



# Vantage *point*

**MARKET OUTLOOK: CAUTIOUS  
STRATEGY: PROPERTY AND BANKING STOCKS**

The US-China trade war shows no signs of quieting down as the US continue to target Huawei, making it harder for the company to do business. Google is set to suspend its relationship with Huawei after 90 days, while many semiconductor manufacturers have ceased to supply Huawei. As expected, China maintained its stance that there will be no negotiations until the US "corrects its wrong actions". Over state media, nationalist rhetoric was ratcheted up, with overt threats such as the suspension of rare earth mineral exports and the boycott of some US products, such as Apple iPhones.

The situation now is a far cry from 3 weeks ago, when markets were positioned for a trade deal. Now, investors are coming to realize that this trade war may last longer than initially anticipated. This does not bode well for economic growth forecasts and equity valuations. On the other hand, bonds have done quite well recently as investors sought out a safe haven.

As for the Philippines, the widening budget surplus in the first 4 months of 2019 was a boon for the peso. While it is evidence of slower GDP growth in 1H19, it soothes fiscal deficit concerns, at least in the short term. Strong bond inflows have also lent strength to our currency. We have to keep a close watch on the dollar, which strengthened in the past weeks, as well as the Chinese yuan. If the yuan weakens too much, it may drag down other Asian currencies such as the Philippine peso, as well as signal that the trade war may be getting worse.

However, the PSEi has experienced its 15th straight day of net foreign outflows. With MSCI rebalancing, we expect this foreign selling to continue in the coming days. This will put a ceiling on stock prices. With the trade war continuing to worsen, we are maintaining a very high cash level, which we will deploy when the opportunity presents itself.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



The US-China trade war continues to escalate. The US is making it harder for Huawei to do business while China has ratcheted up its nationalistic rhetoric. With MSCI rebalancing happening this week, we expect markets to remain weak. Cash levels remain high in order to take advantage of sharp drops.



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