

Vantage Point

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

MARKET OUTLOOK: POSITIVE

SECTOR PICKS: CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS BUT POTENTIALLY STRONG EARNINGS GROWTH IN 2021

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

US elections were initially too close to call, which resulted in heightened volatility for markets. However, with mail-in ballots being counted already, it seems that Joe Biden not only won, but did so with a comfortable margin. This should calm markets that were worried about a messy transition of power. Though that risk remains, it is a very low probability scenario. What foreign investors will be watching on the political front is the runoff election on January 5 for 2 Senate seats - this will determine whether the US government will be gridlocked or fully controlled by the Democrats.

With US elections mostly behind us, all eyes will be back on COVID-19. Investors will be paying attention to mainly 2 things: vaccine development and COVID-19 epidemic curves per country. We expect countries which have put the epidemic under control to have a higher chance of outperforming than those that did not.

Moreover, incoming Phase 3 trial results may push investors to shift from tech/defensive names to battered cyclical/recovery plays. This should benefit emerging markets and traditional economies, like the Phils. Price movement seems to confirm this as the PSEi, which used to be the worst performing Asian index on a YTD basis, is now the best-performing over a 1-month period. Note that the PSEi is still holding strong despite lackluster 3Q20 earnings. As we mentioned, markets are more concerned earnings trajectory for 2021 than what occurred in the past. While a correction is likely because of the speed and steepness of our recovery, we believe that the market's trajectory is higher.

Helping the PSEi rally is the peso's strength. After being the strongest currency in Asia YTD, its Asian neighbors have started appreciating vs. the US dollar as well. This should underpin our currency as flows return to Asia, which will in turn provide a floor for stock prices.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With US elections likely resolved, the focus will now shift to the trajectory of COVID-19 in different countries. Along with sector composition, we believe that this will be a significant driver of market returns in the medium term. We will continue to hold our positions.