

Strategy

Taiex rally will continue no matter who wins US presidential election

Key message

1. Taiex to pull back and then rise again if Trump wins the election; a Harris victory would see the index rise strongly.
2. Regardless of the outcome, the Taiex will ultimately be shored up by resilient fundamentals.
3. A Trump return to the White House won't terminate the stock market rally, but may add to volatility.

Event

With Trump increasing his lead over Harris in recent average polling in seven major swing states, the market is concerned that the former president's proposed policies of high tariffs, tax cuts and restrictions on immigrants, if he is elected, will result in deteriorating fiscal deficits and a comeback of inflation, consequently forcing the Federal Reserve to tone down rate cuts and driving up Treasury yields. Against such a backdrop, the Taiex has experienced some sell-off pressure of late. Notably, consensus now sets its one-year Fed funds rate target at 3.6%, up from the previous 2.9%, implying that the magnitude of rate cuts will be reduced by at least 50bps. As a result, the average 10-year US Treasury yield has climbed from 3.6% to 4.2%.

Impact

Scenario analysis – Three potential election outcomes & Taiex impact. We have identified three scenarios: (1) Trump wins the election, in which case the Taiex would initially fall and rally afterwards; (2) Harris wins, where shares would rally straight away; and (3) Trump loses but refuses to accept defeat, causing political turmoil in the US, in which case the Taiex would suffer a meltdown. The odds of the first two scenarios are both 50%, and the chances of the third scenario happening are extremely low. However, if the third scenario did occur, it would be a black swan event.

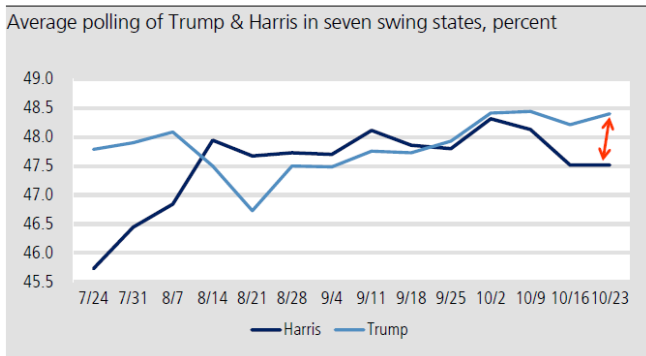
Taiex will be buoyed by resilient fundamentals regardless of who prevails in the US presidential election. The US presidential election is scheduled for November 5. Historically, the Taiex is subject to volatility before a US presidential election due to increasing uncertainties. The tight run between Trump and Harris has left stock markets stagnant recently. But in the case of the Taiex, we believe resilient economic fundamentals will be the ultimate driving force for the market, allowing the index to remain in an uptrend regardless of who takes over the White House. That said, the third scenario where Trump refuses to accept defeat, should it happen, will be a material negative for the Taiex. The US is a democratic country, so whoever wins the presidential election is unlikely to reverse the ongoing economic and stock market cycles. The current stock market bull run is driven mainly by the AI trend, which neither Trump nor Harris would attempt to disrupt. The boost to tech earnings of the AI trend has only just begun, we believe, and we estimate it will support substantial Taiex earnings growth of a respective 30%, 19% and 11% YoY in 2024-26F.

Valuation & Action

Based on our scenario analysis, we conclude that the Taiex will pull back and then rise again if Trump wins the election, and that if Harris wins, the Taiex will rise strongly. In a nutshell, regardless of the outcome, the Taiex will ultimately be shored up by resilient fundamentals. The only black swan event that could drag down the Taiex is that Trump loses the election but refuses to yield, resulting in political turmoil in the US. If the White House is taken by Trump, we believe Taiex winners will be the defense, heavy electrical equipment and PCB sectors, although the positive themes could be short-lived. If Harris is elected the next president, green energy and semiconductor sectors will outperform. Regardless of the result, AI and green energy are our most favored sectors in the Taiex.

