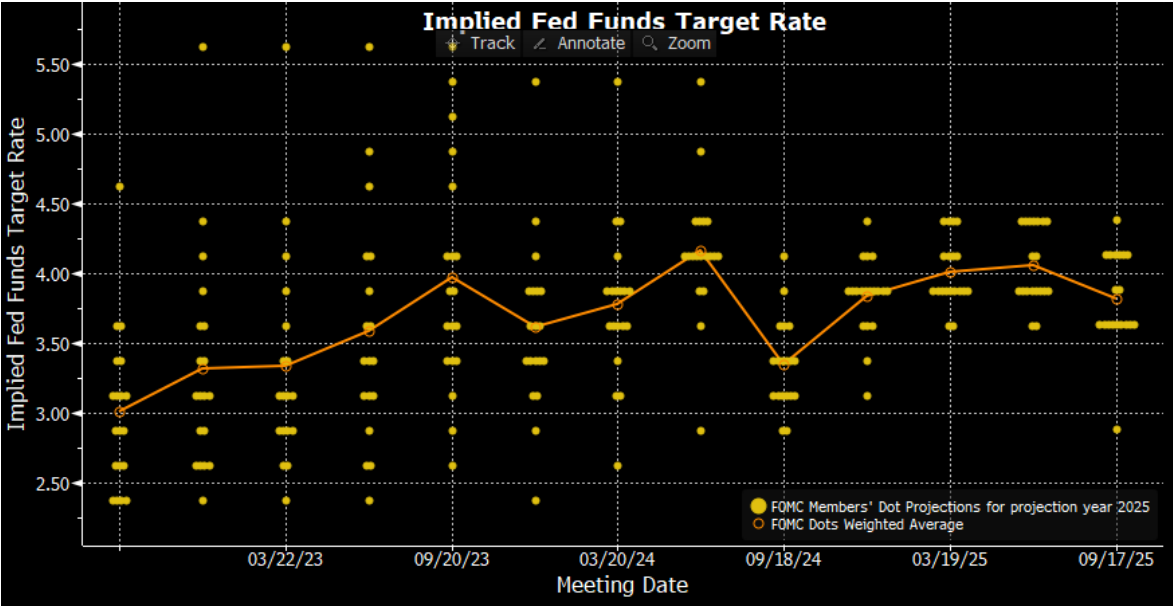

4Q25: An Uphill Battle (from Here)

September 2025

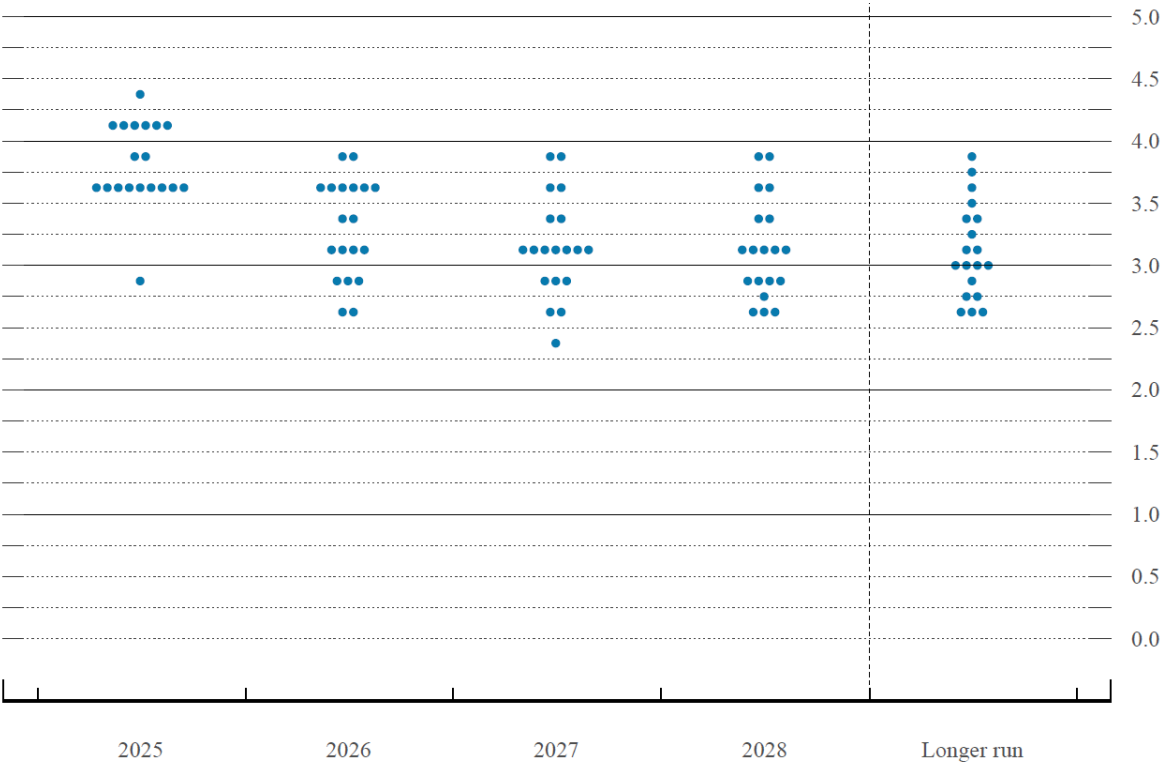
Nuttachart Mekmasin, CFA, FRM
Trinity Securities



Fed becomes more dovish

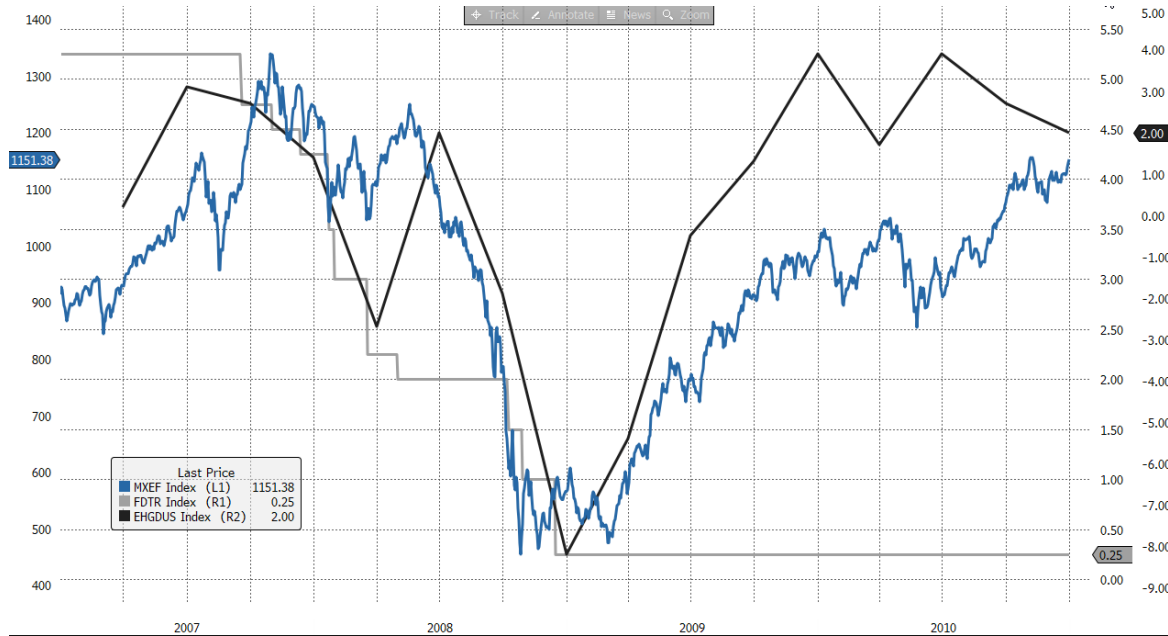


Latest downward shift in Dot plots is the key factor supporting sentiment in the stock market right now.

