

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 6800 FOLLOWED BY 6500, RESISTANCE AT 7000 FOLLOWED BY 7400

Over the past 2 weeks, the PSEi has lost 4.6% as inflation concerns finally hit Philippine equity prices. Though commodity prices have since pulled back from their recent peaks, they are still up significantly from end-2021 levels. This may cause high inflation to be more persistent than previously anticipated. Being a net oil importer and 65% of the country's GDP coming from domestic consumption, high inflation is a major risk to growth.

Last week, the Fed also raised its interest rates for the 1st time since COVID started. It also signalled that each Fed meeting is live, meaning a rate hike is possible in each meeting. Thus, markets have priced in a total of 6 rate hikes from the Fed this year. This will have significant implications for Philippine assets if the interest rate differential narrows significantly, as it leads to a weaker peso and capital outflows. Reflexively, more outflows will contribute to the peso's depreciation. Note that in previous statements, BSP Governor Ben Diokno has signalled his hesitance to raise rates in tandem with the US.

The Russia-Ukraine conflict is still ongoing, though a significant escalation has not happened. We are hoping that this conflict gets resolved quickly as the human toll continues to increase and stagflation risk remains heightened. Given this macroeconomic backdrop, we maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi continues its correction as inflation risk continues to weigh on commodity importing countries. The US rate hike and hawkish trajectory also contributed to peso weakness, which is a negative for Philippine assets. We may use dips to buy, but we will do so at a cautious pace.