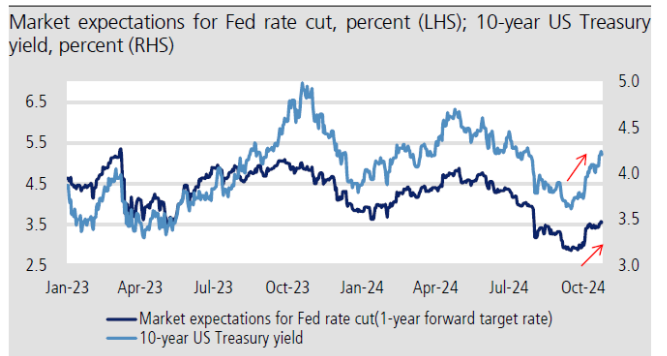
A Trump victory won't terminate the stock rally, but will add to volatility. While some investors are extremely worried that a second Trump administration will raise import tariffs across the board, undermining global trade and driving up inflation, we believe the high tariff policy that he proposes is only a way to gain leverage in trade negotiations. In other words, the odds of a full implementation of the policy are not very high in our view. In a recent statement, Trump also said explicitly that the purpose of his high tariff policy is to encourage reshoring of manufacturing and to reduce US reliance on overseas supply chains. He added that overseas firms can be exempted from high tariffs if they are willing to build production facilities in the US. Although the trade war that Trump initiated against China in 2018 indeed caused temporary fluctuations in the Taiex, we conclude in hindsight that the trade war did not undermine the overall Taiex uptrend in 2017-20. Lastly, Trump's "unfriendly" mentions of Taiwan, including that Taiwan should pay "protection money" to the US, that the US may refuse to defend Taiwan, and that Taiwan has taken away the IC business of the US are all based on US-centric realism and megalomania, which will only increase volatility in the Taiex.

Figure 1: Trump is ahead of Harris in average polling in seven swing states



Source: RealClearPolitics; KGI Research

Figure 2: Market has lowered expectations for rate cuts, while US Treasury yields are up on prospects of a second term for Trump



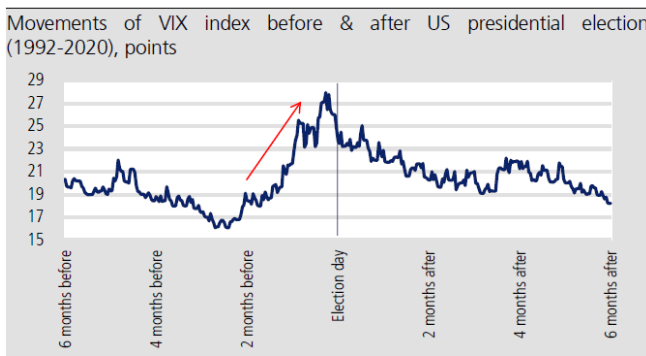
Source: Bloomberg; KGI Research

Figure 3: Scenario analysis – Three potential election outcomes & Taiex impact

Possible scenarios	Probability	Implication	Taiex performance
Scenario 1: Trump wins	50%	Global trade to be hurt by higher tariffs	Fall before rising
Scenario 2: Harris wins	50%	Continuation of existing economic and trade policies	Rise
Scenario 3: Trump loses but refuses to concede	Low	Political turmoil or even a civil war	Major fall

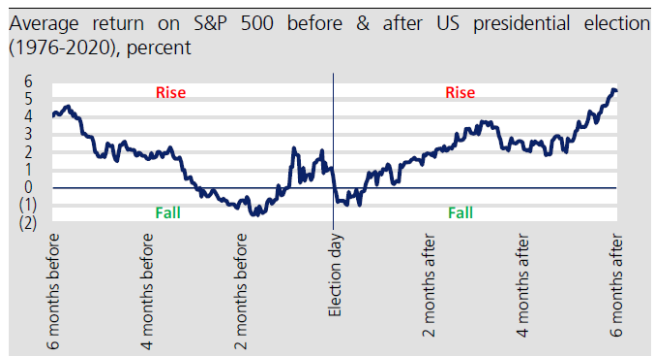
Source: KGI Research

Figure 4: Stock markets tend to be volatile before a US presidential election



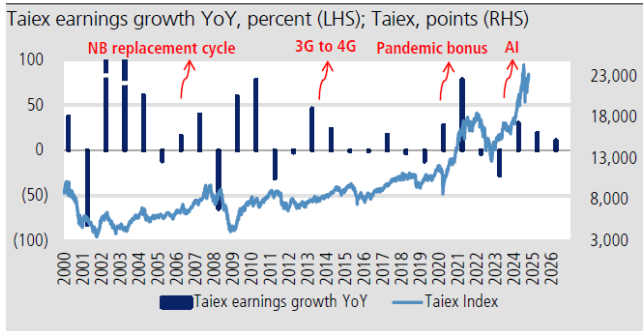
Source: Bloomberg; KGI Research

Figure 5: US stock markets prone to short-term fluctuations right before & after an election; but long-term performance post-election tends to be positive



