

# Vantage Point

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

**MARKET OUTLOOK:** CAUTIOUS

**SECTOR PICKS:** TELCOS, UTILITIES, DEFENSIVE SECTORS

**TECHNICALS:** SUPPORT AT 5700 FOLLOWED BY 5000, RESISTANCE AT 6500 FOLLOWED BY 6800

With the medical sector clamoring for a lockdown as hospitals reach full capacity, the President finally heeded their call. With the number of cases in our country exceeding 100,000, government has declared a return to MECQ for NCR and some provinces. While this is a negative for the economy, this may be what is needed to give our overburdened hospital system some breathing space.

As we have flagged in previous reports, renewed lockdowns will trigger a sharp correction for Philippine stocks. However, this bitter pill for the economy and stock markets may be what we need to stop the spread of COVID-19. We expect defensives to outperform cyclicals as consumer spending and investor sentiment take a hit. The dichotomy between companies which thrive in this environment and those which do not will become even more obvious.

The next question is whether this lockdown will be extended. We are not sure if 2 weeks is enough time to see a drop in cases since there is a lag time between lockdowns and a change in R0. A longer lockdown may also lead to a longer period of underperformance for the PSEi.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With NCR and some provinces being returned to MECQ, expect stocks to fall sharply. Cyclicals, such as property and banks, are likely to underperform until we are able to put COVID-19 under control. We will be using this pullback to increase exposure to defensive names.