Issue Date: February 20, 2018

Vantage point

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

After recordbreaking drops and a spike in volatility, US markets have finally calmed down. As of last week, 2/3 of the drop has already been erased. This should bode well for global equities.

Note that the US market continued to move higher despite above forecast inflation that sent US 10-year bond yields to 2.90%. This upmove despite unwelcome inflation data is an encouraging sign and indicates that the worst may be over.

Back here, the BSP decided not to raise interest rates despite inflation hitting the topend of their range. Moreover, the BSP also cut the reserve requirement of banks by 1% - a positive for banking stocks. Though we have the highest reserve requirement in Asia, this cut runs the risk of stoking already high inflation. Combined with the lack of a rate hike, this will also serve to weaken the peso further.

Note that if the peso depreciates too much, it could eventually become a headwind for stocks. Once 52 is decisively broken, next support lies at 54, then 56. At these levels, we may see a significant impact on inflation, GDP growth and stock prices.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

Global markets have started recovering from the sharp correction at the start of February. This bodes well for the Philippines, so we have started putting cash to work. However, the weak peso continues to be a risk that bears watching.

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