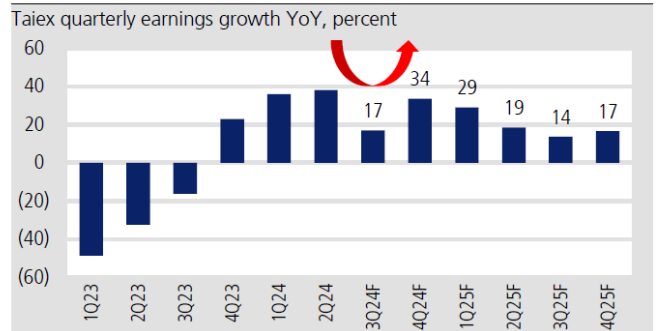
Source: Bloomberg; KGI Research

Figure 6: AI boom to drive robust earnings growth for Taix in coming three years



Source: TEJ; KGI Research

Figure 7: Growing AI server shipments to rekindle solid earnings growth for Taix in 4Q24-1Q25F



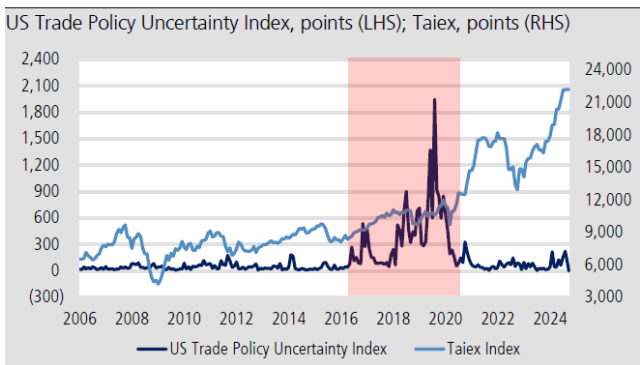
Source: TEJ; KGI Research

Figure 8: Trump's latest remarks & policies

Area	Key policy proposals by Trump
Trade and economy	Raise import tariffs, further tax cuts for individuals and businesses, keep US dollar weak and interest rates low
Industry development	Support fossil fuel energy sector and revoke subsidies for green energy; protect traditional manufacturing sector; relax financial regulations and revamp Obamacare
Diplomacy	Nationalism will be the backbone of US diplomatic policy; allied countries relying on US protection would need to increase defense expenditures
Domestic issues	Zero tolerance for illegal immigration; abortion legalization to be determined by individual states

Source: KGI Research compiled

Figure 9: Trump's trade war against China caused Taix fluctuations, but didn't affect overall uptrend in 2016-20



Source: Bloomberg; KGI Research

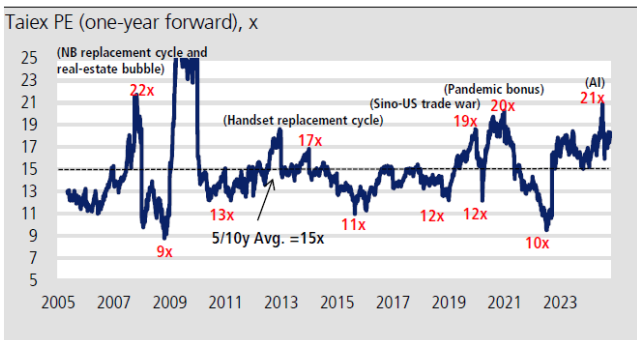
Figure 10: Trump started a trade war against China in 2018, followed by tit-for-tat attacks

Lists of goods subject to additional tariffs amid US-China trade war

	US tariffs on China	China retaliatory tariffs
Jul-18	US\$34bn 25% tariffs (e.g. machinery)	US\$34bn 25% tariffs (e.g. soy beans)
Aug-18	US\$16bn 25% tariffs (e.g. semiconductors)	US\$16bn 25% tariffs (e.g. waste copper)
Sep-18	US\$20bn 10% tariffs	US\$60bn 5-10% tariffs (e.g. LNG)
May-19	US\$200bn 25% tariffs	US\$60bn 10-25% tariffs
Sep-19	US\$300bn 10% tariffs (e.g. NB and consumer products)	US\$75bn 5-10% tariffs (e.g. LNG, soy beans and automobiles)
	China annual exports to US US\$5,50bn	US annual exports to China US\$1,20bn

