

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS, COMPANIES WITH LESS DOMESTIC EXPOSURE

TECHNICALS: SUPPORT AT 6800 FOLLOWED BY 6500, RESISTANCE AT 7000 FOLLOWED BY 7500

The past 2 weeks so dramatic spikes in US Treasury yields, with the US 10-year bond reaching as high as 1.60% last Thursday. The sharp spike in yields unnerved investors, causing equity markets to selloff. While this move was due to higher growth and inflation expectations in the US, the pace at which they rose was too fast. Moreover, the perennial justification for high equity valuations was a low interest rate environment. The last few weeks have shown that this is starting to change.

While other central banks such as those in Australia, Korea, the EU and Japan have intervened, it remains to be seen if the Fed will act on this yield spike. So far, the Fed seems to be tolerating it. Unless yields continue rising again at a very fast pace, we do not expect a deep correction for equity markets.

Finally, the Philippines has received its first batch of vaccines, courtesy of Sinovac. Though mass vaccination does not start until 3Q21, this marks the beginning of our move towards normalcy. The key to reopening the economy lies not only in mask-wearing and social distancing, but mass vaccination. If this is implemented swiftly and properly, it will be a gamechanger for our economy and stock market.

On the other hand, elevated inflation remains a worry. With consensus forecasts for February inflation at 4.7%, the announcement on Friday is crucial to determining whether the high inflation we saw in January is a one-off or a sign of higher inflation for 1H21.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



A dramatic spike in US 10-year bond yields caused global markets to correct. While this cannot cause a deep correction in itself, we expect equities to be choppy in the near term. Along with the February inflation announcement on Friday, there is still a high degree of uncertainty. However, we are encouraged by the arrival of the first batch of Sinovac vaccines. We remain on hold for now.