

# Vantage Point

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

## MARKET OUTLOOK: CAUTIOUS

**SECTORS:** OVERWEIGHT TELCOS AND SELECT PROPERTY STOCKS

**TECHNICALS:** SUPPORT AT 7200 FOLLOWED BY 6800, RESISTANCE AT 7500 FOLLOWED BY 8200

As of this writing, the Wuhan virus has infected more than 42,000 people, mostly in China. The death toll already stands at 1,018, exceeding the total death toll for the 2002-2003 SARS epidemic. Concerns over the economic impact of the Wuhan virus on tourism, gaming, manufacturing and other sectors roiled markets in the past weeks.

Fortunately, it seems that the WHO's global alert on January 30 put a stop to the plunge of equity markets. Historically, markets tend to bottom around the time that the WHO issues a global alert. From its lows, the PSEi has gained 5% as of last Friday.

Moreover, central banks are cognizant of the risks posed by the Wuhan virus, with many of them taking preemptive action to head off the potential economic impact. In deciding to cut interest rates to 3.75% last week, BSP Governor Ben Diokno said that it is better "to act sooner rather than later" and make a "preemptive cut". This was viewed positively by markets.

On another positive note, it seems that the rate of infection of the Wuhan virus is slowing down. The WHO says this is an "encouraging development", though they added that we "should not read so much into the data because epidemic curves tend to zig zag." If this trend continues, it should cause markets to exit this corrective phase.

In a bid to shore up its economy, China also decided to halve tariffs on \$75 billion worth of US imports. This is yet another indication that the trade war is on a path of de-escalation.

During the sharp correction, the PSEi was already trading below 10-year average valuations. We will continue to use dips as an opportunity buy. Hopefully, the worst of this epidemic is over.

Philippine Stock Exchange Index (PSEi) – 1 year chart



## TRADING STRATEGY



With the rate of new Wuhan virus infections slowing down and central banks reacting to the epidemic, markets were able to find their footing last week. We continue to be buyers on dips as we expect equities to be in for a rough ride as market direction will be determined by the increase or decline in the Wuhan virus infection rate.