

# Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

**MARKET OUTLOOK:** NEUTRAL

**SECTORS:** BANKING STOCKS, SELECT PROPERTY STOCKS

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

After weeks of conflicting news, the US and China have finally agreed to a Phase One deal. Though the legal text is still being crafted, Trump has signed off on it and both sides expect the deal to be signed in early January. Though many things can still happen before the ink dries, markets still heaved a sigh of relief as no new tariffs are forthcoming. Moreover, there's a partial rollback on 15% tariffs down to 7.5%, effective 30 days after the agreement is signed. The initial 25% tariffs are not touched.

With Trump telegraphing the deal on Thursday through Twitter, markets rose ahead of the actual news on Friday. All eyes are now on the negotiators as they craft the legal text of the Phase One deal. Meetings regarding Phase Two will also start shortly after the Phase One deal is signed.

Another dark cloud that was removed was the possibility of a disorderly Brexit. With UK PM Boris Johnson gaining a clear majority, negotiations can start in earnest. This was another positive for global equities, especially in Europe.

Unfortunately, the Philippines continues to underperform as regulatory risk took centerstage. MWC is down more than 50% since negative headlines came out, while holding companies such as AC, DMC and MPI are down anywhere between 10% and 60% over the same timeframe. Other stocks that are highly regulated are getting sold off as well, such as MER and TEL.

With 7.5% of the PSEi affected by concerns of water concessionaires and another 5% in highly regulated sector, the PSEi is left unable to break the crucial 8000 level. Strength in our Asian neighbors is not spilling over to us, nor is the peso's appreciation lifting the stock market. It remains to be seen how government action against MWC and Maynilad will evolve over the coming months, but this is something that bears watching as it has a significant impact on the Philippine stock market.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



With Trump signing off on a Phase One trade deal, the worst case scenario of escalating tariffs has been averted. This should stabilize global stocks. However, regulatory risk has taken centerstage. We lightened on stocks which are exposed to recent news or are highly regulated.

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