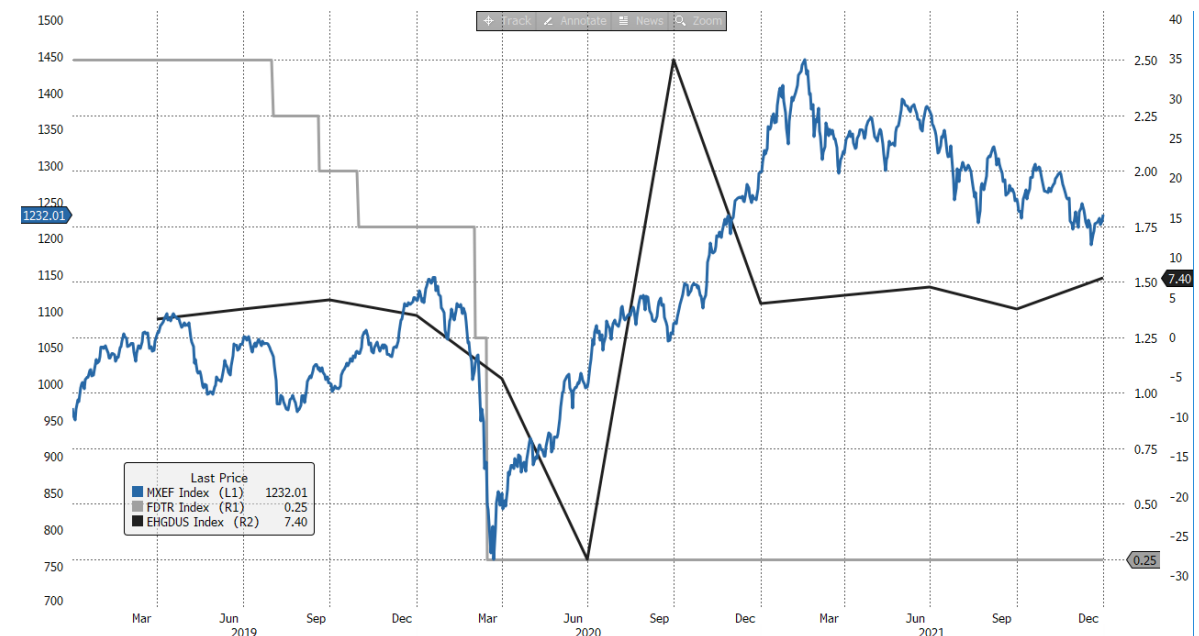


Even Fed officials have no idea about what will happen next year

But as we said before ... positive impact from mid-cycle rate cuts is limited in duration

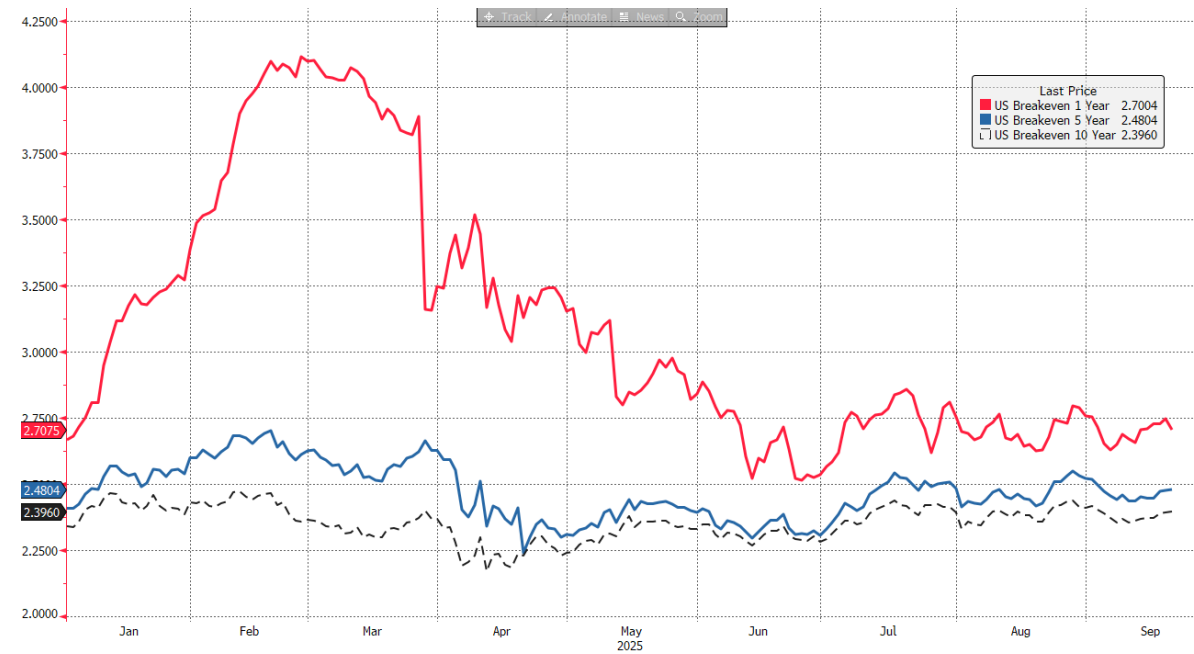


2007-08 episode



2019-20 episode

Key risk is that U.S. inflation is now underpriced



U.S. Breakeven in each tenor



5y5y breakeven



Note: Data as of 19 September 2025

Source: Bloomberg

Top 10 issues in 4Q25

- 1) We are more concerned about the U.S. economy especially the labor market. It must be said that the market has not yet priced in this risk to any great extent (may be due to AI-replacement stocks). This is viewed as a significant risk factor for global risk assets going forward, particularly those tied to global economic conditions such as global cyclical stocks, commodities, and export-oriented sectors in Thailand.
- 2) Sooner or later, as history suggests, recession fears are likely to overshadow the market's reliance on the Fed put. We still hold a view that mid-cycle rate cuts have usually coincided with equity market pullbacks. Rates need to decline further, approaching the lower bound ($\approx 3\%$ for this cycle), before the stock market can begin a bull rally.

Top 10 issues in 4Q25 (Con't)

- 3) We maintain our view that the Fed's accelerating pace of rate cuts will open the door for other central banks worldwide to further ease monetary policy. We continue to expect an additional 0.25% policy rate cut from the BoT within the remainder of this year (2 meetings left). At present, the market has priced in this scenario at only 63%. If investors confidence in this expectation increases, Thai bond yields - particularly at the short end - are likely to decline further.
- 4) We believe that current crude oil prices have already reflected much of the concerns over geopolitical risks that could affect supply but have not yet fully priced in the risks on the demand side, which may weaken due to the global economic slowdown. For this reason, this may be another factor behind our recommendation to avoid the commodities sector, particularly Oil & Gas, in 4Q25

Top 10 issues in 4Q25 (Con't)

- 5) The most attractive assets in the upcoming period remain U.S. Treasuries (esp. longer tenor due to more downside risk to the economy), Thai government bonds (esp. shorter tenor due to increased likelihood of further rate cuts which market has yet priced in), as well as other safe-haven assets such as gold.
- 6) On the equity side, sectors that would benefit from rate cut expectations include rate-sensitive groups such as Finance and Real estate. Meanwhile, caution is advised for Banking sector, where the market is expected to increasingly price in pressure from narrowing NIMs.

Top 10 issues in 4Q25 (Con't)

- 7) We believe it is still too early to play the “election theme” in Thailand, as historical patterns suggest that the SET typically rallies only about two weeks before the election, rather than as early as some might expect. That said, there are still certain sectors worth pre-positioning at this stage, as they tend to trend sideways to slightly higher during the 3-6 months leading up to the election.
- 8) Given the heightened uncertainty in the global economy, bond-like sectors such as IFF and REITs remain attractive, along with other defensive sectors like healthcare and utilities. For cyclical stocks, domestic cyclicals are recommended over global cyclicals, as they are less sensitive to global economy and also benefit from domestic economic stimulus policies. Key OW sectors are Commerce, Finance, and Real estate.

Top 10 issues in 4Q25 (Con't)

- 9) Our base case for the SET target in 4Q25 remains at 1,300, which is broadly in line with the current level. As such, we do not anticipate significant upside from here. In a more conservative (worst-case) scenario, should recession fears materialize earlier than expected, we believe the downside for the SET would be supported around the 1,200 level.
- 10) Looking ahead to 2026, the index level of 1,300–1,320 is expected to become a key support zone once we roll forward the earnings base to 2026E EPS of 96 baht. We anticipate that the Bank of Thailand will cut its policy rate to at least 1.00%. Incorporating these assumptions into our valuation model, we derive a new base-case SET target of 1,420 for 2026.

What went right for our 3Q25 call

- EM outperformance vs. DM is back on track
- China Tech outperform U.S. Tech as relative valuation is closing the gap
- No delay in FY2026 Budget Act as none of the following happens: minority government, dissolution of Parliament, or military coup.
- 0.25% rate cut by BoT and the Fed
- The SET Index would not fall below the 1,000-point level
- Invest in Thai equity when implied ERP fell below 4% did work again!
- SET Index rebounded towards 1180 at the minimum and reached 1270 which was our base case level.

