

# 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

BSP Governor Felipe Medalla went from dove to hawk in a surprising fashion. After signalling a higher terminal interest rate, he surprised markets with an offcycle 75 bps rate hike. He said this was done in order to "anchor inflation" and "in response to the overshoot of the Philippine peso".

While this is a welcome move, the market reaction indicates that more has to be done. The peso is still trading close to its historic lows while bond yields did not rise as expected. While the property sector sold off as a result of potentially lower demand due to higher rates, the banking sector did not rise as market sentiment continued to be very bearish.

At the same time, global markets pulled back and commodity prices plunged as recession fears continue to drive investors away from risk assets. For instance, palm oil and wheat have erased all their gains while crude oil is trading below the psychological \$100/barrel mark. While lower oil and agricultural commodity prices will ultimately be good for the country, this is reflective of forward growth expectations. Thus, we expect equities to remain weak in the near term until markets fully price in a recession.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



The BSP's surprise rate hike stemmed the peso's weakness for now. However, more may need to be done else the effect will only be temporary. Capital market sentiment also remains very bearish. Inflation, which is partly due to the peso's significant weakness, and a potential global recession will continue to drive prices lower. We maintain our cautious stance.