

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 6500 FOLLOWED BY 6200, RESISTANCE AT 7000 FOLLOWED BY 7200

In previous ECQs, daily cases start to go down within 1-2 weeks of lockdown implementation. Unfortunately, cases this time around are rising sharply despite NCR+ being under the strictest quarantine classification. Now at close to 15,000 cases/day, this might trigger an extension of this already painful ECQ. Note that hospitals in some provinces have already reached full capacity while NCR hospital capacity is already at critical levels. This shows how damaging the Delta variant is on people, the economy and capital markets.

PSEi rebalancing concluded last Friday with the entry of ACEN and CNVRG into the index, at the expense of DMC and EMP. There were also slight downweights across most other index names. While this would normally lead to a slight down day for other index stocks, the lack of liquidity combined with forced selling by index trackers caused our market to drop 3.6% in just 1 day. The market quickly recovered most of these losses by gaining 3.1% on Monday.

This drop in market liquidity is causing exaggerated moves to both the upside and downside. We also notice that foreign funds are quite disinterested in the PSEi, with foreign flows only accounting for 1/3 of total value traded. The silver lining here is that net foreign selling is no longer as heavy. On the other hand, it also indicates that foreign funds have largely ignored the Philippines are selling significant portions of their holdings.

On the GDP front, the 11.8% growth figure is good news but primarily due to base effects. Economists have noted that domestic consumption remains weak and fiscal stimulus is lacking. While this indicates that the worst is over for the economy, it is likely that our recovery will be a slow grind instead of a meteoric rise. We hope that the vaccine rollout continues to gain steam in order to prevent further lockdowns in the future. Combined with election spending, we are hoping for a more brisk recovery in 2022.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Daily COVID-19 cases continue to rise despite ECQ, which is very concerning. The PSEi also fell sharply last Friday as thin liquidity during the PSEi rebalancing led to exaggerated movements. We will be using sharp drops as an opportunity to slowly increase equity exposure.