

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

On June 30, Ferdinand Marcos Jr, popularly known as BBM, was inaugurated as the 17th President of the Republic of the Philippines. In his inaugural speech, he emphasized food and energy security, job creation, unity and having a forward-looking perspective. Investors are awaiting his economic transformation program, which he says he and the Cabinet members are working on.

On the global front, the good news is inflation seems to have peaked. Commodities such as wheat and palm oil and have given up much of their gains, while oil, fertilizer and other agricultural products seem to have ended their parabolic ascent and are slowly trending lower. Still, there is no sign that inflation is slowing down considerably. After inflation peaks, it is critical that it moves substantially lower as a plateau will still result in significant demand destruction. As Fed Chairman Jerome Powell indicated, it is not enough to see inflation peak. He will keep raising rates until it is clear that inflation is on a clear downward path.

As we flagged last week, the significant peso weakness in the past 2 weeks dragged down equity prices. Fortunately, incoming BSP Governor Felipe Medalla said that they are now open to bigger rate hikes. We hope that this statement is able to provide stability to our currency.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite inflation seemingly peaking, fears of recession still dominate markets. This has led to high volatility, with markets prone to sharp upswings and downmoves. While markets do tend to bottom before a recession ends, we note that a recession has not yet officially been declared. Moreover, interest rates are still likely to rise. We remain on hold for now.