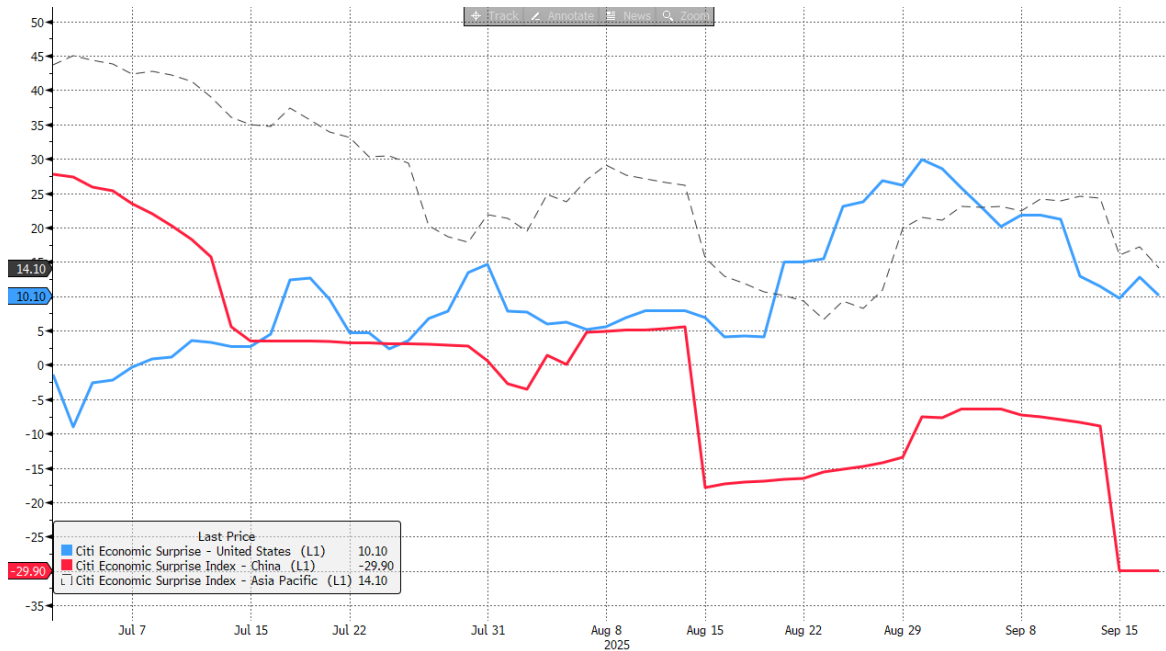
What went wrong for our 3Q25 call

- Domestic cyclicals outperform Domestic defensive stocks

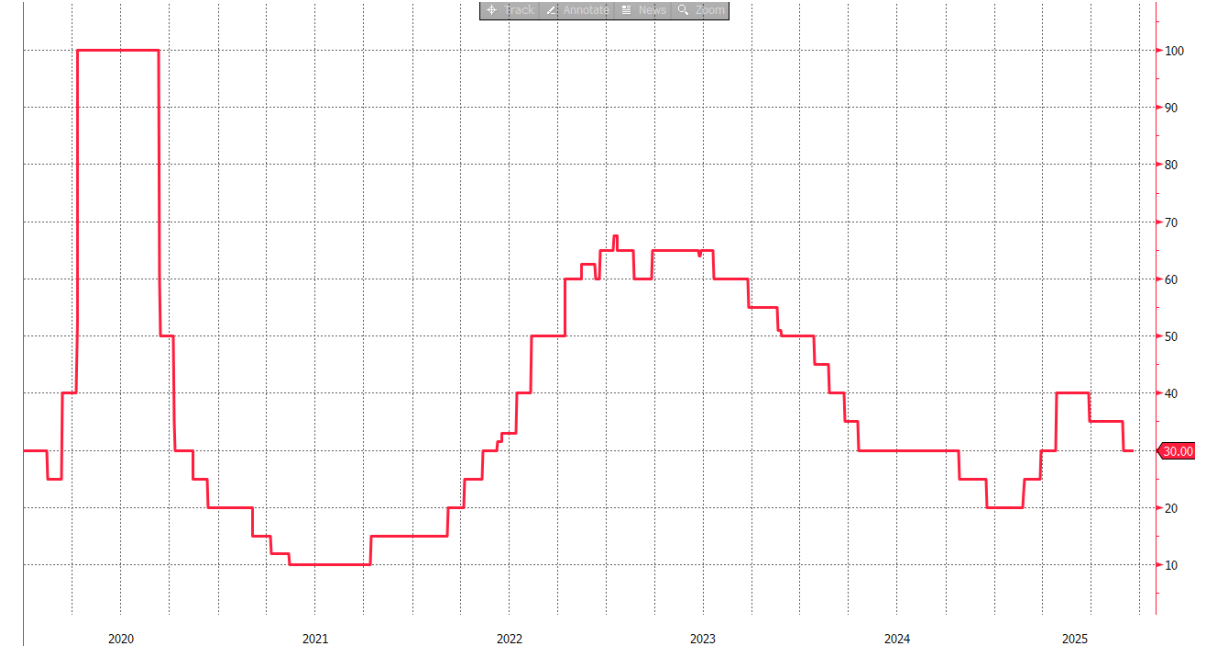
What's in the price and what's not

	In the price	Not in the price
Domestic	<ul style="list-style-type: none">- 62% chance of 0.25% BoT rate cut for the remaining of 2025	<ul style="list-style-type: none">- A ripple effect from domestic consumption stimulus policy (+)- A postponement of election from the original timeline (-)
External	<ul style="list-style-type: none">- 70% chance of 0.50% Fed cut for the remaining of 2025- Prolonged Middle East tension	<ul style="list-style-type: none">- A sudden rebound in labor market (+)- Revival of inflation (-)- Recession fear (-)

Softening economic momentum started to be seen, and market is still complacent

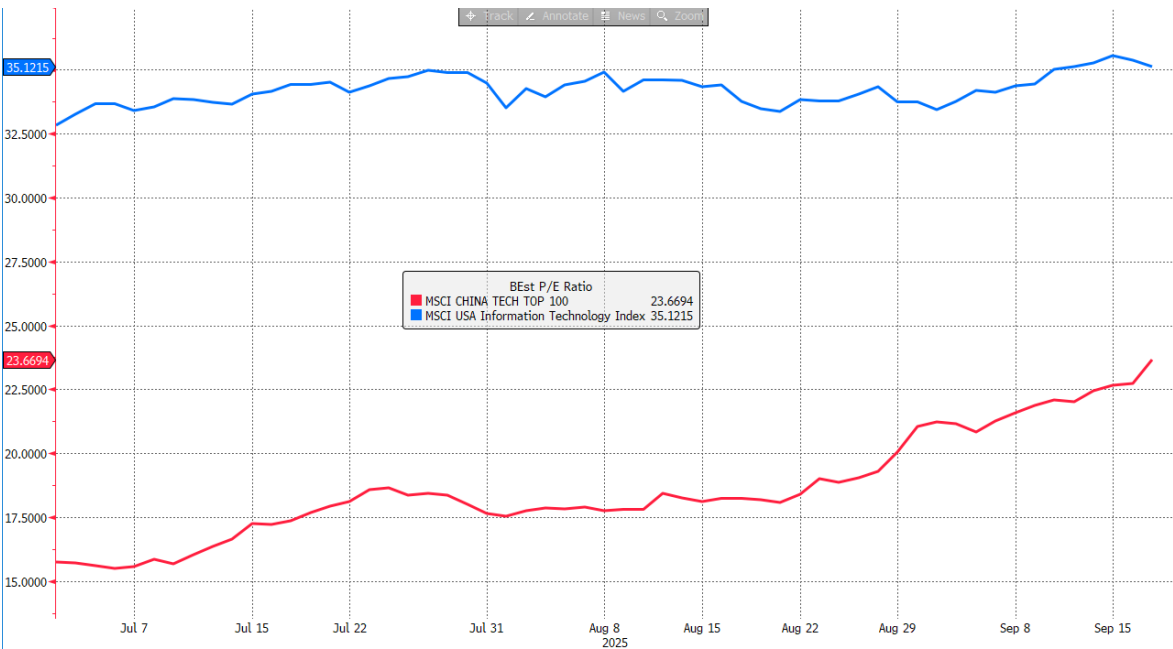
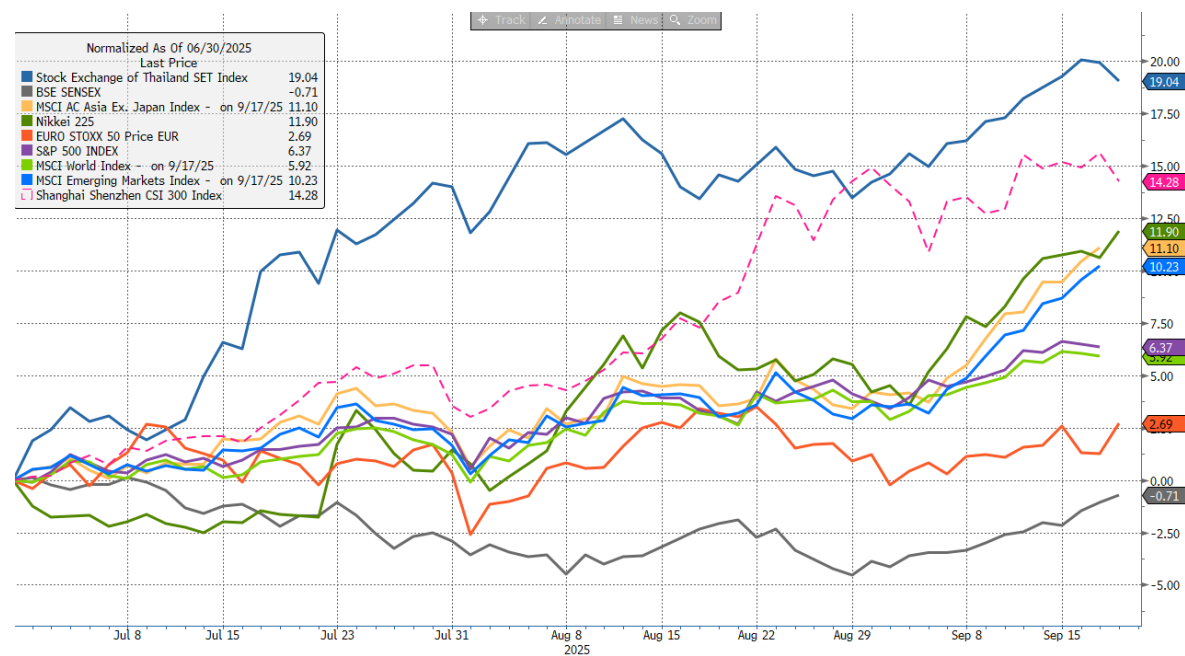


