JULY 17, 2023

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: NEUTRAL

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

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

When markets go up on bad news, it is a very bullish signal. Despite the Fed's pronouncements that 2 more rate hikes are likely towards yearend, equities continued to move higher. The spike in bond prices proved to be short-lived as well. Moreover, the dollar collapsed against almost all currencies. This is a boon for emerging markets as FX risk is a significant factor when buying EM assets.

Philippine Stock Exchange Index (PSEi) 1-year chart

Courtesy of a 5-day, 2.8% upmove against the dollar, the peso has also become the best performing Asian currency in the past month. This is likely the main reason behind the PSEi's 3.8% gain this past week. Another positive signal is that foreigners were heavy net buyers. Though liquidity is still way below where it was in 2019, it has improved by more than 50% from May-June levels.

It is interesting to note that in the past weeks, we saw the PSEi total value turnover at just a little over 2 billion - 70% below pre-COVID. This indicates an extreme amount of disinterest in Philippine equities - which may well be a bottoming signal. Combined with a breakdown in the US dollar, we are starting to see the green shoots of a potential recovery in Philippine stocks.

TRADING STRATEGY

Dollar weakness may herald the turn for emerging markets. The peso's recent strength may be the catalyst that our market needs. This may be the time to start increasing equity exposure.

BOND OUTLOOK

MARKET OUTLOOK: **DEFENSIVE**

TRADING STRATEGY

Market has switched back to the view that the Fed may now be close to finished in its rate hiking. Bond yields tumble on the outlook change. Slowly scaling in on the move upwards was the correct call, with 10y local yields eventually topping out around 6.8. Now that yields have come down by 40bps, it may not be good to chase and we wait for levels to stabilize as there are still risks to the upside.

A surprisingly low US CPI figure has the Fed indicating that it may be close to peak rates, though they still did raise rates another 25bp in its meeting last week. However, market believes that this may in fact be the last rate hike before the Fed goes into a prolonged pause and then may start cutting rates in 2024.

10y UST fell from 4.12 to 3.75. In local bonds, a new 15yr bond was auctioned off at 7% to good demand and this proved to be the peak in yields already.

This coincided with the slowing US inflation report. After this we saw yields down about 40-50bp with the 9yr benchmark 1069 touching a low of sub 6.2.

The move was swift and most likely caught the market unaware, with players chasing volumes on the long end. We believe that the move was too quick, and in the last few days have seen levels back up around 10bp on profit taking.

We will wait for levels to stabilize before scaling back in.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of July 17, 2023
1M	5.8986
3M	5.9422
6M	6.0599
1Y	6.1954
2Y	6.2604
3Y	6.266
4Y	6.2578
5Y	6.2473
7Y	6.2688
10Y	6.3508
20Y	6.6801
25Y	6.6665