Isue Date: Apr 11, 2017 Isue Date: Apr 11, 20

Last week, the PSEi broke past the key resistance level of 7,400 after consolidating for three months. The breakout was confirmed by high volume and strong net foreign buying. The PSEi's technical picture has improved with last week's breakout.

The PSEi is now rallying after lagging major markets (US stocks are near all-time highs) and peers (stock indices for India, Indonesia and Thailand are also at or near all-time highs). However, we note that corrections may be possible at this point, as the index nears the resistance level of 7,700 and our fundamental target of 7,650. We monitor developments concerning the passage of the tax reform package, as this is a potential catalyst that may push the PSEi past technical resistance levels and our fundamental target.

It is also worth mentioning that the peso has strengthened below the 50 mark. This should douse concerns that the peso was going to weaken towards the 51.5-52 level and negate bearish forecasts by major houses. With the latest move, 50 can now be a support level. This can also open the window for a potential recovery back to the 48-49 levels. Moreover, this coincides with the recent pause that we have seen in US dollar strength.

These recent developments are consistent with improving fundamentals globally, as seen in the stronger economic performance of the US, followed by other countries such as Europe, Japan and China.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY

The PSEi recently broke out of its 3-month rectangle consolidation. While the technical picture of the PSEi has improved, we remain watchful of a possible correction as the index nears the 7,700 resistance level. On the other hand, a break of 7,700 to 7,800 may lead to a retest of the all-time high of 8,127. Meantime, we will be focusing on buying selected stocks and on buying opportunistically during pullbacks.

Similarly, the Philippine economy continues to perform well despite negative news flow and political noise. Recently, BSP Governor Amando Tetangco, Jr. was quoted as saying, "There seems to be a decoupling of economic performance and political noise. The economy has continued to perform well."

Notwithstanding the PSEi's recent breakout and the move of the peso below 50, we continue to watch global risks. These include geopolitical risks (Syria, North Korea, French elections, terrorism), the lofty valuations of US stocks which may trigger a sharp correction, a possible slowdown in US economic growth and the unwinding of the Fed's massive balance



t +632 689 8080 e ask@philequity.net w www.philequity.net

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