

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

As we noted previously, investors seem to be less sensitive to rising COVID-19 cases now than they were in March and April. While more infections may cap the market's upside, investors are betting on the development of a vaccine or cure, with cyclicals and recovery plays outperforming last week. Positive news on that front will drive markets higher, as was the case last Friday when Gilead reported that its drug remdesivir reduced the death rate for severely ill patients.

Chinese stocks also continue to move higher as the government emphasized the need for "a healthy stock market". This should help lift all emerging markets, including the Philippines.

The Philippine peso's decisive break of 50 also points to further strength. If 49.20 is broken, technical analysis indicates that the next target is 48. Historically, a strong peso usually leads to higher stock prices. Unfortunately, that has not been the case this year as foreign funds remain to be net sellers of equities.

With 2Q corporate earnings and economic data set to be reported in the coming weeks, we will be closely monitoring forward guidance, QoQ trends and the market's reaction to the news. Since markets tend to be forward-looking, it is possible that negative data will be shrugged off. While volatility will remain high, we believe that a bottom has been reached last March, so we recommend buying on dips to take advantage of the sharp price swings.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Rising COVID-19 cases here and abroad are not having the same impact as they used to. Positive news on remdesivir also buoyed global markets higher last Friday. Dips may be used to increase equity exposure.