Source: KGI Research

Figure 11: Taix is currently valued at 18x earnings



Source: TEJ; KGI Research

Figure 12: Taix valuation & corresponding index level

2024-25F average PE (x)	Equivalent index level (points)	2025F PE (x)	Equivalent index level (points)
15x	18,369	15x	19,958
16x	19,594	16x	21,288
17x	20,819	17x	22,619
18x	22,043	18x	23,949
19x	23,268	19x	25,280
20x	24,493	20x	26,610
21x	25,717	21x	27,941

Source: TEJ; KGI Research

Figure 13: Taixex comparison -- Valuation

	Company	Code	Investment rating	Target price (NTS)	Mkt cap (US\$m)	Share price (NTS)	Change +/- (%)	EPS (NTS)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)		
								2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2023	2024F	2025F
Trump wins	AIDC	2634 TT	Outperform	64.0	1,330	45.3	41.3	2.89	3.49	15.7	13.0	2.3	2.2	15.4	17.4	3.1	3.8	4.6
	ITA	ITA US	Not rated	N.A.	6,250	149.4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
	FE	1519 TT	Outperform	875.0	5,246	586.0	49.3	14.50	24.98	40.4	23.5	20.9	15.0	62.4	82.0	1.0	1.9	2.8
	MSI	2377 TT	Outperform	212.0	4,740	180.0	17.8	12.46	15.80	14.4	11.4	2.8	2.6	20.2	23.5	3.0	4.2	5.3
	Asustek	2357 TT	Outperform	665.0	13,684	591.0	12.5	41.48	41.58	14.2	14.2	1.8	1.7	12.6	12.2	2.9	5.3	5.3
Harris wins	HDRE	6873 TT	Outperform	378.0	834	228.5	65.4	10.51	18.10	21.7	12.6	2.1	2.3	13.2	19.4	1.8	2.6	3.9
	TSMC	2330 TT	Outperform	1450.0	860,921	1065.0	36.2	45.23	57.87	23.5	18.4	6.5	5.2	30.4	31.5	1.2	1.5	1.7
Overall industry to rally no matter who wins the election	TSMC	2330 TT	Outperform	1450.0	860,921	1065.0	36.2	45.23	57.87	23.5	18.4	6.5	5.2	30.4	31.5	1.2	1.5	1.7
	Hon Hai	2317 TT	Outperform	265.0	93,529	216.0	22.7	11.32	15.21	19.1	14.2	1.9	1.8	10.3	13.0	2.5	2.8	3.7
	AURAS	3324 TT	Outperform	920.0	1,983	695.0	32.4	22.68	34.19	30.6	20.3	7.9	6.5	28.4	36.2	1.5	1.5	2.3
	DELTA	2308 TT	Outperform	528.0	32,550	402.0	31.3	15.27	19.54	26.3	20.6	4.5	4.0	18.5	20.6	1.9	1.9	2.4
	ELASER	3450 TT	Outperform	270.0	1,017	224.0	20.5	3.78	8.97	59.3	25.0	8.0	7.3	14.0	30.5	0.9	0.9	2.7
	Accton	2345 TT	Outperform	700.0	10,425	596.0	17.4	20.80	23.26	28.6	25.6	11.2	9.5	42.3	40.2	2.1	2.1	2.3
	EIH	8069 TT	Outperform	335.0	10,715	300.0	11.7	7.97	11.94	37.7	25.1	6.6	6.1	18.1	25.2	1.7	1.7	2.6
	WinWay	6515 TT	Outperform	865.0	1,442	1320.0	(34.5)	34.57	#N/A	38.2	#N/A	10.5	#N/A	30.4	#N/A	1.9	1.9	#N/A
	Fositek	6805 TT	Outperform	1000.0	1,836	859.0	16.4	18.96	35.60	45.3	24.1	11.3	9.3	26.6	42.4	1.2	1.2	2.2
	Airtac	1590 TT	Neutral	1010.0	5,717	917.0	10.1	39.05	42.09	23.5	21.8	3.9	3.6	17.5	17.3	2.1	2.1	2.3
	Hu Lane	6279 TT	Outperform	196.0	551	172.0	14.0	12.80	14.44	13.4	11.9	2.6	2.4	20.1	20.7	4.1	4.1	4.7

Source: TEJ; KGI Research

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