioritize undervalued, high-dividend stocks in 3Q25, shifting to AI-related sectors in 4Q25.

Figure 1: Recent Trump tariffs set at 10-20%; steel & aluminum at 50%, automobiles at 25%



Source: KGI Research

Figure 2: Taiwan manufacturers' production capacity mainly in China (56%), followed by Taiwan (26%) & Southeast Asia (15%)

Taiwan manufacturers' production capacity by region, percent



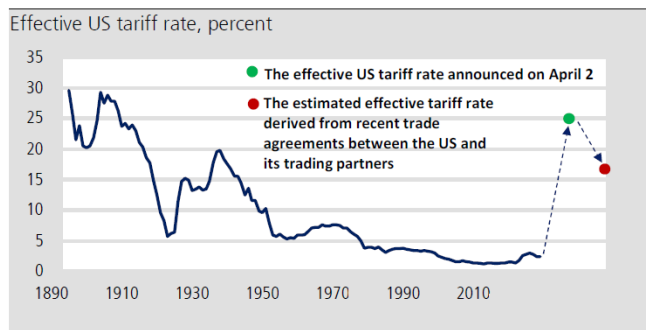
Source: KGI Research estimates

Figure 3: Taiwan has global production diversification; apart from Taiwan tariffs, China & Southeast Asia also key areas to watch

Capacity weighting by region (%)	Taiwan	China	US	Mexico	Southeast Asia and others
Semiconductor	80.2	6.0	1.9		11.9
EMS and electronic components	2.5	75.5	0.6	2.3	21.5
PCB	23.7	76.8	-		0.5
Petrochemical/Textil	79.9	15.3	4.0		0.8
Auto/motorcycle parts	33.8	46.5	3.1	2.4	16.6
Garment/ sports shoes	11.1	10.4	-		78.5
Others	71.4	23.7	2.4		2.5
Tech	14.6	65.3	0.7	1.9	19.4
Non-tech	64.3	15.8	4.1	0.1	15.8
Total	26.1	55.9	1.3	1.6	15.1

Source: KGI Research estimates

Figure 4: Effective US tariff rate may have dropped from peak of 25% announced on April 2 to current 15-20% range



Source: Yale Budget Lab; KGI Research estimates

Figure 5: Tariff negotiation outcome key to Taiex near-term performance; 15-20% is the benchmark

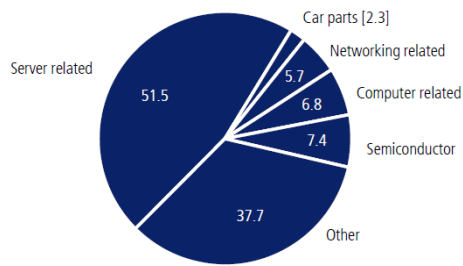
Near-term impact of tariff scenarios on Taiex

Final tariff rate	Short-term impact on Taiex
Scenario 1: 15-20%	In line with market expectations, but stock prices may decline
Scenario 2: Above 15-20%	Viewed as negative, likely causing a sharp drop in stock prices
Scenario 3: Below 15-20%	More optimistic than expected, likely to support a stock market rally

Source: KGI Research estimates

Figure 6: Taiwan exports to US in 2024 reached US\$116.3bn (NT\$3.8tn)

Top-five export products from Taiwan to US in 2024, USD\$ (bn)



Source: MOEA; KGI Research estimates

Figure 7: A 10% tariff will erode Taiex earnings by 10%; 15-20% tariffs will have a 15-20% earnings impact

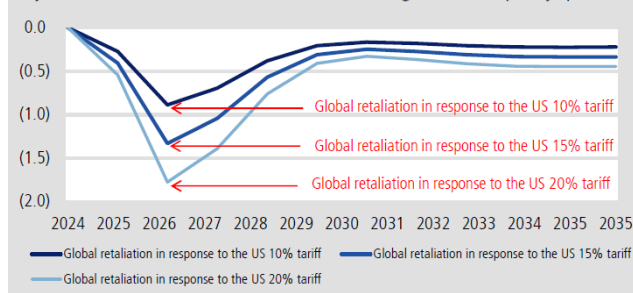
Impact of tariff scenarios on corporate earnings

Final tariff rate	Increased tariff cost (NT\$bn)	Share of annual Taiex earnings (%)
Scenario 1: 10%	381	10
Scenario 2: 15%	572	15
Scenario 3: 20%	762	20

Source: KGI Research estimates

Figure 8: Maximum impact on US GDP of 0.9-1.8ppts, if Trump imposes a 10-20% blanket tariff globally

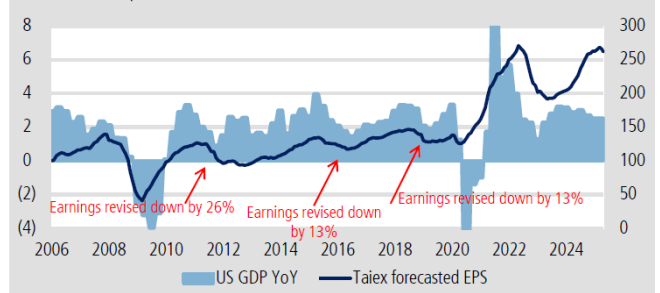
Projected US GDP contraction under 10-20% global tariff policy, percent