China (Red) & APAC (Dash) losing momentum while U.S. (Blue) is subjected to further downside risk



Market are now underestimate about U.S. economic risk as seen through recession probability

EM outperformed DM in 3Q25



Outperformance led by Thailand & China

... as China Tech valuation approaching those in the U.S.



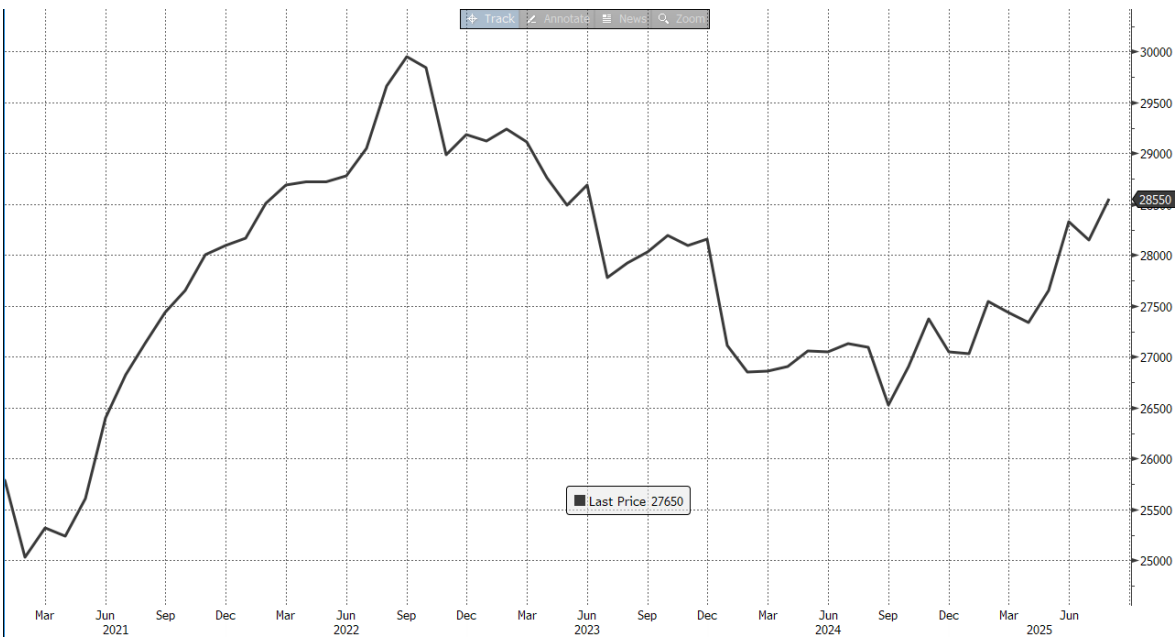
Note: Data as of 18 September 2025

Source: Bloomberg

Geopolitical risks priced into oil way too much - Beware of Oil



Ceasefire odds are quite low



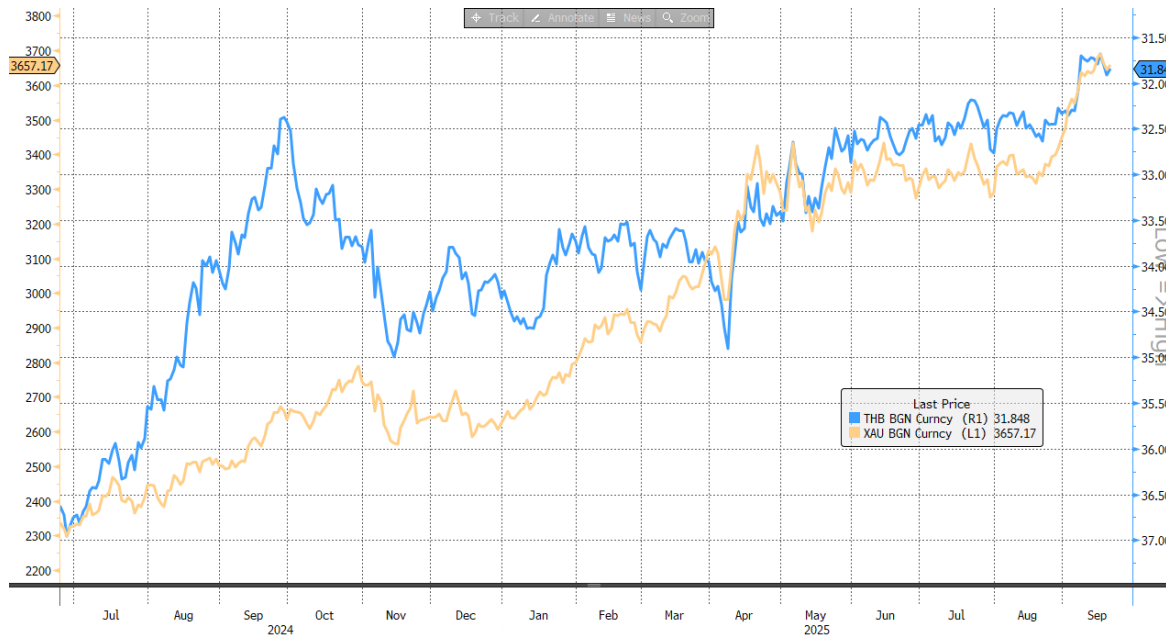
OPEC production is at the highest level since June 2023



Note: Data as of 18 September 2025

Source: Bloomberg

THB should be resilient as long as gold prices stay high + political stability is in good shape

