

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 volatile ride for the stock market in 2022 is just about to get a lot rougher. After putting COVID behind us, we are now faced with an actual war with Russia finally invading Ukraine. Though the US has raised warnings about it weeks ago, it seems this did not deter President Vladimir Putin from finally ordering "special operations" to commence.

Fortunately, it seems global markets have partially priced in this war. After falling 2 straight weeks, US equity indices staged stunning reversals when Russia actually invaded Ukraine. After falling 859 points on Thursday, the Dow Jones index eventually erased these losses and ended the day in the green. The S&P 500 also closed in positive territory after losing as much as 2.6%.

In the midst of all this, the PSEi has also remained quite resilient, partly because of our holiday last Friday. In fact, as of yesterday, our index is still up 2.6% YTD, in contrast to the red figures we saw for developed market indices.

The main risk now is the impact of this conflict on inflation and interest rate hikes. Russia is a major producer of oil, natural gas, palladium, fertilizer and wheat. While sanctions have so far spared these products, sanctions have cut off about 70% of Russia's banking sector from the SWIFT system. This may have major ramifications for their exports, effectively creating supply bottlenecks as payments cannot be made. While Russia seems to be paying the price for its aggression, including a 30% depreciation of the Russian ruble, the world may share some of the pain eventually. Central banks already have a delicate balancing act between growth and inflation prior to this war. Now, they will be walking on a tightrope as well. The longer this conflict lasts, the higher the risk of stagflation or a central bank policy mistake.

Given how fluid the situation is, extreme volatility should be expected. We remain on the sidelines for now as it is impossible to predict the near term scenarios of this conflict.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



On February 24, Russia finally invaded Ukraine. This creates a level of geopolitical uncertainty unseen since the early 90s. This complicates the tightening trajectory of central banks as it stokes already rising inflation. We expect extreme volatility. We are inclined to maintain high cash levels and remain on the sidelines for now.