

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, COMPANIES WITH LESS DOMESTIC EXPOSURE

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 7000 FOLLOWED BY 7200

Daily cases have dropped for 3 straight weeks now, with NCR leading the way. This validates the effectiveness of the vaccination program in NCR, as well as the timeliness of reopening the economy. This departure from the blanket lockdown strategy is a significant catalyst for the stock market and economy.

However, global equities seem to be on the backfoot as inflation risk rears its ugly head. Sharp increases in energy-related commodities, especially coal and natural gas, are threatening the nascent post-COVID recovery. Some analysts are also bringing up the possibility of stagflation - a dire scenario for the global economy. This sharp rise in energy prices will also have a significant impact on net oil-importing countries such as the Philippines. We expect inflation to breach 5% in September. This is a situation that bears watching.

On the currency front, the peso is so far able to hold below the 51/\$ resistance level. Breaking this will signal more depreciation for the peso, so we are glad that this level remains unbroken. That said, we have to highlight that a sharply weakening peso has a net negative impact on the Philippine economy and stock market. Unfortunately, dollar strength and rising inflation are largely beyond our control.

On a positive note, a sharp increase in foreign inflows in September did not lead to a correction for the Philippine stock market. In fact, the PSEi is consolidating close to the 7000 resistance level. Other than the improving COVID situation, this can be attributed to a warm welcome for recent listings, especially the REITs. We believe that 7000 will be eventually broken as the country recovers from the ravages of COVID.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The drop in daily COVID cases is offsetting the weakness of the peso. The crucial 7000 resistance level remains unbroken, but it is only a matter of time before this is overcome. Use it as an opportunity to reallocate your holdings.