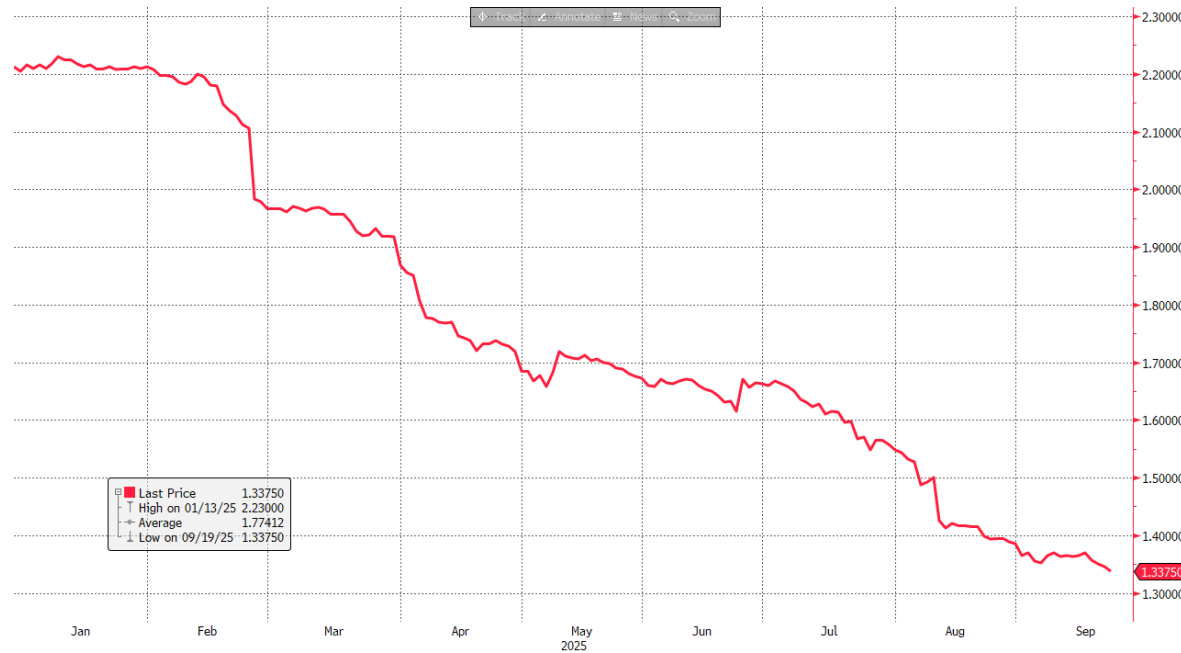


THB vs. Gold has a YTD correlation of 0.88x



Thai 5Y CDS

Why we continue to love Thai bond



ThaiBMA Symbol	Issue Name	Term	Auction Amount (THBMin.)	Issue Date	Maturity Date	Auction Date ↓	Grand Total Amount (THBMin.)	Auction Result			BCR
								Yield(%)			
								High	Low	Avg.	
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	20,000.00	01-Nov-24	17-Jun-45	17-Sep-25	20,000.00	2.079000	2.051000	2.063600	3.220000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	7,128.00	01-Nov-24	17-Jun-45	20-Aug-25	7,128.00	0.000000	0.000000	0.000000	0.000000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	20,000.00	01-Nov-24	17-Jun-45	06-Aug-25	20,000.00	2.020000	2.005000	2.012700	1.500000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	18,000.00	01-Nov-24	17-Jun-45	18-Jun-25	18,000.00	2.318000	2.300000	2.310900	2.810000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	15,000.00	01-Nov-24	17-Jun-45	19-May-25	15,000.00	0.000000	0.000000	0.000000	0.000000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	20,000.00	01-Nov-24	17-Jun-45	23-Apr-25	20,000.00	2.449000	2.425000	2.438800	1.550000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	18,000.00	01-Nov-24	17-Jun-45	12-Mar-25	18,000.00	2.609000	2.595000	2.604200	1.850000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	2,200.00	01-Nov-24	17-Jun-45	19-Feb-25	2,200.00	0.000000	0.000000	0.000000	0.000000
LB456A	Government Bond FY. B.E. 2568 No. 4	20.64Y	18,000.00	01-Nov-24	17-Jun-45	15-Jan-25	18,000.00	2.825000	2.795000	2.814100	1.460000

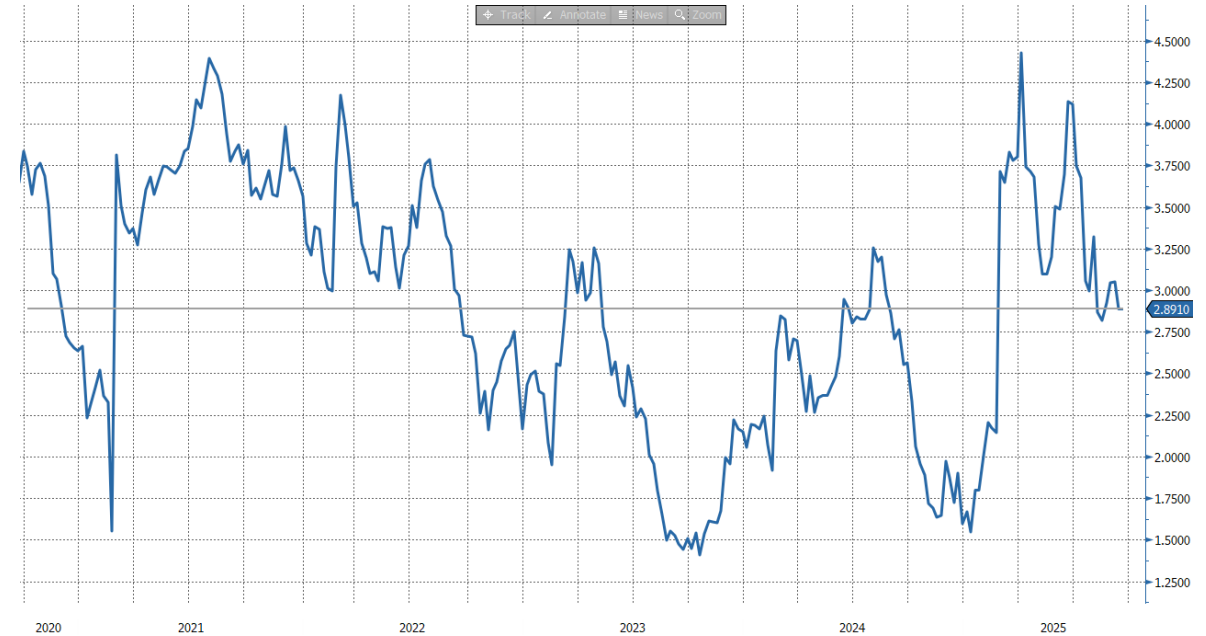
3M swaps only priced in 65% chance of further rate cut in 2025

Auction saw a jump in demand whenever yield jumped while supply is unlikely to be excessive in the short term.

SET appealing vs. bond started to fall when compared to the U.S. - May be one of the reasons why foreigner net sold Thai equity recently



Still, SET EYG vs. 10y THB yield stood well above 5-yr average

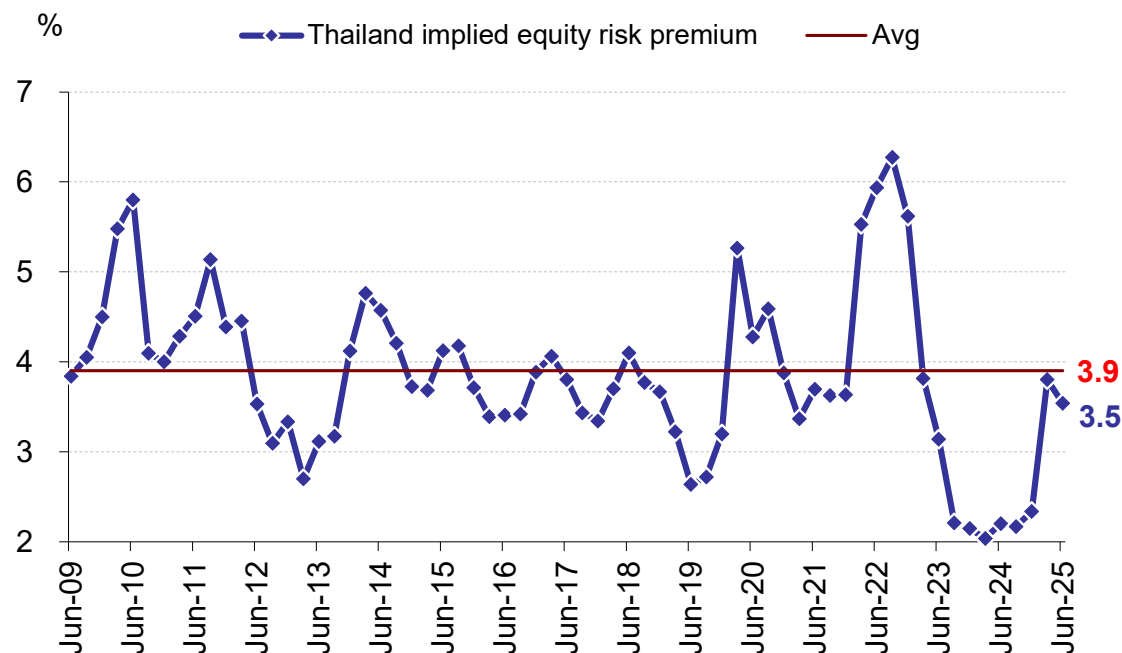


But this is no longer the case when compared to UST

SET target by end-2025 and end-2026

<i>Case</i>	<i>Multiple at 1.25% RP (Current)</i>	<i>2025E EPS</i>	<i>Fair SET (Current)</i>	<i>Multiple at 1.00% RP (Potential)</i>	<i>2026E EPS</i>	<i>Fair SET (Potential)</i>
Base	14.4x Fwd PE	90 baht	1300	14.8x Fwd PE	96 baht	1420
Conservative	13.4x Fwd PE	90 baht	1200	13.8x Fwd PE	96 baht	1320

