

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 7200 FOLLOWED BY 6800, RESISTANCE AT 7500 FOLLOWED BY 8000

With COVID-19 cases continuing to spike abroad along with a potentially more contagious new variant surfacing, some countries such as the UK and Japan have started imposing strict lockdowns. Though we think that the vaccine news has more weight in the next 12 months, this can partially offset some of the optimism which has been baked into asset prices.

Locally, we are starting to see a rise in daily infections, with Friday's number back above 2000. With increased activity and mobility due to Christmas celebrations, we will almost certainly see an increase in cases. Let us hope that we do not return to August levels which prompted the reimposition of stricter lockdowns. If cases reach 3000/day, this becomes a distinct possibility, which is negative for equity prices. Note that R_0 is already above 1.

Media has also been trumpeting concerns regarding the Philippines' vaccine supply contracts, which seem to be lagging that of our neighbors. Since our country will be one of the biggest beneficiaries of a vaccine, it is crucial to the general welfare of the people and our economic recovery that vaccines are rolled out as soon as possible. Any delay will cost human lives and delay the resumption of the Philippine growth story.

Since we are nearly fully invested, we will remain on hold for now. However, with only 4 trading days left, we expect volume to be quite thin. Sharp price swings during this time may provide an opportunity on either side. We think the medium term trajectory is higher, so will maintain a relatively low cash level in the next few weeks as we monitor developments here and abroad.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With volumes thinning heading into yearend, we may see some volatility in the coming days. We will try to take advantage of this but we do not plan to make significant moves in the remaining trading days.