

# ADVANTAGE POINT

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

## EQUITY OUTLOOK

**Market Outlook:** Neutral  
**Sector Picks:** Index heavy weights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources  
**Technicals:** Support at 6700 followed by 6400, Resistance at 7000 followed by 7400  
**Trading Strategy:** A delay in cutting interest rates, a stronger US dollar, rising oil prices and a potential Israel-Iran conflict led to weakening global equities. This does not bode well for Philippine stocks. We are switching to a neutral stance as we monitor these new developments.

A multitude of macro events buffeted global markets in the past week. Surprise rate cuts and dovishness out of other central banks caused FX trades to speculate that some major central banks will be cutting interest rates ahead of the Fed. Then, several Fed governors followed with hawkish statements, saying that rate cuts will be delayed because inflation is not slowing as fast as expected and growth is still running hot. In fact, Minneapolis Fed President Neel Kashkari even went so far as to saying that he questions whether the Fed should even cut rates this year if inflation is sticky.

These events and statements sent bond yields and the US dollar sharply higher. As a result, equities corrected as investors started to reassess their interest rate expectations. In fact, the implied probability of three Fed rate cuts is no longer 100%. This may have an effect on the BSP's interest rate trajectory as BSP Governor Eli Remolona, Jr. has indicated that they are unlikely to cut ahead of the US Fed.

Israel's strike on an Iranian consulate fanned the flames of war as diplomatic buildings are considered as safe havens in international treaties. Iran has vowed to retaliate "at the same magnitude and harshness... at the time of their choosing". This sent Brent crude prices to \$90/barrel as analysts feared for the worst. So far though, Iran is hesitant to openly declare war with Israel and instead supports Hamas. However, markets have also not discounted a "hot war" between Israel and Iran. This is a major black swan risk that bears watching.

All told, this will put the brakes on the recent stock market rally. We will stay on the sidelines for now as we monitor these new developments.

Philippine Stock Exchange Index (PSEi) 1-year chart



## BOND OUTLOOK

**Market Outlook:** Defensive  
**Trading Strategy:** We move from neutral to more defensive as US economic data continues to show that growth remains strong and inflation is likely to remain sticky. Though core inflation is trending down, it is going down at a slower pace than what the Fed wants. Thus, markets are reassessing their view for a June rate cut. Yields have risen 10bp for the USTs and local bonds have followed suit.

As the Fed has reiterated it will be cautious before they actually move to cut rates, markets are now reassessing the likelihood of a June rate cut. Optimism for a June cut and further cuts this year seem to be rolling back, as we see the 10y UST move higher to 4.38. However, as long as core inflation is trending lower, and economic growth remains underpinned, this should be beneficial for markets for the longer term. For now however we see rates to be defensive as optimism is rolled back on rate cuts.

PHP BVAL Reference Rates – Benchmark Tenors

### PHILIPPINES 10 YEAR GOVERNMENT BOND

BX:LDBMKPH-10Y Simple Moving Average EDIT X



Tenor	BVAL Rate as of April 05, 2024
1M	5.7029
3M	5.7527
6M	5.8942
1Y	6.0057
3Y	6.1573
5Y	6.2554
10Y	6.3313

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