



Vantage *point*

**MARKET OUTLOOK: CAUTIOUS
STRATEGY: PROPERTY AND SELECT CONSUMER
STOCKS**

With the US-China trade war taking centerstage, equity markets were driven primarily by developments regarding negotiations. Between Trump's contrasting and contradictory tweets and China's more nationalistic rhetoric, markets have alternated between vicious down moves and sharp rallies.

Unfortunately, at the end of last week, there was news that talks between the US and China has stalled. This comes on the back of the US putting Huawei on its Entity List, essentially preventing US companies from entering into business with Huawei. Considered to be a shot acrossed the bow, China has since refused to engage in talks. Further escalation of the trade war may cause economists and multilateral institutions to downgrade their global growth estimates - a negative for equity prices.

Domestically, our market was boosted by the RRR cuts of the BSP, However, this was short-lived as trade fears dragged equity prices lower. We note that the BSP's recent dovishness has caused the peso to depreciate. This bears watching as significant peso weakness may weigh on Philippine asset prices, like in 2018.

Regarding flows, foreign buying has now reversed into foreign selling, with May seeing PHP 9 billion in outflows so far. We are seeing the same trend of foreign outflows in the emerging markets complex, especially in Asia. This is also due to MSCI rebalancing which takes effect towards the end of May. Combined with trade concerns and a weakening peso, it seems like headwinds outnumber tailwinds at this point in time. Thus, we are maintaining a high cash level as we monitor the trade war.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



US-China trade negotiations took a turn for the worse as there are reports that talks have stalled. We expect this to weigh on global growth expectations and asset prices moving forward. This coincides with MSCI rebalancing which has led to substantial foreign outflows. This merits a very cautious stance.



+632 250 8700

ask@philequity.net

www.philequity.net

Disclaimer: The information contained herein is the property of Philequity Management Inc. and may not be copied or distributed without the prior consent of Philequity Management, Inc. The information and views expressed herein is not warranted to be accurate, complete or timely and may change without prior notice. Neither Philequity nor its content provider is responsible for any damages and losses arising from any use of this information. Past performance is not a guarantee of future results. Investments in mutual funds are not guaranteed by the Philippine Deposit Insurance Corporation. Investing in mutual funds involves risk and possible losses of principal. Consult a professional before investing. For inquiries, please contact Philequity Management, Inc.