



Vantage *point*

MARKET OUTLOOK: CAUTIOUS STRATEGY: OVERWEIGHT PROPERTY, BANKING AND SELECT CONSUMER STOCKS

The Fed's rate hike last week was no surprise to the markets. What was not expected was the Fed's hawkish language despite softening economic data. Fed Chairman Powell's stance that Fed balance sheet reduction will continue as normal and his forecast of 2 rate hikes next year rattled investors. Already faced with growth concerns in 2019, they fear that the Fed's policy trajectory might weaken growth too much.

Pundits have criticized Powell, saying he is "tone deaf" and "data indifferent". Even Trump tweeted that "the only problem of the economy is the Fed". Markets believe that Powell is likely making a policy mistake - a big negative for stocks. The US yield curve also bears watching as the 1-yr yield is now greater than the 5-yr yield.

The US is breaking records to the downside in December. The US had its worst Christmas Eve performance on record, worst week since October 2008 and is on track to have its worst December since the Great Depression in 1931. This dragged down global markets, especially Japan, which dropped 5% on Christmas Day. Fortunately, the PSEi is holding up despite weakness abroad and foreign selling. Given the high degree of uncertainty, we will maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The Fed's hawkish language roiled markets last week. Along with growth concerns, this heightened uncertainty resulted in the worst Christmas Eve drop in US history. However, we note the Philippines' relative resilience. We remain on hold as we monitor events abroad.

