

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: NEUTRAL

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

TECHNICALS: SUPPORT AT 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

Investors have now shifted to wait-and-see mode as the Fed's May 2023 meeting looms. This may well be the final rate hike in this tightening cycle. More important than that though is the Fed's policy statement and economic forecast. Currently, markets are expecting the Fed to cut rates at least twice towards yearend. This flies in the face of the Fed's own dot plot which shows that they are looking at 1 more rate hike in May and no rate cuts this year.

This disconnect between the Fed's forecast and market expectations will only be resolved once reality sets in. Even multilaterals like the World Bank and IMF have very different growth forecasts this year. In general though, economists are expecting a mild recession in 2H23, same as the Fed. This is also what markets seem to have priced in.

On the domestic front, the PSEi eked out a 0.5% weekly gain, though it remains stuck at the 6500 level and on low trading volume to boot. However, if it were not for the recent strength in banks, the 6500 support level may not have held up. With some analysts expecting interest rates to remain higher for longer due to inflationary pressure, many foreign investors have flocked to banks. Moreover, lingering financial viability issues in US and European banks have led to a shift from those geographies to Asian banks, which benefits Philippine banking stocks.

Thus, foreign flows have finally come back to the PSEi, although it is concentrated mostly in the large banks. Excluding that, foreign institutions are still net sellers. While weakness in high quality names may be used as an opportunity to increase equity exposure, staying on the sidelines for now may also be a prudent decision.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

The PSEi continues to consolidate around the 6500 level as investors wait for what may be the Fed's final rate hike in May. The peso's move towards 56 is also weighing on equities in general. Market strength is skewed to a few banking stocks, with the rest still suffering from net foreign selling. We remain on the sidelines for now.



BOND OUTLOOK

**MARKET OUTLOOK:
NEUTRAL**

TRADING STRATEGY

Markets will be looking ahead to next week FOMC decision but the consensus is that the Fed will hike by another 25bp, though language seems that it is now going to become more data dependent and dovish. Meanwhile BSP has already said that it may pause, which may be exacerbating the USDPHP move, seen hitting as high as 56.40. We look to stay on the sidelines this week as market has become sluggish while everyone waits for next week.

With inflation data out and markets looking towards the FOMC, traders will most likely just be on the sidelines this week, servicing client requirements and overall staying defensive.

Market is looking at a 25bp hike by the Fed but will likely change language to being data dependent, unless things change on the inflation outlook.

Already markets are considering that a recession will be likely for the US, brought about partly by the fallout from the banking crisis.

Here in the Philippines, we believe that the BSP will pause for now, but this is being complicated by the interest rate differential if the Fed continues to hike rates, which is causing the USDPHP to depreciate rapidly.

We saw the USDPHP go from 55.4 all the way to 56.4 before now settling around the 56 level. There will also be a new issuance of 7yr bond so this should give us a good indication as to the appetite of the market, though most likely yield will come out around market levels of around 6.125.

10y yield is flat at around 6.185 while the 5yr is around 5.90.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of April 25, 2023
1M	5.4569
3M	5.7148
6M	5.9227
1Y	6.1833
2Y	5.9709
3Y	5.9458
4Y	5.9368
5Y	5.9426
7Y	6.0081
10Y	6.1611
20Y	6.4323
25Y	6.4341

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