

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT SELECT BANKING AND PROPERTY STOCKS

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

Over the weekend, Taal volcano's alert level was lowered to Level 3 as Phivolcs lowered the probability of an eruption in the near term. Though fears of an eruption linger, this should at least lessen tensions caused by Taal's rumbling.

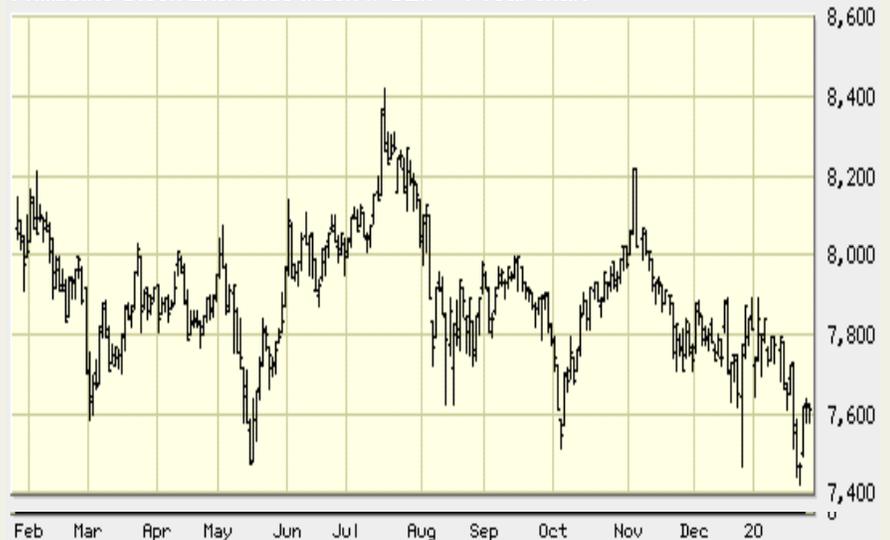
Last week, the Philippines also reported above forecast 4Q19 GDP of 6.4%. Though full year GDP came in at 6.9%, below the government's target, the sharp rebound in government spending in 4Q19 bodes well for infra spending and GDP growth for 2020. Note that the PhP 4.1 trillion national budget was passed without veto. Thus, GDP growth this year is likely to be above 6%.

Unfortunately, it looks like a new global risk is emerging - the 2019 Wuhan coronavirus. Though nearly all the victims are in China, many parts of the world have started reporting cases of the virus. Moreover, there are on record 2700 cases in China, with 80 deaths. This brought back memories of SARS and is already having an impact on stocks related to tourism, travel and gaming.

On the bright side, initial reports indicate that the Wuhan virus is less fatal than SARS or MERS. Moreover, China acted faster and was more transparent this time around. Though the virus is still not under control, better preparation and a swifter response could hopefully lead to a faster resolution to this epidemic.

Looking back at history, US markets bottomed 2 months after the first media report on SARS, while it took HK equities 3 months to bottom. Over that time period, the S&P 500 and Hang Seng index fell 11% and 13% respectively. Both markets were up 23% and 15% respectively from their lows by the time the WHO declared that the SARS epidemic had peaked. Thus, the right time to buy may come a few weeks or months from now.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



A new risk to markets has emerged with the Wuhan coronavirus epidemic. With global equities selling off, we do not expect the Philippine stock market to be immune from the correction. However, we need to exercise patience because it may take time before the right price level to buy is reached.