Assessing Winners and Losers in the Global Financial Markets if China Invades Taiwan

written by Matt Bohlsen | May 8, 2023

In recent months China has escalated tension over Taiwan. An example of this came last month when CNN reported: “Military exercises suggest China is getting ‘ready to launch a war against Taiwan,’ island’s foreign minister tells.” CNN quotes Taiwan’s Foreign Minister Joseph Wu stating, “They seem to be trying to get ready to launch a war against Taiwan. Look at the military exercises, and also their rhetoric, they seem to be trying to get ready to launch a war against Taiwan.”

Taiwan’s Foreign Minister would be better informed than most and he clearly feels a China invasion is a very real near-term threat.

It should also be noted that President Biden has said that the U.S. would defend Taiwan militarily if China were to attack.

Potential losers if China invades Taiwan

In the short term, most stocks globally would be hit if China invades Taiwan. The biggest loser would likely be Taiwan stocks and the Taiwan currency.

Taiwan’s leading stock Taiwan Semiconductor Manufacturing Company (“TSMC”) (TWSE: 2330 | NYSE: TSM) would be the largest concern for Western investors. If the business was forced to shut down, it could cause havoc globally with the semiconductor industry.

CNBC reported in 2022:

> *"If China were to invade Taiwan, the most-advanced chip factory in the world would be rendered "not operable", TSMC Chair Mark Liu said. … Liu said that if Taiwan were invaded by China, the chipmaker's plant would not be able to operate because it relies on global supply chains."*

TSMC produces approximately 60% of the world's semiconductor foundry market, essentially the chips that are then used by companies in products such as smartphones, PCs, autos, and military hardware.

In 2022 the U.S. passed the Chips and Science Act, to provide billions of dollars in incentives to build semiconductor factories in the USA. The problem is that new USA semiconductor factories take time, expertise, and billions of dollars to establish.

This potentially means an invasion of Taiwan with TSMC inoperable, would lead to severe semiconductor shortages and massive global supply chain upheaval, especially across the electronics, telecommunications, auto, and defense & space sectors.

The good news is that the U.S-China trade war and then Covid-19 led to decisions to decouple supply chains and build up U.S. self-sufficiency, especially in semiconductors. Intel Corporation (NASDAQ: INTC), GlobalFoundries Inc. (NASDAQ: GFS), Samsung Electronics Co. (KOSE: A005930), Texas Instruments Incorporated (NASDAQ: TXN), and TSMC are all building new semiconductor factories in the USA.

TSMC is building a US$12 billion factory in Arizona, USA and

Intel is outlaying US$40 billion on chip facilities in the USA. The CHIPS Act will pump an estimated US$52 billion into new US-based chip fabrication factories. By 2025 the USA will be in a much stronger position.

Companies that rely on semiconductors heavily in their products such as Apple Inc. (NASDAQ: AAPL) would also potentially be badly impacted.

FIGURE 1: The Nimitz Carrier Strike Group with aircraft carriers, like the one below, is operating in the vicinity of Taiwan in the Philippine Sea (April 2023)

Source: istock

Potential winners if China invades Taiwan

Cash should be the safest asset class, ideally in USD currency.

In terms of stocks, the non-Taiwan-based semiconductor foundries such as Samsung Electronics (13% global market share) and GlobalFoundries could benefit.

Military stocks could likely be the clear winners. Some examples would be Lockheed Martin Corporation (NYSE: LMT), Northrop Grumman Corporation (NYSE: NOC), General Dynamics Corporation (NYSE: GD), Raytheon Technologies Corporation (NYSE: RTX), and The Boeing Company (NYSE: BA).

Closing remarks

Generally speaking, a Taiwan-China war would be very negative for most technology stocks. Taiwan, Hong Kong, and China's equity markets would be hit the hardest. U.S. stocks that rely on TSMC's semiconductors would also likely take a hit as would those sectors that rely on semiconductors the most, such as aerospace, automotive, consumer electronics, defense, and telecommunications.

The few winners would likely be those semiconductor companies that can gain market share and achieve higher pricing due to chip shortages. The other obvious winner would be the military stocks. Cash and other safe-haven assets, such as gold and treasury bills, could also be expected to outperform.

We all hope that wars never happen, but it is wiser to be prepared just in case it does.