

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTORS: OVERWEIGHT STOCKS WITH SIGNIFICANT SHARE BUYBACK OR CATALYSTS

TECHNICALS: SUPPORT AT 4800 FOLLOWED BY 4800, RESISTANCE AT 5700 FOLLOWED BY 6000

Relief rallies proved to be just that as stocks succumbed to yet another wave of selling. Practically all major markets are in bear market territory, with many equity indices experiencing their worst weekly drops since the 2008 Financial Crisis.

Among the worst hit is the PSEi, which is down 40% YTD and is at levels not seen since early 2012. Shortened trading hours did nothing to alleviate the selling as foreign funds continue to unload Philippine stocks. With the community quarantine on its 10th day, we expect a significant impact on our country's GDP growth as the economy has essentially ground to a halt. Moreover, the arrival of more testing kits will likely result in a spike in confirmed cases, which may further add to the climate of fear and uncertainty.

With the US and UK also starting to enforce lockdowns, we may see a sharp drop in 2Q20 global GDP growth. Some analysts estimate that the US economy will contract as much as 30% in 2Q. However, no one really knows how long this epidemic will last or how significant its impact will be on the economy. It is precisely this uncertainty that is dragging markets down. On top of that, this crisis is not only financial in nature as the risk of death hangs over the heads of vulnerable portions of the population. The potential human toll is another unquantifiable that will continue to hound investors until COVID-19 is finally contained.

So far, interest rate cuts have failed to reverse the tide of negative sentiment. What markets are clamoring for now is fiscal stimulus that will directly target consumers and affected businesses. Some countries have already passed their own stimulus measures. Then you have countries such as the US which, as of this writing, has failed to pass a potential \$2 trillion stimulus as Congress remains deadlocked on its details. Domestically, the President has declared a national emergency and is also asking Congress for emergency powers in order to combat the COVID-19 epidemic.

With the world facing its worst epidemic since the 1918 Spanish flu, we are faced with a health emergency that also created an economic emergency. While we believe that the COVID-19 epidemic will eventually be contained, we will exercise caution until it becomes clear that the epidemic is starting to die down.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



The economic impact of lockdowns in the Philippines and other countries, as well as news of rising cases in major economies, continue to hammer equity markets. With vaccines at least a year away, uncertainty over the duration and severity of the COVID-19 epidemic remain. We are on hold as we monitor news surrounding COVID-19.