

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 7000

As we wrote last week, the PSEi has now succumbed to the Delta variant. Though the number of actual Delta variant cases is not yet high, we note that the Philippine Genome Center has limited sequencing capacity. Thus, there could be significantly more Delta variants cases that have yet to be sequenced. If our daily caseload surges, that is a sign that the Delta variant is widespread.

Combined with credit rating outlook downgrades not just on the sovereign level but the banks as well, we expect the PSEi to remain weak in the near term. It remains to be seen if NCR will be placed under ECQ or MECQ. While that is what may be needed to prevent a runaway surge, we note that it may have a negative impact on asset prices.

That said, history shows that the market bottoms before the epidemic peaks. However, if we are indeed going to experience a surge, we are still in the early days. Global markets are also weakening because of Delta variant fears, as well as China's crackdown on its technology and education sector. Thus, we remain on hold for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Fears of the Delta variant became reality with the confirmation of local transmission last week. We expect the PSEi to exhibit weakness due to this. We remain on hold as we monitor the situation.