Tax reform, infra spending to boost stock market

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Fund management firm Philequity Management Inc. sees the Philippine Stock Exchange index “fairly valued” at 7,650 but the local stock barometer can rally way past this level if the government could swiftly implement tax reforms and big-ticket infrastructure spending.

In a briefing on Saturday, Philequity vice president for business development Miguel Agarao said the stock market was currently at the crossroads, bouncing from the lows but not quite at the highs.

Policy measures here and overseas, and the economy’s growth arising from these, will determine where the stock market will go, Agarao said.

Philequity’s fair valuation of 7,650 for the PSEi is based on its target prices for individual stocks, which assumed an average earnings growth of 7.9 percent. In 2016, the PSEi ended at 6,840.64, slipping for the second straight year.

This outlook also assumes that investors will pay 18.6 times the kind of money they expect to make this year. Price to earnings (P/E) ratio in the last six years was between 16 and 22 times.

Agarao said the local market was trading at the low end of the range, adding that catalysts would be needed for the PSEi to move higher.

“The passage of tax reform, along with the swift and proper implementation of fiscal stimulus and infrastructure spending, may cause the PSEi to go above our target,” Agarao said.

Under the current environment, Philequity favors the consumer and infrastructure sectors, saying that these sectors are the most insulated from uncertainty and would benefit from fiscal stimulus.
Philequity favors the consumer sector, given that the domestic economy is 70-percent consumption-driven, and infrastructure, given the administration’s thrust to jack up infrastructure spending.

Agarao said there was less uncertainty in the global financial market but added that the uncertainty was still there. Investors must closely watch if the US stock market would siphon off the fund flows from emerging markets.

Overall, he said the global economy was moving from “deflation” to “reflation,” which was good in a sense that this suggested that growth was back on track. — ***DORIS DUMLAO-ABADILLA***

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