

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: CAUTIOUSLY BULLISH

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 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

It turns out the last hike was not the last after all. And this one may not be either. Though inflation is already turning lower, US labor data is still showing remarkable strength. Thus, the Fed announced another rate hike, bring the Fed funds rate to 5.5%. However, they said that another hike is not assured, i.e. a data-dependent hike.

Still, with at most 1 hike left in their arsenal, this effectively marks the end of the US tightening cycle. What remains to be seen is how long the Fed can keep interest rates elevated. With 2Q23 US GDP coming in at an annualized 2.4%, Treasury Secretary Janet Yellen's prediction that the US will have no recession may well come true. We believe that this is net bullish for broad markets, although interest rate sensitive sectors may underperform for a while longer.

Domestically, it means that our interest rate differential with the US has narrowed to 75 bps. The narrower this is, the more pressure there will be on the Philippine peso vs. the US dollar. With the BSP saying that they are structurally hawkish, the question is whether they will raise rates in tandem or not. As we have pointed out, a strong peso is good for stocks and vice versa.

In the coming weeks, earnings season will be upon us again. We expect diverging performance as wheat is separated from the chaff.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

The Fed announced yet another rate hike, but markets took this in stride. Though a correction is possible after the sharp runup in US stocks, the reduced likelihood of a recession gives us reason to be cautiously bullish. We recommend buying high quality names on dips.



BOND OUTLOOK

**MARKET OUTLOOK:
NEUTRAL**

TRADING STRATEGY

Bond yields have backed up again, following USTs higher due to news that GDP in the US was resilient in the 2nd quarter. With this we saw the 1069 9yr bond back to around 6.4 which offers decent yield pickup, considering that inflation in the Philippines continues to come down. For now we will remain neutral and opportunistic, hoping for better yields though this level does seem to be attractive already.



The Fed did what everyone expected, which was hike by 25bp, though the language was a bit more dovish than expected. Jerome Powell did leave the door open for another rate hike in September, but also said that there is a chance that they will pause.

For now it looks like the Fed will be data dependent. If the most recent inflation readings are the start of a downward trend, the market believes that the July hike could be the last for the Fed.

With the 10y UST hovering around the 4% level, this is probably where yields should be for now, but will most likely be the peak of rates. Once we get further confirmation that inflation is falling in the US, we should see yields come down further towards the end of the year.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of July 31, 2023
1M	5.6932
3M	5.6997
6M	5.9347
1Y	6.1188
2Y	6.2067
3Y	6.2451
4Y	6.267
5Y	6.2805
7Y	6.3173
10Y	6.3562
20Y	6.6045
25Y	6.5996



Disclaimer: The information contained herein is the property of Philequity Management Inc. and may not be copied or distributed without the prior consent of Philequity Management, Inc. The information and views expressed herein is not warranted to be accurate, complete or timely and may change without prior notice. Neither Philequity nor its content provider is responsible for any damages and losses arising from any use of this information. Past performance is not a guarantee of future results. Investments in mutual funds are not guaranteed by the Philippine Deposit Insurance Corporation. Investing in mutual funds involves risk and possible losses of principal. Consult a professional before investing. For inquiries, please contact Philequity Management, Inc.