



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: DEFENSIVE STOCKS

On July 6, 12:00AM, US Eastern Time, the global trade war has finally begun. After the US let \$34 billion in China-specific tariffs come into effect, China retaliated with equivalent tariffs one minute after.

Fortunately, it seems that this was already baked into stock prices as markets ended the day strongly last Friday. However, a 2nd set of tariffs is also set to come into effect 2 weeks from now. Thus, there is still a very high degree of uncertainty in global markets. Combined with strong US growth, this will only drive more money out of emerging markets and into US assets.

Foreign outflows have started abating for Philippine stocks, but last week's 5.2% inflation figure has resulted in more foreign selling again. It is crucial that the government is able to put inflation in check as this affects both sentiment in Philippine assets and actual economic growth. Negative sentiment for Philippine assets was made quite obvious by the recent DM Wenceslao IPO which never went green and was down as much as 24% from its IPO price. With the weak peso and crude oil prices still stubbornly high, more measures and stronger language may be required to reverse the negative sentiment and foreign outflows.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



With the global trade war finally commencing last Friday, we were pleasantly surprised by the positive market moves. However, this is just the first salvo and much uncertainty remains. We remain cautious, especially given inflation data that blew past forecasts.



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