The Q1 Close & The Stagflation Fortress

- Entrenched $90+ oil cements global stagflation, keeping the Fed hawkish.
- Thailand's rising energy import bill severely delays domestic infrastructure stimulus.
- We recommend **PTTEP**, **PTT**, **TOP**, **SPRC, BCP** and **BBL**.

Q1 Closes in a Stagflationary Trap

As the first quarter of 2026 draws to a close, global markets remain rigidly locked in a stagflationary holding pattern. The entrenched Middle East conflict continues to weaponize energy prices, effectively neutralizing the Federal Reserve's ability to initiate a dovish easing cycle. With the "higher for longer" rate regime now structurally solidified, the US Dollar (DXY) retains its absolute safe-haven supremacy. This persistent dollar strength perpetuates a severe liquidity drain from Emerging Market equities, ensuring that global allocators remain fundamentally defensive.

The Import Squeeze & Fiscal Paralysis

Domestically, the structural tax of $90+ Brent crude is actively eroding Thailand's macroeconomic buffers. The surging energy import bill has severely weakened the Current Account, forcing the Bank of Thailand into a defensive, hawkish posture to protect the Baht against imported inflation. Simultaneously, the Bhumjaithai-Pheu Thai coalition's fiscal firepower is being aggressively cannibalized; state funds desperately needed for GDP-boosting infrastructure are instead being diverted into the Oil Fuel Fund to subsidize retail diesel, paralyzing the government's immediate growth agenda.

Flow Starvation & The Structural Floor

For the SET Index, this macro environment translates directly into flow starvation and capped upside resistance. The market is entirely devoid of cyclical growth catalysts and is trading purely on localized defense mechanisms. While the severe lack of foreign liquidity prevents any meaningful breakout, the index's massive concentration in large-cap Energy and Banking is acting as a vital structural floor. This heavy "old economy" weighting prevents a severe breakdown, but it relies entirely on the geopolitical premium rather than fundamental economic expansion.

The Q1 Earnings Divergence

As we approach the Q1 earnings preview window, sector divergence will become extreme. While sweeping tariff impacts remain a distant horizon risk, the immediate reality for trade-reliant exporters is severe margin compression driven by sluggish global demand and elevated raw material costs. Conversely, Upstream Energy and Complex Refining stand alone as the sole beneficiaries of the geopolitical landscape, capturing unhedged margins and immense inventory stock-gains. Concurrently, large-cap Banks will report highly protected Net Interest Margins (NIM) as the BoT's hands remain tied.

Maintaining the Energy & Yield Shield

We strongly maintain our "Stagflation Fortress" allocation to navigate the Q2 transition. Retain maximum overweight positions in the Energy Complex (**PTTEP, PTT, TOP, SPRC, BCP**) to continuously monetize the $90+ Brent crude reality and capture Q1 inventory windfalls. Hold large-cap Banking (**BBL**) as your high-yield, defensive anchor. We reiterate a strict avoid on Aviation (AAV) and raw-material heavy Exporters facing inescapable margin destruction and advise explicitly capping exposure to Mega-Contractors (STEC, CK) until the parliament definitively secures new infrastructure funding.

