



Vantage *point*

MARKET OUTLOOK: CAUTIOUSLY BULLISH
STRATEGY: PROPERTY, FINANCIAL AND CONSUMER
SECTORS, AS WELL AS POTENTIAL M&A PLAYS

After breaking records 2 weeks ago, the PSEi entered into a correction. However, after the Dow Jones index's 666 point drop last Friday, this correction has now turned into a global bloodbath. In fact, as of this writing, the PSEi has practically lost all of its gains for the year.

The trigger behind this correction was the sharp rise in bond yields. In just 2 weeks, the benchmark US 10-year bond yield gained 25 basis points. This selloff in bonds then spread to equities, turning their steep run-ups into equally sharp corrections. Because the drop in stock prices was so sharp, many chart points were broken, with technicals indicating that the uptrend is due for a pause or reversal.

Even worse for the PSEi, if we look at the YTD return in dollar terms, we are already down more than 3% as the Philippine peso is down 3.2% YTD against the US dollar. This peso weakness is quite stark because practically every other currency has taken advantage of US dollar weakness.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The correction has turned into a bloodbath as US markets fell sharply last week. The healthy cash level has provided a buffer against this correction. Moving forward, we will be increasing equity exposure as stocks hit strong support levels.



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