

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: TELCOS, STOCKS WITH SIGNIFICANT SHARE BUYBACKS OR CATALYSTS

TECHNICALS: SUPPORT AT 5400 FOLLOWED BY 4800, RESISTANCE AT 5700 FOLLOWED BY 6000

After staging a recovery rally in the past 6 weeks, markets are now starting to consolidate as investors monitor the gradual reopening of economies. All eyes will be on the COVID-19 epidemic curve as fears of a 2nd wave remain high.

Domestically, the government is also relaxing lockdowns as the economy reels from a total shutdown. It is very likely that the Philippines will be posting negative full year 2020 GDP growth. To help boost growth, the government is launching an adaptive recovery program (PH-PROGRESO) and a revamped tax reform bill (CREATE). Notable provisions include an immediate 5% cut to corporate income tax rates, extension of NOLCO period and a 4 to 9 year sunset provision for the economic incentives that are currently being enjoyed by certain companies. This seems to be not only more acceptable to the business community, but also has an immediate impact on corporates earnings.

However, our stock market does not seem to be responding to this. Foreign selling continues unabated and we have fallen 8% from our recent highs. Although earnings are expected to be poor, below forecast 1Q20 earnings from certain companies dragged down the index. Note that only 2 weeks of the lockdown occurred in 1Q20. The Philippines' low rankings in its handling of the COVID-19 pandemic are also dampening sentiment.

With lockdowns shifting from ECQ to modified ECQ or GCQ, we will be closely watching for any resurgence in cases. If there is a 2nd wave or if the 1st wave is uncontained, the government said that they will implement another hard lockdown. If that happens, expect a very significant impact on corporate earnings and GDP growth. Consequently, expect stock prices to take a hit as well. Thus, we remain cautious and we maintain the portfolio's defensive tilt.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



Global markets are meandering as investors monitor the gradual reopening of economies. Unfortunately, the PSEi's weak performance continues due to COVID containment concerns and below forecast earnings. We remain cautious and defensive.