

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

Now that the Omicron surge is at its tail end, we believe that COVID will be less of a factor for markets moving forward. Instead, global macro events and fundamentals will once again be the main determinants of stock price performance.

On January 26, the Fed outlined its plan to finish its tapering by March this year, with the possibility of raising interest rates by at least 75 bps this year. This sharp reversal from dovishness to hawkishness is roiling markets that are just starting to adjust to rising rates. This comes as inflation has proven to be lasting and not transitory. Some analysts are saying that the Fed is behind the curve, hence the aggressive rate hikes.

This will have different implications across different sectors and countries. For instance, companies with negative earnings or FCF are likely to underperform as funds shift to sectors that benefit from rising interest rates, such as banks. For instance, the cyclically tilted Dow Jones index is only down 6% YTD, while the tech heavy Nasdaq 100 has lost 14.7% YTD.

The widening interest rate differential due to rising US interest rates may also cause EM assets to weaken, be it FX or equities. If the Philippine peso depreciates significantly, it will be harder for stock prices to move higher.

Still, the PSEi has proven to be very resilient this year despite weakness and volatility in global markets. From being the 3rd worst Asian market in 2021, we are currently the 2nd best performing Asian market YTD, with a gain of 1.8%.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi is showing relative strength despite weakness in global markets. In fact, it is the 2nd best performing Asian market YTD. Since we expect higher volatility moving forward, we will wait for sharp dips before increasing equity exposure.