



# Vantage *point*

**MARKET OUTLOOK: CAUTIOUS STRATEGY: DEFENSIVE STOCKS AND SECOND LINERS WITH GOOD GROWTH PROSPECTS**

Last week, US stocks continued their historic post-election surge as the Dow, S&P 500, Nasdaq and Russell 2000 continued to make new all-time highs. Starting from the spike bottom of the Dow futures in November 8, the Dow has now gone up more than 2,300 points and is close to the 20,000-point milestone. The US stock run-up – which was led by a surge in banking and infra stocks – has now spread to other sectors as well. It is also worth noting that European and Japanese indices have started moving higher, carried by the strong tide in US stocks.

While positive catalysts are lining up for US stocks, it remains to be seen how EM stocks will react over the medium-term. Initially, EM indices suffered after Trump's election win due to continued US dollar strength, fears of trade wars and threats of protectionist policies. Recently, however, EM stocks have managed to stage a recovery and EEM is now up 4.8% from its recent bottom on November 14. The performance of EM stocks and currencies will have to be monitored closely, as this will signal how the PSEi and the peso will perform.

The FOMC meeting is scheduled this week (December 13-14). It will be important to watch how the US dollar reacts to the widely expected interest rate hike. A 'sell on news' on the US dollar may give EM stocks a well-needed respite from the strong US dollar, which is trading at multi-year highs. However, EM currencies, including the Philippine peso, may continue to encounter selling pressures if US dollar strength resumes after the Fed meeting.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

## TRADING STRATEGY



We maintain our defensive stance as uncertainty still abounds.



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