

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 7000 FOLLOWED BY 6500, RESISTANCE AT 7400 FOLLOWED BY 7700

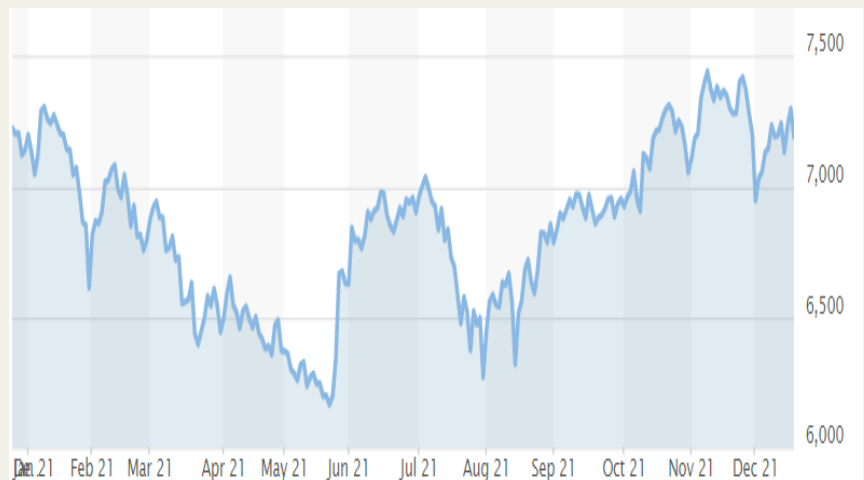
While initial data on Omicron was initially encouraging due to the lower lethality, record surges in many developed countries are rattling global equity indices. Lockdown measures, which were previously off the table as they are economically damaging and unpopular, are once again on the table. In fact, news articles report that many restaurants and event venues are voluntarily closing down due to the severity of the surge. Many European countries and US states have also cancelled New Year celebrations on account of the surges.

We are also getting mixed data from scientists. Though South African doctors say that Omicron seems to have lower lethality, medical groups in the US and Europe are contesting this, saying that there is not enough evidence to conclude that Omicron is milder than Delta. Moreover, they point towards their hospital systems being overwhelmed as a sign that Omicron's potential toll can be very high.

Another risk to forward economic growth is Fed Chairman Powell's decision to end the bondbuying program by 1Q21 and raising interest rates 3 times next year. We are concerned that this fragile recovery might get nipped in the bud if he pushes through with this instead of being data-dependent. However, we recognize that inflation has been running hot in the US, with their CPI readings at three decade highs.

The result of all this uncertainty is heightened volatility with a downward bias. Stock markets from US to Europe to Asia are showing significant weakness in the past few days. Yesterday, the entire Asia was in the red. It is unlikely that the PSEi can buck this trend, so we will be on wait-and-see mode until we get more clarity on Omicron.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Given what is happening in other developed countries, it is likely we will have a domestic Omicron surge in early 2022. This may have a significant impact on growth forecasts and sentiment. Natural disasters like Typhoon Odette are also not helping sentiment. We remain on the sidelines for now.