

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

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

Higher interest rate expectations are wreaking havoc across the equity space. US equities have fallen for 3 straight weeks, with the Dow Jones index now in the red for the year. Emerging markets are faring even worse as the US dollar strengthened. In fact, since reaching a high of 7137 this year, the PSEi has dropped for 5 straight weeks, falling below the crucial 7000 support level that it has tried so hard to break. As of this writing, the PSEi has almost all of its YTD gains already.

The currency is not looking good as well. With the Philippine peso depreciating past the 55 level, technical analysis indicates further weakness. The same trend can be seen in other major currencies due to US dollar strength.

A potential escalation in the Russia-Ukraine war only serves to increase uncertainty. Markets have already looked past and fully discounted the effects of the conflict last year. Unfortunately, Putin's recent speech is reminding everyone of the tail risk of nuclear war. Hopefully, this is just all talk.

As we said in our previous articles, a higher terminal rate for the US will have negative implications on Philippine stocks and the peso. This will continue to unfold until such point that interest rate expectations peak. Thus, while dips may be an opportunity to buy, it may be wise to exercise caution.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



As investors reset interest rate expectations, global equities weakened and the US dollar strengthened. This is a negative for Philippine stocks, hence the recent weakness of the PSEi. While significant dips may be an opportunity to buy, there is no harm in erring to the side of caution.