

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 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

Last Wednesday, markets cheered the Fed's 50-bp rate hike with all 3 major indices rising around 3% each - their biggest single day gains since 2020. Unfortunately, this was not to last. The day after, the same indices experienced their worst drops since 2020. The Dow Jones index lost 1063 points or 3.1% while the Nasdaq crashed 5%., erasing all their post-announcement gains and more.

This comes as investors are coming to grips not only with higher inflation and lower growth, but also the risk of a recession. In its updated forecasts, the Bank of England highlighted the increasing possibility of a recession on 4Q22. However, they were constrained to raise interest rates to a 13-yr high of 1% as inflation hit a 30-yr high of 7%. They expect inflation to eventually peak around 10%. With such a major economy all but admitting that a recession is inevitable, cold water was thrown on the market's relief rally.

So far, all the sharp recoveries in global equity indices in the past 4 weeks have proven to be dead cat bounces. From a technical analysis standpoint, this indicates that charts are not yet carving out a bottom. Still, given the sharp drops in equity prices, those with high cash levels may be tempted to nibble. If one chooses to buy, we suggest they do so slowly and cautiously.

Finally, with election uncertainty taking the backseat, all eyes will now be on the next President's choices for the economic team.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The relief rally after the 50-bp Fed rate hike was all but erased the day after as the UK warned of a recession in 4Q22. As we said last week, it is unlikely that the PSEi will be immune to drops of this magnitude. We maintain our cautious stance.