

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 market correction proved to be short-lived as investors ignored rising cases and focused instead on the future. Concerns over anti-China rhetoric, US elections and dismal 2Q20 earnings were likewise set aside.

We note that the Chinese market performed very strongly yesterday. The Shanghai Composite gained 5% as government-controlled media said that "fostering a healthy stock market... is important for the economy." Sustained strength in Chinese stocks should lift all emerging markets, including the Philippines.

The US was also up last night despite record daily cases over the weekend. It remains to be seen how far this optimism can go, but so far, price action indicates that investors are not as concerned about COVID-19 as they were in 1Q20.

Recent dollar weakness has also benefitted the peso, which continues to appreciate despite net foreign selling for equities and the BSP's surprise 50-bps cut. According to technical analysis, once 49.30 is broken, the next target for the peso is 48.50. History shows that sustained peso strength will eventually lift the stock market.

Though incoming economic figures and corporate earnings for 2Q may prove to be quite weak, these are backward-looking figures. Though it is hard to predict what will happen over the short term, an investor with a long-term time horizon will be rewarded once the COVID-19 pandemic is over and a multi-year global economic growth expansion begins.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Investors seem to be shrugging off rising cases in some countries. Thus, the correction proved to be short-lived. We expect strength in China and global markets to lift the Philippines, so we significantly increased equity exposure in the past week.