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VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORCASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

The banking saga continues! Over the weekend, Swiss regulators presided over a forced marriage between UBS and Credit Suisse. Though it was Credit Suisse that needed rescuing, it was a bitter pill to swallow for UBS as they would have to assume the liabilities of Credit Suisse and go through a difficult restructuring process. On top of that, fund managers are up in arms as some bonds, which were thought to be more senior than equities, were wiped out even though common shareholders will still receive some residual value for their shares. While it seems most of the bleeding has been stopped, the road ahead is still murky.

US regional banks got a breather as a group of larger banks saved First Republic by infusing $30 billion worth of deposits. This vote of confidence lifted not only the entire financial sector, but broad markets as well. Unfortunately, hopes for a blanket deposit guarantee were doused by Treasury Secretary Janet Yellen when she said that they are not considering it unless it is done with congressional approval. This sent broad markets and regional banks sharply lower on Wednesday night.

At the same time, Fed delivered yet another rate hike. Some economists were already expecting them to remain on hold given the problems faced by regional banks. Still, the Fed pushed through with its tightening despite the financial fractures that are emerging. However, they did lower their terminal rate forecast, which now indicates that only 1 more rate hike is forthcoming. They also seem to be flagging a potential recession when they said "recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation."

Taken together, the level of uncertainty has clearly increased significantly from a month ago. Thus, any increase in equity exposure may have to be done more conservatively and selectively.

Philippine Stock Exchange Index (PSEi) 1-year chart

TRADING STRATEGY

Despite the turmoil in the regional bank and tech startup space, the Fed still raised interest rates by 25 bps. However, it lowered its terminal interest rate target as financial stability is still at risk. With the crisis seemingly contained, we may be buyers if prices are attractive.

BOND OUTLOOK

MARKET OUTLOOK:
CAUTIOUS

TRADING STRATEGY

Cautious but slightly optimistic that rates may seem to be stabilizing, barring another black swan event stemming from another banking crisis.

After the swift collapse of SVB, Credit Suisse and similar crisis hitting regional banks and now even another big name in Deutsche Bank, markets are being cautious especially not knowing how far the problem can go.

However all this uncertainty has found money flowing back into US treasuries as it typically does, fleeing to a save haven. We have seen UST yields fall dramatically, but the swings have been wild, as the yield falls and jumps as big as 20bps a day based on which bank is in trouble and which bank is getting a bail out.

Thus our stance to still be cautious, as moves are now very much newsflow dependent. The previous week saw the Fed raise its key rate by 25bp, all in all a dovish hike. The BSP similarly raised by 25bp and said that further hikes will now be data dependent.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of 24 March 2023
1M	4.7624
3M	4.9666
6M	5.5587
1Y	5.9397
2Y	5.8625
3Y	5.8945
4Y	5.9505
5Y	6.0174
7Y	6.1251
10Y	6.1878
20Y	6.6161
25Y	6.6318