Issue Date: Oct 11, 2016

Vantage point

MARKET OUTLOOK: NEUTRAL
STRATEGY: DEFENSIVE STOCKS AND SECOND LINERS WITH GOOD GROWTH PROSPECTS

Last week, the President made his pivot away from the US a lot clearer by announcing the end of joint military exercises and more business deals with China, spanning weapons, railways and even a possible foray into the telecom industry.

Both the PSEi and Philippine peso continue to suffer. The PSEi has halved its gains for the year and is underperforming Thailand and Indonesia by about 8% YTD. The Philippine peso had its worst monthly performance in 16 years as foreign outflows in September topped PhP 17 billion (excluding URC block sale as partial payment for purchase of Snack Brand Australia).

As a result of the perception of heightened political risk and lack of policy predictability, foreign outflows have intensified, with the peso having its worst month since 2000, falling 4.1% against the US dollar in September. In fact, on a YTD and MTD basis, the peso is the worst performing currency against major and other Asian currencies.

With the US dollar strengthening sharply last week, peso weakness and foreign outflows are likely to persist. Taken together, these may lead to more weakness in stock prices. This can already be seen in the performance of EPHE, the US-listed Philippine ETF, fell by 2% last week and PLDT, which fell 7% over the same period in US trading. On the other hand, the efforts of the President's economic team and the possibility of investments from China may counter these risks. We have raised cash in the past weeks and now remain on hold as we monitor global and domestic events.

Philippine Stock Exchange Index (PSEi) – 1 year chart

Source: Bigcharts.com

TRADING STRATEGY

Controversial statements continue to be issued by the President on a near daily basis. We are still monitoring its impact on the investing environment and remain on hold.

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