

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

MARKET OUTLOOK: NEUTRAL

SECTOR PICKS: CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

The most important event this week was the US July inflation print of 8.5%. While it is still quite high, it came in below forecasts and marked a significant deceleration in prices. In our previous article, we note that we expect inflation to peak in 3Q22. With US data confirming this, we expect Philippine inflation to peak within 3Q as well.

A peak in inflation is a significant development for markets as this also means that interest rates will peak sooner rather than later. This is great news for the stock market, hence the strong upmoves in the US, which lifted everyone including the Philippines. Combined with technical indicators that also indicate a potential bottom, we have yet another factor that helps put a bottom on stock prices.

As a result, the dollar has also stopped rallying with the DXY down 4% from its peak. This gave the Philippine peso some breathing room, which is also another positive for Philippine stocks.

With inflation peaking, we are now neutral on markets. Investors with cash may start selectively buying quality blue chip names.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With US inflation finally showing signs of a peak in inflation, stocks staged an astonishing rally. This is another indicator that the market may have bottomed already. We continue to selectively increase equity exposure.