

September proved to just be a respite for the PSEi. In October, the benchmark index fell below the major support level of 6000. The PSEi's 5.5% drop caused it to end October at 5973.

In our previous narrative, we said that "our research indicates that foreign selling may have exhausted itself, at least temporarily." Sadly, this proved to be true as foreign selling resumed. Though not as heavy as in August, the ever thinning value turnover of the Philippine stock market makes it such that flows in either direction will lead to exaggerated moves. Note that we also had a shortened trading week at the end of the month, which further exacerbated the monthend foreign selling. On the other hand, just as was the case in August, we noticed that there is some bottomfishing occurring at the 6000 level, as included.

The move in the FX market and interest rates also give us reason to be bullish. The relative strength of the PHP continued in October as the Fed decided to pause rate hikes for now. Contrasting this pause was BSP Governor Eli Remolona's decision to raise domestic interest rates by 25 bps to 6.5%. With the interest rate differential widening to 100 bps, the peso appreciated significantly against the dollar. Historically, a stronger peso is correlated with higher stock prices.

The new risk that emerged is yet another "hot war" - the Israel-Hamas conflict. Though it certainly is a tragedy for people in and around the region, both Israel and Palestine are not major importers or exporters of critical commodities, unlike Russia and Ukraine. Thus, barring the war spreading to Iran or Saudi Arabia, it is likely that any spike in commodity prices will be temporary. As can be seen with crude oil prices, there was an initial spike, after which it gave up all its gains and more.

This then brings us to inflation. While inflation is a hot topic both economically and socially, we believe that barring a black swan event, the worst may finally be behind us. Moving forward, inflation will be less and less of a factor in the movement of stock prices in general. The focus will be squarely on corporate fundamentals, interest rates and the form of any global recession, if any.

MIGUEL AGARAO

Fund Manager (Equities)

