

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

2 major events are pulling the domestic market in opposite directions. First is the inversion of the US yield curve, specifically the yield of 2-year Treasuries exceeding 10-year Treasuries. Economists have touted this as a reliable recession signal. Investors who are already concerned about rising stagflation risk have become even more nervous. This may cause volatility to remain elevated in the near term.

Second is BSP Governor Ben Diokno's first major tightening signal. In a message to media last week, he said that the BSP can raise rates about three times in 2H22. Although the BSP will still not mimic moves made by other major central banks, this move recognizes that inflation is clearly running above forecast, even if the change in base year to 2018 is included.

This statement caused the peso to appreciate by nearly 1% against the US dollar last week. Historically, a strong peso usually leads to higher equity prices. Economically, this should also offset our rising inflation as the Philippines is a net oil importer.

Still, we are faced with a high degree of geopolitical uncertainty and slowing growth. Thus, we remain on the sidelines until attractive opportunities arise.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite the ongoing Russia-Ukraine conflict, the PSEi remains firmly above the 7000 level. We attribute this to BSP Governor Ben Diokno signalling a potential of 3 rate hikes in 2H22, which caused the peso to appreciate against the dollar. This is an encouraging development, but the high degree of uncertainty globally warrants a cautious stance.