

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

Index rebalancing once again drove flows into blue chip names, although to a lesser degree than the previous week as only 1 name entered the PSEi. Foreign selling offset the net buys from local passive funds. As we mentioned last week, China's 1-week holiday may lead to lower liquidity and higher volatility.

Philippine Stock Exchange Index (PSEi) 1-year chart



Inflation coming in at 6.1% was above forecast and at the top of the BSP's range. The 2 commodities we have been flagging, rice and oil, had a significant impact on this overshoot. With rice price caps now removed, it remains to be seen if rice price will finally fall. As for oil, it has shed 13% over a week already. Offsetting this is the provisional PhP 1 fare hike granted to PUVs. All in all, it seems inflation will remain elevated even headed into 1H24.

The implication of this is we will likely not see any rate cuts until 3Q24, as indicated by BSP Governor Eli Remolona. Combined with the BSP's defense of the 57/\$ level, it seems that the peso will be able to show relative strength versus its peers.

In the coming months, we will be entering a statistically strong period for stocks as well as corporate earnings season. However, given the macroeconomic backdrop, we would rather buy on dips.

TRADING STRATEGY

The index took a breather as rebalancing flows dried up. Global markets have been very volatile as of late as investors readjust to higher for longer yields. Above forecast inflation is a negative for stocks but seems to be mostly priced in. We would rather buy on dips than chase rallies.



BOND OUTLOOK

**MARKET OUTLOOK:
NEUTRAL**

TRADING STRATEGY

With jobs data and PH inflation data out of the way, we have a sense that inflation is indeed here to stay and that central banks will be on the hawkish side. With no real catalysts to look forward to, we probably will see yields consolidate at these levels. On the benchmark bonds, bids are relatively heavy with big banks looking to slowly accumulate at those levels, while sellers are optimistic but are not pressing the issue. We would look to stay on the sidelines but use any kneejerk selloff to pickup some bonds.



NFP jobs data shocked markets, blowing past expectations in the US. The initial reaction was for markets to fall, but soon prices were back to before the announcement, with markets sensing that this may be the worst for now.

Meanwhile we got September inflation data in the Philippines, which also shocked to the upside, registering 6.1% vs 5.3% expected, on the back of higher oil and rice prices.

Oil prices have come down recently however as demand for the next few months are looking weak, despite OPEC trying to keep supply limited. Overall, we would like to be neutral and wait for more direction.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of October 08, 2023
1M	5.6437
3M	5.7119
6M	6.0106
1Y	6.2438
2Y	6.3151
3Y	6.3566
4Y	6.3851
5Y	6.4113
7Y	6.4755
10Y	6.5846
20Y	6.535
25Y	6.5298



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