SET is no longer at a bargain ... but not expensive as well



Implied equity risk premium is now at the long-term average

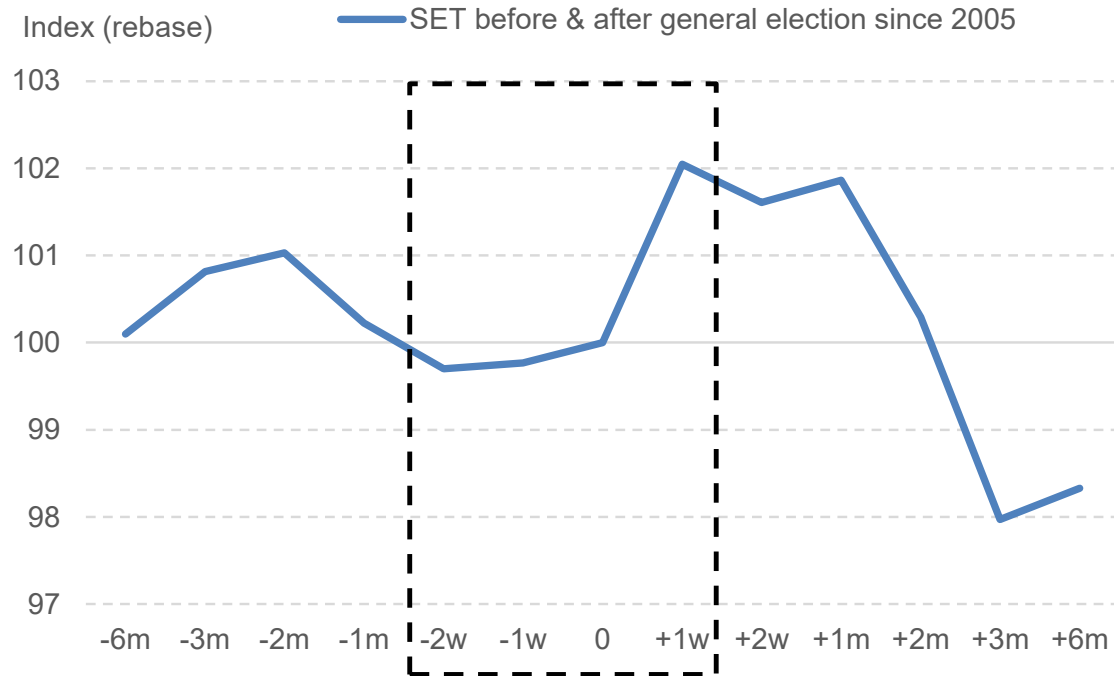
SET 3-year PE band is still slightly below average



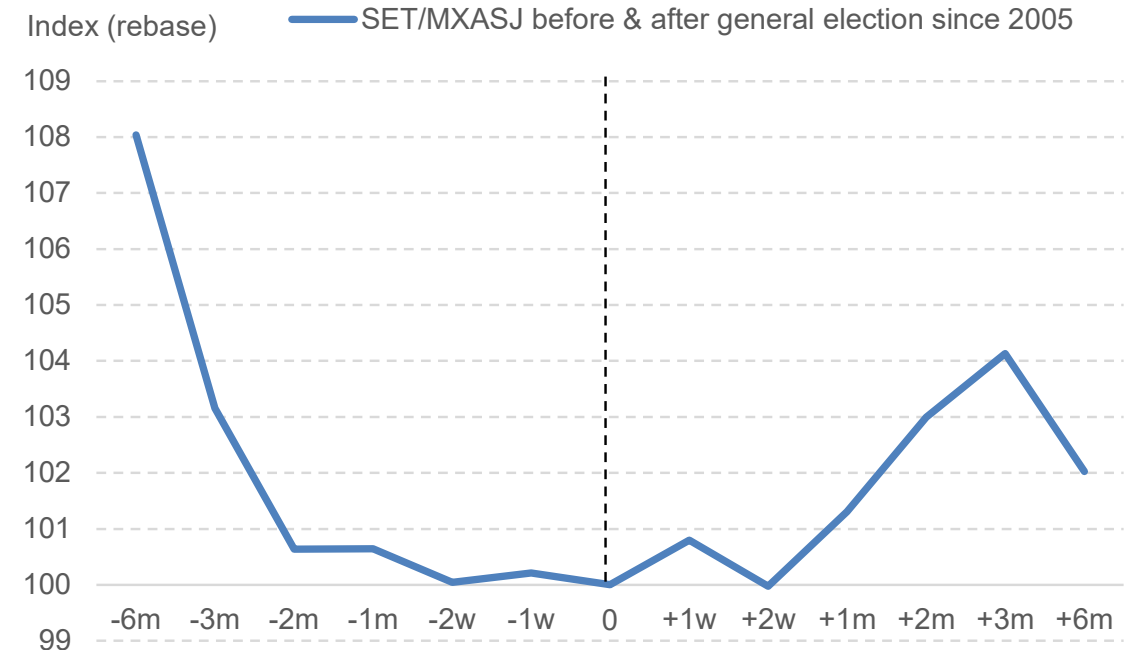
Note: Data as of 18 September 2025

Source: Trinity Research

Too soon to play for “Election Rally” theme ...

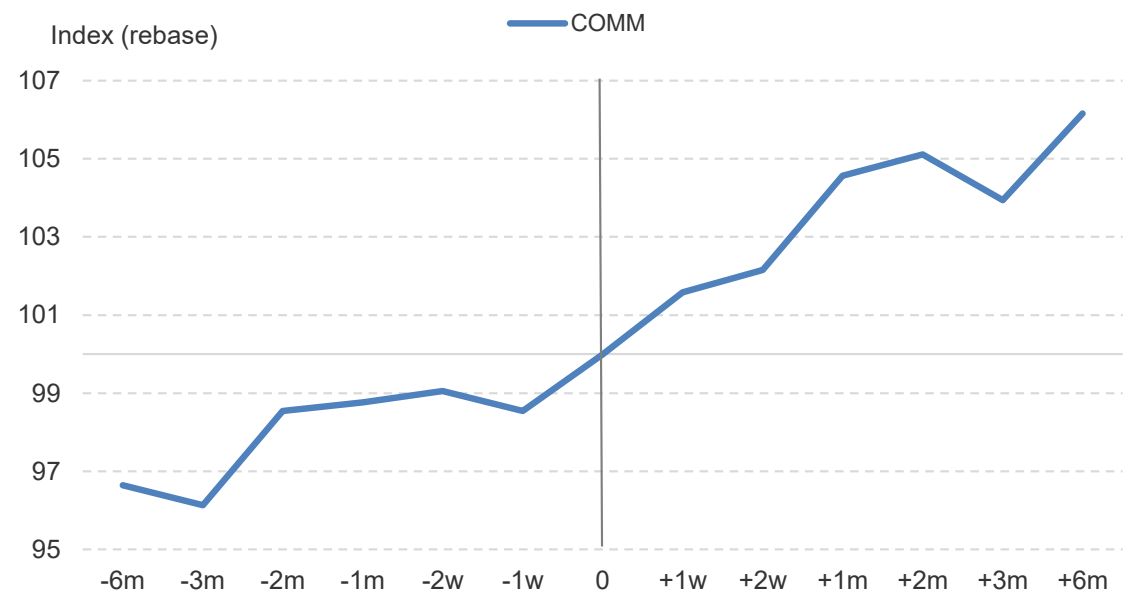


Thai stock rally usually begins about 2 weeks before the election and extend until 1 week thereafter.

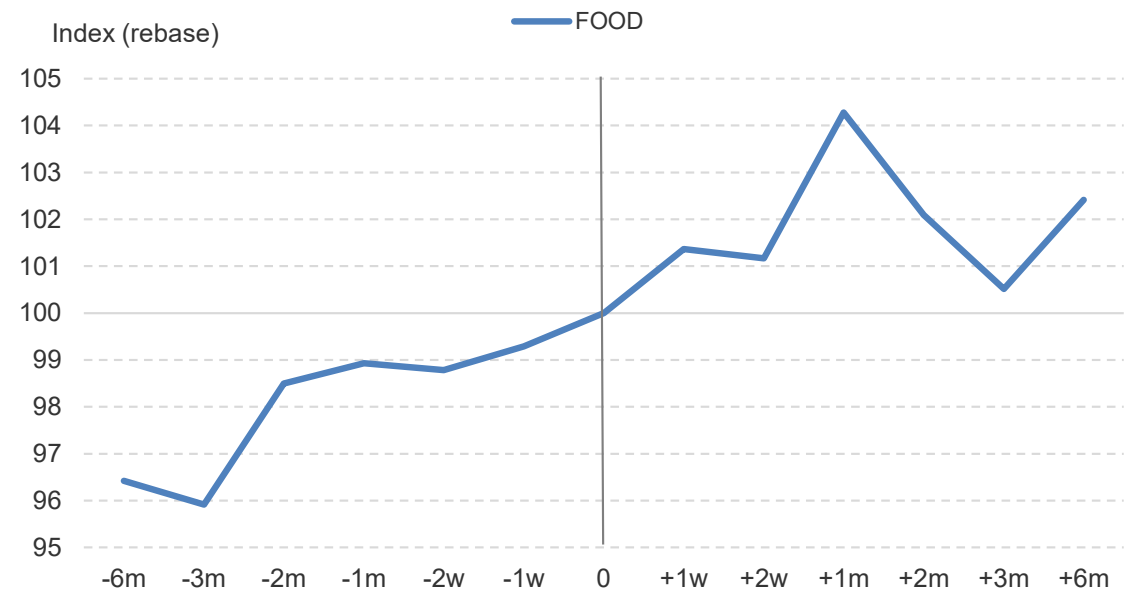


In fact, the SET has typically not outperformed other Asian equity markets ahead of domestic elections.