Source: Peterson Institute for International Economics (PIIE); KGI Research

Figure 9: Taiex is highly correlated with the US economy; Taiex earnings revised down by 13-26% during past three periods of US economic slowdown

US GDP YoY, percent (LHS); Taiex EPS forecast, NT\$ (RHS)



Source: Bloomberg; KGI Research

Note: We use the EPS forecast in January 2006 as the base, at 100

Figure 10: Earnings forecasts & valuations of Taiex constituents

Earnings (NT\$bn)	2021	2022	2023	2024	2025F	2026F
Taiex	3,917	3,771	2,682	3,769	4,402	4,851
Taiex excl. TSMC	3,320	2,755	1,844	2,595	2,918	3,114
Tech	1,914	2,147	1,698	2,249	2,768	3,247
Tech excl. TSMC	1,317	1,130	860	1,075	1,284	1,511
TSMC	597	1,017	838	1,173	1,484	1,736
EPS growth (%)						
Taiex	78.1	(3.7)	(28.9)	40.5	16.8	10.2
Taiex excl. TSMC	97.4	(17.0)	(33.1)	40.8	12.4	6.7
Tech	51.7	12.2	(20.9)	32.4	23.1	17.3
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	19.4	17.6
TSMC	15.2	70.4	(17.5)	39.9	26.5	17.0
P/E (x)						
Taiex	18.5	19.2	27.0	19.2	16.4	14.9
Taiex excl. TSMC	13.3	16.1	24.0	17.1	15.2	14.2
Tech	26.9	24.0	30.3	22.9	18.6	15.9
Tech excl. TSMC	17.8	20.7	27.2	21.7	18.2	15.5
TSMC	47.2	27.7	33.6	24.0	19.0	16.2

Source: KGI estimates

Figure 11: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)	
								2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
High-yield and undervalued stocks	MediaTek	2454 TT	Outperform	1700.0	67,660	1250.0	36.0	72.29	85.05	17.3	14.7	5.1	4.7	29.2	33.1	5.4	5.8
	Uni-President	1216 TT	Outperform	92.0	14,959	77.9	18.1	4.32	4.86	18.0	16.0	3.1	2.9	17.7	18.7	3.9	4.1
	PCSC	2912 TT	Outperform	300.0	9,030	257.0	16.7	11.98	13.51	21.4	19.0	5.9	5.3	28.4	29.4	3.5	3.5
	CTBC Holding	2891 TT	Outperform	45.0	28,523	43.0	4.8	3.32	3.95	12.9	10.9	1.6	1.4	13.5	13.8	4.9	5.6
	E.S.F.H	2884 TT	Restricted	N.A.	17,190	31.8	N.A.	1.84	1.94	17.2	16.4	1.8	1.6	11.0	10.3	4.2	4.4
	Asustek	2357 TT	Outperform	800.0	17,144	683.0	17.1	53.29	54.46	12.8	12.5	1.8	1.8	14.4	14.3	6.2	6.4
AI supply chain	Alchip	3661 TT	Outperform	4020.0	7,651	2800.0	43.6	75.82	129.66	36.9	21.6	5.2	4.4	14.5	21.7	1.4	2.3
	MPI	6223 TT	Outperform	1005.0	2,761	867.0	15.9	33.40	40.34	26.0	21.5	7.2	5.4	30.2	28.5	2.1	2.5
	ASEH	3711 TT	Outperform	168.0	21,597	144.5	16.3	10.29	12.96	14.0	11.2	1.8	1.7	13.2	15.4	3.1	4.2
	Hon Hai	2317 TT	Outperform	205.0	73,003	155.5	31.8	12.85	14.46	12.1	10.8	1.2	1.2	10.6	11.3	4.4	4.9
	QCI	2382 TT	Outperform	320.0	36,485	279.5	14.5	17.75	19.82	15.7	14.1	4.6	4.3	29.9	31.4	5.1	5.7
	Wistron	3231 TT	Outperform	135.0	12,593	118.5	13.9	8.47	10.21	14.0	11.6	2.3	2.0	17.1	18.4	4.2	5.1
	AVC	3017 TT	Outperform	725.0	9,629	734.0	(1.2)	36.26	45.78	20.2	16.0	7.9	6.2	43.2	43.4	2.3	3.0
	DELTA	2308 TT	Outperform	428.0	35,114	400.0	7.0	17.03	20.20	23.5	19.8	4.0	3.6	18.0	19.0	2.1	2.5
	BHI (Bizlink)	3665 TT	Outperform	788.0	4,915	765.0	3.0	37.97	45.74	20.1	16.7	3.4	3.0	18.4	19.2	2.4	2.9
	ELASER	3450 TT	Outperform	300.0	1,056	214.5	39.9	6.50	10.01	33.0	21.4	6.3	5.4	20.2	27.3	1.4	2.1
	GCE	2368 TT	Outperform	282.0	4,430	266.5	5.8	16.01	19.15	16.6	13.9	5.0	4.0	33.2	31.8	3.0	3.6
	Accton	2345 TT	Outperform	950.0	13,521	713.0	33.2	37.99	N.A.	18.8	N.A.	8.7	N.A.	51.8	N.A.	2.9	N.A.

Source: KGI estimates

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