

# 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

Since our last article, crude oil prices have risen more than 35%. Investors previously thought that Russia's energy exports will be spared from sanctions. But with the US and EU now discussing a potential oil embargo on Russian oil, all bets are now off. Commodity markets went haywire on Monday as traders scrambled to cover short positions or increase commodity exposure. While the sanctions will indeed hurt Russia, everyone else will suffer pain as well. As the saying goes, in a war, everyone loses.

This spike in commodity prices can be seen across the entire commodity complex, from oil to wheat to nickel. As it is, the sheer magnitude of the price spikes means previous inflation forecasts will have to be recast. The question that remains is how long this commodity price surge will last. The longer it continues, the higher the risk of stagflation.

In addition, this may prompt central banks to raise rates faster and higher than previously planned. Taken together, these have dire consequences for risk assets. While the relatively mild correction for Philippine stocks is encouraging, we are wary of continuing derisking which may lead to further downside for equity prices. Thus, we remain on hold for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



As we noted last week, the sharp rise in commodity prices is the key risk created by the Russia-Ukraine conflict. We will continue to remain on the sidelines for now with above normal cash levels as we ride out this storm.