

# Vantage Point

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

## MARKET OUTLOOK: NEUTRAL

**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 6800 FOLLOWED BY 7000, RESISTANCE AT 7500 FOLLOWED BY 8000

2021 was off to a strong start. Unlike 2020's recovery which was led by the US and mostly technology stocks, last week's move was a broad rally. Not only did the US hit record highs, but Europe and emerging markets climbed as well. It was not only technology stocks, but cyclical and recovery plays participated in the upmove also.

This broad-based rally was triggered by the results of the Georgia runoff elections and Biden's certification as the next US president. See Philequity Corner article for more on the impact of the Georgia elections.

Higher inflation and growth expectations had wide-ranging effects on different asset classes.

1. Bonds were hammered, with the US 10-year yield exceeding 1% for the first time since the COVID-19 pandemic started
2. Investors shifted from tech stocks into several other sectors such as bank stocks as the yield curve steepened. Infrastructure, materials and renewable energy companies were also bought up because they are likely beneficiaries of Democrat policies. As a result, the Dow Jones index rose 437 points or 1.4%
3. European, Asian and EM stock markets spiked as fears of rising taxes in the US sent traders flocking to investments outside the US
4. The US dollar fell as the passage of a massive stimulus package will result in a huge budget deficit
5. Bitcoin hit a new high and broke the \$40,000 level, with total bitcoin market cap exceeding \$1 trillion for the first time
6. Crude oil prices broke the psychological \$50/barrel level. Industrial metals, such as copper and nickel, also spiked as hopes for more infrastructure spending stoked inflation and growth expectations

With this tide lifting all boats, we expect the PSEi to strengthen as well. However, we are wary of 2 potential risks. One is rising COVID-19 cases. Already at 2000/day on Sunday, this is likely understated due to low testing capacity. Holidays may also exacerbate the spread, as OKTA research noted. Second is a potential inflation spike as agricultural and meat product prices have risen sharply in the past month. Given that we are a consumption-driven economy, this may hamper our projected economic recovery this year.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With US markets hitting new highs and a broad rally last week, we expect the PSEi to be lifted as well. However, we are concerned about a potential spike in COVID cases and rising inflation in the coming weeks and months. We will continue to monitor developments here and abroad.