

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

The PSEi lost 2.5% last week as the US said that Russia may invade Ukraine any time this week. Combined with PSEi index rebalancing, blue chips were sold down significantly as institutions had to fund their purchases of MONDE and EMP.

Global indices retreated as well, with the S&P 500 losing 3.7% over 2 days. Oil spiked 5% over the past 2 days as analysts feared that geopolitical tensions may affect crude oil supply not only in the region but globally. This is a major risk for the Philippines as it can cause inflation to overshoot the BSP's forecast. With 65% of our GDP coming from domestic consumption and households still scarred by the COVID pandemic, an inflation spike is a major risk.

On the interest rate front, some analysts are expecting that the US Fed will raise interest rates by as much as 7 times over the next 12 months. While this is unlikely, Fed officials have indicated that a rate hike will be on the table every meeting. With the BSP unlikely to raise interest rates in 1H22, there is a risk that the peso will depreciate significantly if we continue to stand pat on domestic interest rates for too long.

While dips may be a chance to buy, we will do so selectively. In the absence of very attractive opportunities, we will remain on the sidelines.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi dropped sharply due to fears of war in Ukraine and index rebalancing. We expect this volatility to continue while noting that the PSEi remains to be relatively resilient this year.