

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF



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MARKET OUTLOOK: CAUTIOUS

STRATEGY: OVERWEIGHT SELECT PROPERTY AND BANKING STOCKS

TECHNICALS: SUPPORT AT 7500 FOLLOWED BY 7200, RESISTANCE AT 8200

Last week, the Fed delivered the 25 bps rate cut that investors were expecting. According to Fed Chairman Jerome Powell, he is not ruling out further rate cuts after this "mid-cycle adjustment". That said, markets got confused by his seemingly hawkish answers during the press conference, so we saw a classic "buy the rumor, sell the fact" move on the day of the announcement.

Stocks tried to recover the day after, but were blindsided by Trump's tweet imposing 10% tariffs on the rest of China's exports to the US starting on September 1. With Trump reigniting the trade war, stocks sold off and bonds soared. As a result, the S&P 500 had its worst weekly performance for the year.

Another sign of a worsening trade war is the move of the yuan yesterday. The line in the sand of 7 was broken as the currency weakened by 1.3% against the dollar yesterday. The yuan has not broken this level in 11 years, so it has significant technical implications. In the PBoC's own words, this is due to "tariff expectations and trade protectionism." This trade war may well transform into a currency war, which will be a negative for risk assets. We highlighted that this major move of the yuan is a significant risk that bears watching. Now that it has happened, markets have reacted as expected. The Topix fell 1.8%, HangSeng -2.9%, Kosdaq -7.5%, and Singapore - 2%.

The depreciation of the yuan will also drag down Asian currencies, which were heavily battered yesterday, such as the Korean won. For example, the peso weakened by nearly 2% in the past 3 days, reversing its recent strength. Further weakness, especially if it drops at a quick pace, will weigh on all Philippine assets.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The Fed's telegraphed rate cut was overshadowed by Trump's tweet imposing new tariffs on the rest of China's imports. The yuan's weakening beyond 7 yesterday does not bode well for stocks and Asian currencies. With the global macroeconomic backdrop taking a turn for the worse, we are maintaining our high cash levels.