... but there are some winners that can be positioned well beforehand

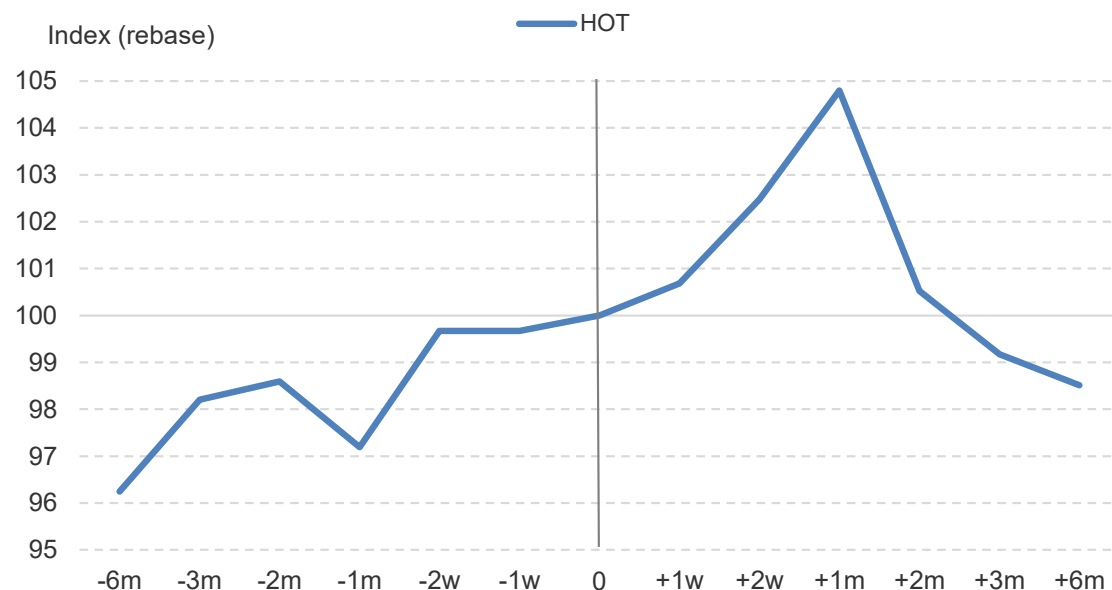


SETCOM normally move sideways up around 3 months prior to election

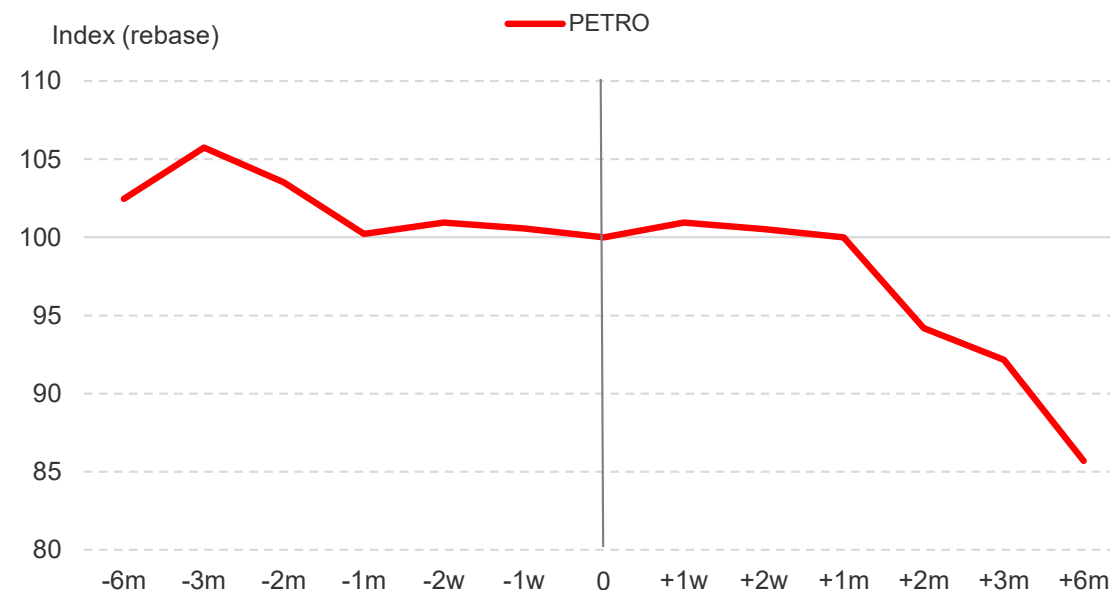


SETFOOD normally move sideways up around 3 months prior to election

Global cyclical stocks did not enjoy “Election Rally” much



SETHOT (Tourism) normally move sideways up around 3-6 months prior to election



*** Global cyclical sectors, such as Petrochemicals, have not benefited much from this election-related factor.**

Recommended sector allocation

	Valuation (vs. 3y avg.)	Sentiment	Overall		Valuation (vs. 3y avg.)	Sentiment	Overall
Energy & Utilities	-	0	0	Finance & Securities	+	+	+
Electronics	-	-	-	Cons materials	-	-	-
Banking	-	-	-	REIT & IFF	0	+	+
ICT	+	0	0	Petrochemical	-	-	-
Commerce	+	+	+	Insurance	+	0	0
Transportation	+	0	0	Tourism	+	+	+
F & B	+	0	0	Packaging	-	-	-
Property	+	+	+	Media	+	0	0
Health Care	+	+	+	Cons services	+	0	0

Valuation of our top pick sectors



SETCOM 3y PE band



SETFIN 3y PE band



Note: Data as of 18 September 2025

Source: Bloomberg

Valuation of our top pick sectors (Con't)



SETPROP 3y PE band



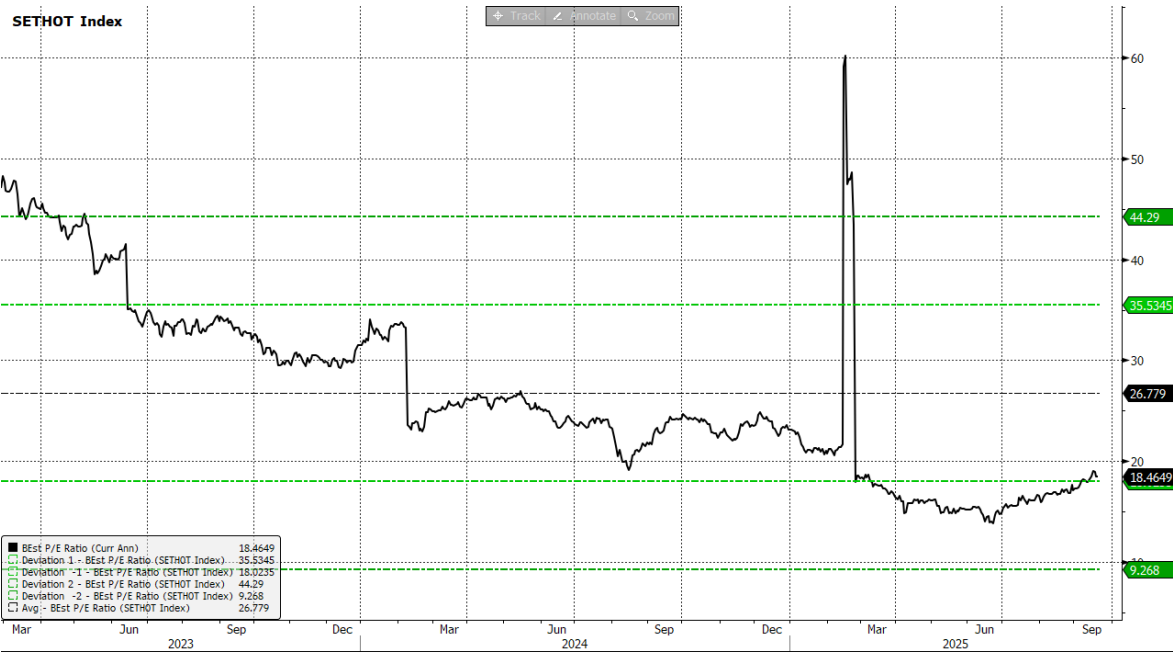
SETHELTH 3y PE band



Note: Data as of 18 September 2025

Source: Bloomberg

Valuation of our top pick sectors (Con't)



