



Vantage *point*

MARKET OUTLOOK: BULLISH
STRATEGY: SELECTIVE BUYING ON PROPERTY, FINANCIALS AND POTENTIAL M&A PLAYS

Last week, the tax reform bill was passed in the US Senate. This allowed US stocks to overcome the sharp intraday drop caused by news on former security advisor Michael Flynn's guilty plea. The Dow advanced 673 points last week, one of its biggest weekly points gain in recent memory. It also posted a return of 2.9%, its best weekly performance for the year.

Similarly, our own version of tax reform was passed in the Philippine Senate. However, instead of moving in tandem with the Dow, the PSEi corrected and dropped 2.6% last week. The PSEi's correction was caused by the following factors: 1) MSCI rebalancing; 2) Confusion regarding the actual revenue contribution of the Senate tax bill; 3) Heightened regulatory risk due to higher coal and mining taxes; and 4) Shift of fund flows from EM countries to the US.

The next step for tax reform is the deliberation of the bicameral committee. Markets will watch closely if the final version will be more aligned with the DoF version of the tax package and will meet required revenue thresholds. A timely passage of a tax package which can deliver proposed revenue thresholds will be a major catalyst to our economy and the stock market.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Despite the passage of tax reform in the Senate last week, the PSEi sustained its correction and is now trading near support levels. We continue to focus on buying stocks which posted strong earnings in 3Q17 as they approach support levels while reducing exposure in companies which underperformed in 3Q17.

