

Vantage Point

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

MARKET OUTLOOK: NEUTRAL

SECTOR PICKS: RECOVERY PLAYS, COMPANIES WITH RESILIENT EARNINGS AND TELCOS

TECHNICALS: SUPPORT AT 6000 FOLLOWED BY 5700, RESISTANCE AT 6500 FOLLOWED BY 6800

The PSEi continues its consolidation above the 6000 level. Note that despite the rising number of cases domestically and in some countries (such as the US and Brazil), equity markets have been remarkably resilient. Previously, news such as the US seeing the highest daily number of infections since the start of May would have triggered a correction in global stocks, affecting the PSEi as well. This time, markets are just taking a pause.

One of the reasons behind this is the gradual reopening of economies and the lower likelihood of draconian lockdowns. Another important reason is the aggressive intervention of the Fed and other central banks. Last week, Fed Chairman Jerome Powell moved away from the purchase of bond ETFs and focus more on directly buying corporate loans. This not only prevents the credit market from freezing, but also stimulates economic activity directly.

However, we cannot be complacent regarding a potential resurgence of COVID-19. With excitement over a vaccine dying down as investors got a reality check on how long it actually takes to produce one, a uncontained 2nd wave or uncontrollable 1st wave of the virus may have a significant human and economic toll. If it does, then a sharp correction is a possibility.

That said, we believe that the PSEi bottomed last March 19. Though the path to recovery may be volatile, it seems that the worst is over. Long term investors may use dips as opportunities to reenter the market or increase their equity exposure.

Philippine Stock Exchange Index (PSEi) – 1 year chart



TRADING STRATEGY



After a sharp correction in global stocks 2 weeks ago, markets are now in consolidation mode. So far, rising cases in some countries, such as the US and Brazil, have not created the same degree of alarm as we saw in the initial wave of COVID-19. With central banks and governments more prepared for the pandemic now than they were at the start of the year, corrections may be an opportunity to buy.