



Vantage *point*

MARKET OUTLOOK: CAUTIOUSLY
STRATEGY: PROPERTY, FINANCIAL AND CONSUMER
SECTORS, AS WELL AS POTENTIAL M&A PLAYS

The bloodbath intensified last week as the Dow Jones index not only recorded its biggest point drop in history (1,175 points last Monday), but also two 1000-point drops in just week. This was triggered by 9-yr high wage growth and a strong NFP report which led to a selloff in bonds. With the US 10-year yield spiking from 2.6% to 2.85% in short order, fear spilled over into equities, triggering the record drops last week.

This was further exacerbated by the liquidation of volatility-linked instruments such as XIV. With similar ETNs losing 80-100% of their value instant, leveraged funds using these were forced to unwind, or even close down. This further exacerbated the drop in equity prices.

This then lead to a global market selloff which continues until now. Until such time that option spreads are unwinded and volatility-linked products are substantially liquidated, we expect this volatility to continue.

Moreover, 10-year US bond yields remain dangerously close to the 3% level. Reaching that level may trigger yet another correction, which is why the US CPI figure coming out on Wednesday is crucial. If it comes out significantly above forecast, then it will stoke fears of spiking inflation and faster rate hikes - potentially leading to another selloff.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the Dow Jones index experiencing two 1000-point drops last week, we are now squarely in correction territory. Until we have some clarity on the global front, we will remain relatively light. Our healthy cash balance also provides a buffer against the heightened market volatility.



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