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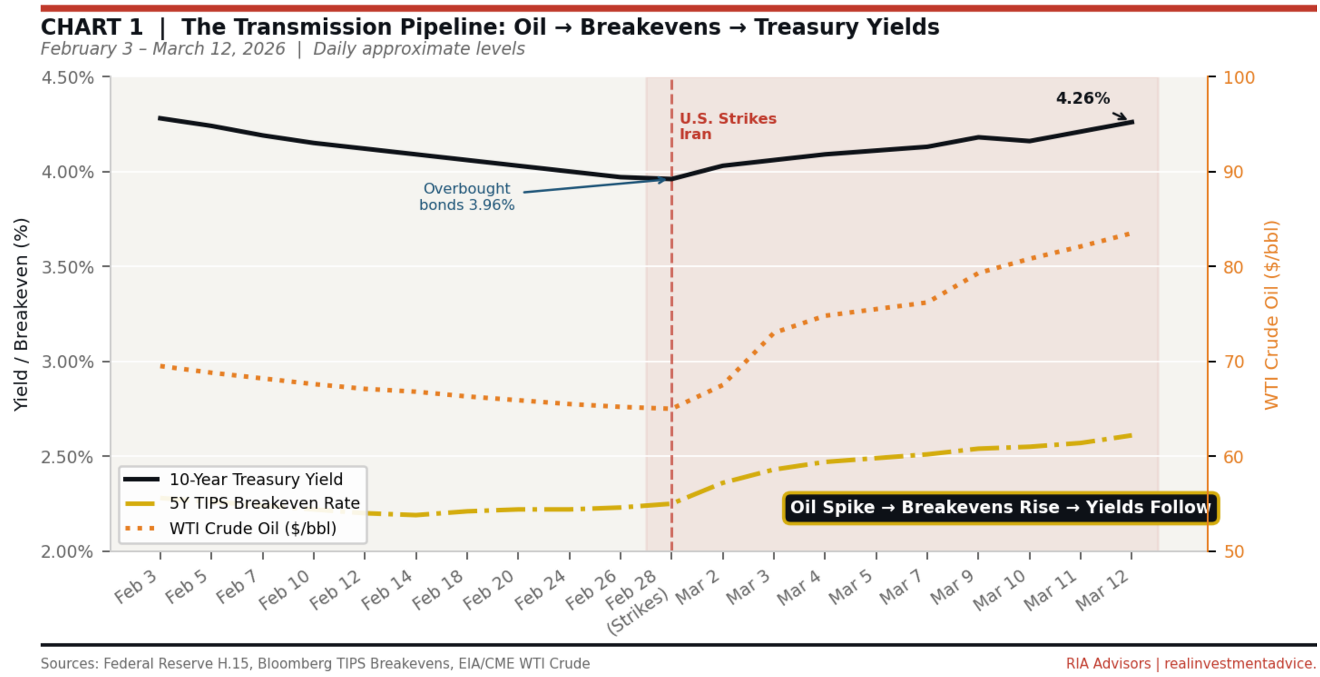
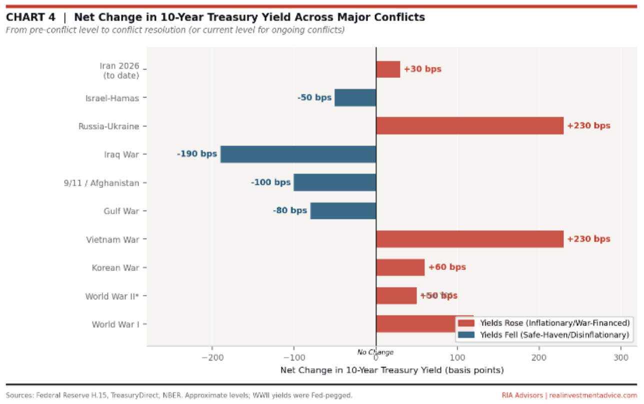
Exhibit 1: Tracking the Path from Barrel Prices to 10-Year Treasury Yields



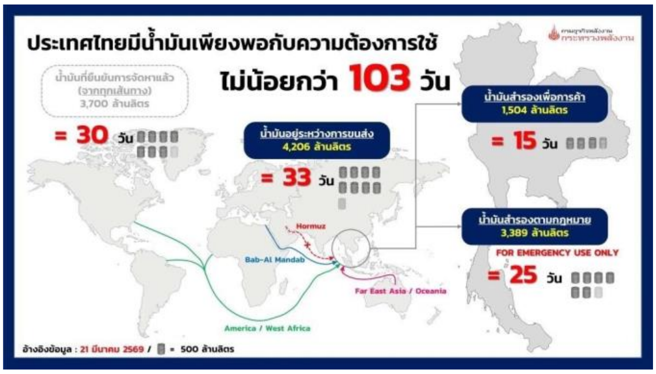
Sources: investing.com

Exhibit 2: 100 Years of Conflict-Driven Market Shifts



Sources: investing.com

Exhibit 3: Thailand's Strategic Oil Reserves and Supply Chains



Sources: Ministry of Energy

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Analyst Certification

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.