

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: TELCOS, LOW VALUATION STOCKS WITH STRONG EARNINGS GROWTH POTENTIALS FOR 2021

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

After notching their best August in more than 3 decades, US equity indices suffered a massive correction last week, with tech leaders falling the most. The steep drop in market leaders dragged down global stocks, although to a lesser extent.

It is also important to note that even though the broad market was down, cyclical and recovery plays outperformed tech and defensive stocks. If this shift continues, it should bode well for battered stock markets like the Philippines.

Domestically, inflation remains benign at 2.4% because of the strong peso and subdued demand. However, we want to note that after the PSEi's underperformance in previous weeks, it seems to be holding up strong despite the sharp correction in the US and weakness in Asian markets. This can be partially attributed to news that we are flattening the curve. If this continues and case numbers drop to a manageable level, we expect the market to have a meaningful recovery.

We also expect significant vaccine news in late-October all the way to yearend as Phase 3 trials are underway. Whether this is good or bad remains to be seen, but any positive news on the vaccine front will be a huge positive for Philippine stocks.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi bounced from support even as the US stock market experienced a savage correction. If domestic cases continue to trend lower, we expect cyclicals to outperform defensive plays.