SETHOT 3y PE band



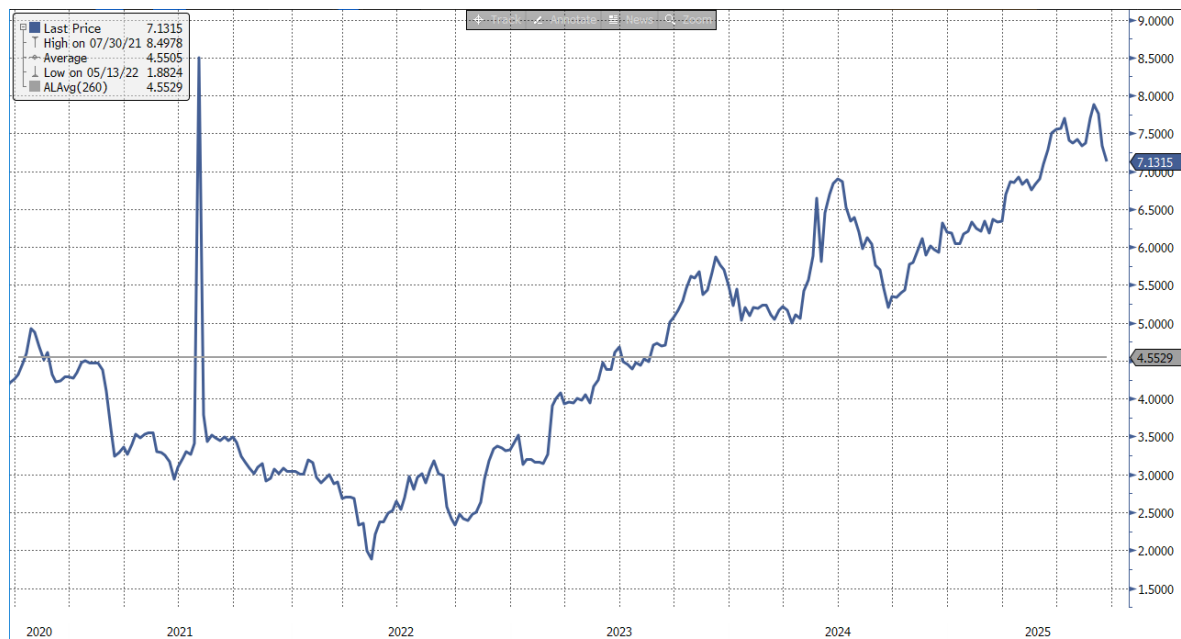
SETPREIT 3y PE band



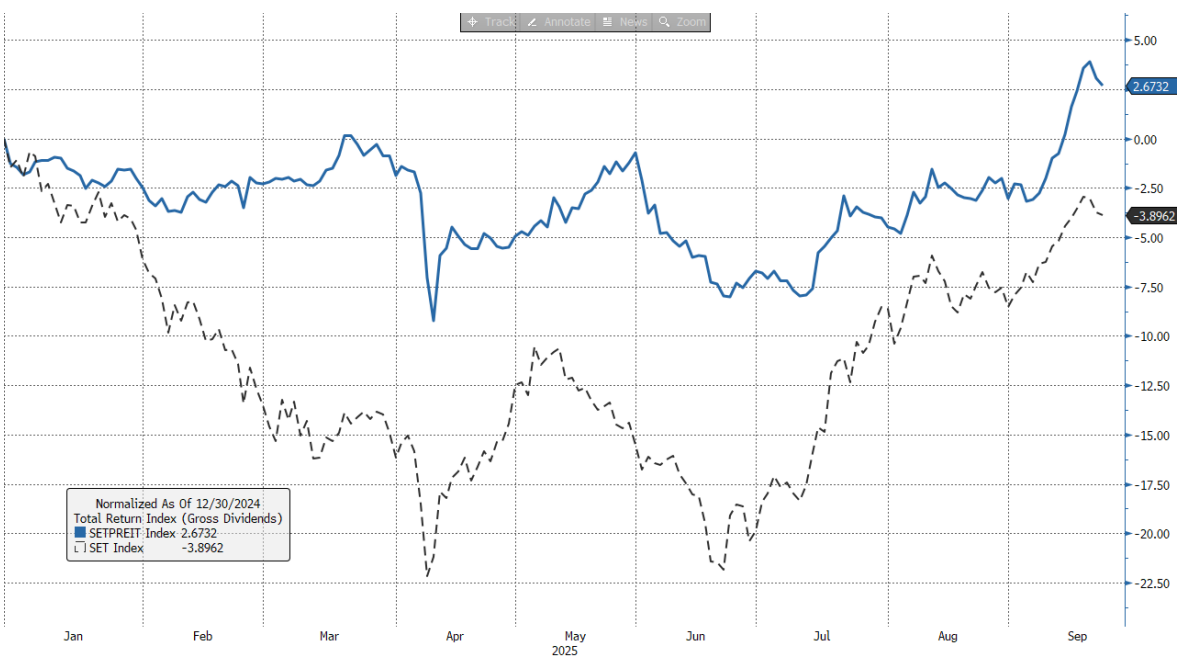
Note: Data as of 18 September 2025

Source: Bloomberg

Market started to realize how cheap Thai REITs is



Thai REITs dividend yield gap still way above 5y average

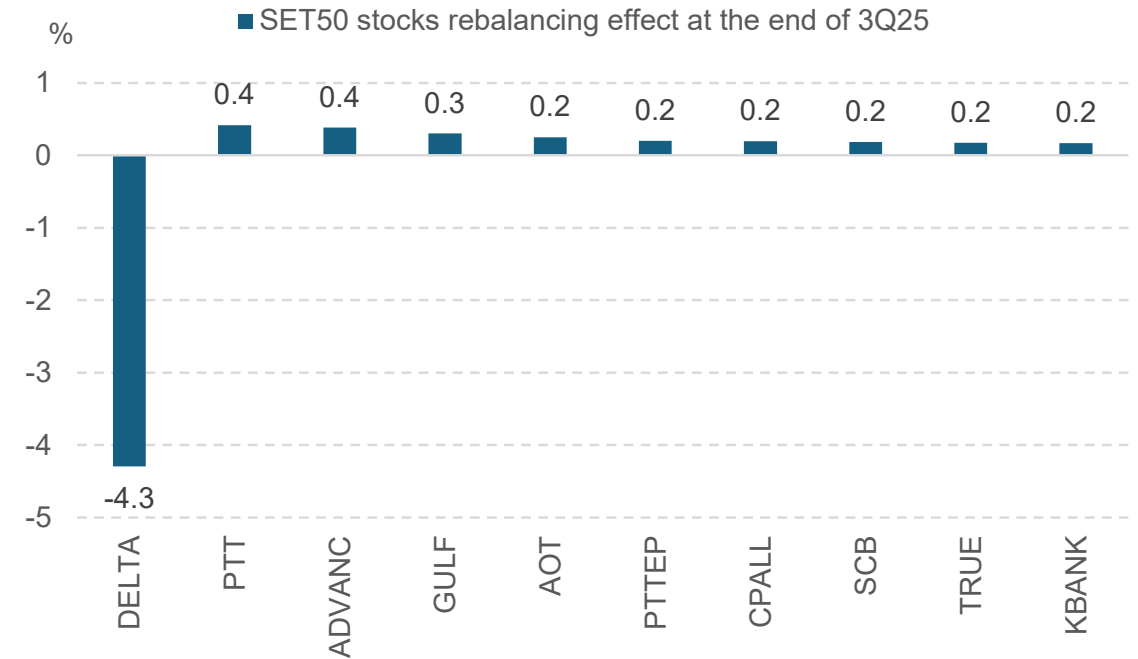


Thai REITs total return in 2025 has been well above the SET



Index rebalancing for 4Q25

	Index	% Current weight (as of 18 Sep 2025)	% Index capped weight	Rebalance to take effect
DELTA	SET50	14.29	10.00	30-Sep-25
DELTA	SET100	14.16	10.00	30-Sep-25
DELTA	SETESG	7.22	5.00	30-Sep-25
AOT	SETESG	5.60	5.00	30-Sep-25
GULF	SETESG	5.04	5.00	30-Sep-25
KTB	SETHD	10.53	10.00	30-Sep-25



Projected stocks that will be facing a capped weight at the end of 3Q25

Rebalancing effect from current weighting