Issue Date: May 14, 2019

Vantage point

MARKET OUTLOOK: CAUTIOUS
STRATEGY: PROPERTY AND SELECT CONSUMER STOCKS

Inflation continued its downward trend, with the April figure coming in at 3%. This prompted the BSP to lower its inflation forecast for 2019 to 2.9%. However, we note that oil prices have moved higher this year, which provides upside risk to inflation.

Following the good inflation figure, we had a bad GDP growth print. 1Q19 GDP growth of 5.6% was significantly below expectations of 6% as the trade deficit expanded and government spending slowed down. This caused Philippine stocks to correct as growth concerns came to fore.

In response, the BSP cut the benchmark rate by 0.25% to 4.50%. While this is good for equities because of its positive impact on economic growth, it may not be good for the Philippine peso. If the peso depreciates too much, it may eventually drag equity prices as well.

All of these market moving events were overshadowed by the breakdown in US-China trade negotiations. After hitting 8000, the PSEi fell 300 points last week, while the Philippine peso depreciated by 0.7% against the dollar.

Starting 12:01AM US Eastern Time on Friday, all planes and ships coming out of China and carrying products to the US will see their cargo taxed at 25%. Trump said that all of China's other imports will have 25% tariffs applied to them shortly. China has vowed to launch countermeasures against this.

An escalation in the trade war is a big negative for equities, which warrants a cautious stance. Combined with MSCI rebalancing next week, we may see significant foreign outflows. We are maintaining a high cash level as we monitor trade developments and as we await the MSCI announcement.

Philippine Stock Exchange Index (PSEi) – 1 year chart

TRADING STRATEGY

We had mixed data coming out of the Philippines. While the inflation figure was good, it was followed by below forecast GDP. In response, the BSP cut the benchmark rate. While these factors should have moved the market, they were overshadowed by the breakdown in US-China trade negotiations. As such, we maintain our cautious stance and remain on hold.

PhilEquity
t +632 250 8700 e ask@philequity.net w www.philequity.net