

Vantage Point

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

MARKET OUTLOOK: BULLISH

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

TECHNICALS: SUPPORT AT 7000 FOLLOWED BY 6500, RESISTANCE AT 7200 FOLLOWED BY 7400

Daily caseloads has now dropped for 4 straight weeks. Though ICUs are still full, ERs are freeing up which confirms that NCR cases did plateau a month ago. By our calculations, the NCR daily cases are down to about 2000/day. We expect this to steadily move lower for the balance of the year as vaccinations pick up and herd immunity kicks in.

As a result of this, we expect NCR to continue reopening the economy going into yearend. Increasing capacity of businesses bodes well for employees, corporates and the government. A rebound in both consumer and business sentiment will be transformative for the real economy and, consequently, the stock market.

With the domestic situation improving, negative headlines on COVID recovery rankings, inflation, etc. were ignored by the market. Instead, the PSEi decisively broke the 7000 resistance level. WLCON's recent inclusion in the PSEi led to some volatility as passive index funds scrambled to sell FGEN due to its offcycle removal and then buy WLCON. However, WLCON has since fallen sharply as the effectivity date for inclusion has now passed.

Technical analysis indicates that with this breakout, the PSEi is targetting 7400. If we use the double bottom formation that started in July, the PSEi's technical objective is 7700. Either way, the trend is clearly higher.

That said, we have to closely monitor a number of risks. Of primary concern are energy prices. With oil at 7-year highs and natural gas up more than 300% this year, a significant impact on inflation is expected. We hope the government is proactive in preventing an inflation spike just as the country has started to recover. Second is the weakness of the Philippine peso. Though it is stabilizing now, sharp depreciation moves like the 7-day move from 49.70 to 51 is a negative for the stock market, consumers and businesses that have significant imported costs. Finally, rising bond yields may lead to higher borrowing costs for corporates. If these rise too much, it will also have an impact on capex plans and put stress on companies with stretched balance sheets.

So far though, the stock market is showing remarkable resilience, shrugging of all this bad news and making up for lost time by rising 3.1% on Monday.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



As we said last week, it is only a matter of time before 7000 is broken. With NCR cases dropping for 4 straight weeks, we expect a wider reopening of the economy going into yearend. We expect the PSEi to erase its losses and more going into yearend.