



Vantage *point*

**MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS**

It looks like the PSEi's respite turned out to be short-lived. All the gains from the S&P outlook upgrade were practically wiped out in Thursday's 2.6% drop. This move dragged our market down to a one-year low.

The main culprit would be the strong US dollar. This caused a selloff across all emerging market assets. Particularly hard hit were countries that were deemed to have large current account deficits, namely Indonesia and the Philippines. Domestically, high inflation figures (4.5% - above BSP's target range) dampened sentiment for Philippine stocks.

Excluding the block sale of HOUSE last week, foreign outflows amounted to PhP 2.8 billion. Note that since the start of February, only 5 trading days had net foreign inflows. With foreign funds accounting for 50% of trading volume, it will be hard for the stock market to find its footing if foreign selling continues unabated.

On the currency side, the S&P outlook upgrade, expectations of a rate hike on May 10 have caused the peso to strengthen. Note that our market remains weak despite the peso's relative strength versus other currencies in the past 2 weeks. However, the drop in equities might have been worse if the BSP had not signaled the possibility of a rate hike on Thursday.

Corporate earnings have also been mixed. Though some companies reported good earnings (ex. GLO), the banking industry has not fared as well.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With both the US dollar spiking, emerging markets (including the Philippines) were sold down. With 1Q18 earnings coming trickling in, we will stay on the sidelines for now.



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