Issue Date: March 26, 2019

Vantage point

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

Last week, the Fed Chairman Jerome Powell surprised markets with the Fed's decision to not raise rates for the rest of 2019. This pivot from hawk to dove was initially greeted by the market with optimism. However, this further reinforces the notion that global economic growth is slowing down significantly.

Unfortunately, last Friday, the US Treasury 3-month yield exceed the 5-year yield. This inversion of the yield curve was last seen in 2007 prior to the, 2008 US Financial Crisis. This is a widely watched recession signal, hence the shift in sentiment last Friday. US equities sold off, with the Dow Jones index shedding 460 points as long term bond yields dropped.

This also overshadowed the upcoming trade talks between the US and China on Thursday as they attempt to iron out details on a potential trade deal. While this is one catalyst that can help boost sentiment, a lot of hope for successful trade talks seems to be priced in by the markets.

Domestically, the BSP's decision not to cut RRR or benchmark rates helped the peso find some footing. On the equity side, we expect the PSEi to follow moves in the US. With global growth fears now taking centerstage because the US yield curve finally inverted, we will be very cautious and defensive moving forward.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

The inversion of the US yield curve offset Fed dovishness last week, causing a sharp correction in US stocks last Friday. We expect global markets to follow suit. We are maintaining a relatively high cash level for the time being.

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