

ADVANTAGE POINT

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



EQUITY OUTLOOK

Market Outlook: Neutral
Sector Picks: Index heavy weights, Stocks which beat earnings forecasts, Companies which derive a large portion of their income from foreign sources
Technicals: Support at 6400 followed by 6200, Resistance at 6700 followed by 7000
Trading Strategy: As expected, the PSEi fell sharply as MSCI rebalancing led to net foreign outflows. This proved to be an opportunity to buy as many names that were heavily sold down bounced back sharply this week. After this liquidity event, we expect the market to meander in the meantime.

Our last report proved to be prophetic. The PSEi broke the 6400 support momentarily as it lost 2.8% in the last week of May on the back of heavy net foreign selling. On May 31 alone, the effectivity date of MSCI rebalancing, foreigners net sold PHP 5.2 billion on the back of AEV's deletion from the MSCI Philippines index and various other downweights. For the entire week ended May 31, net sell amounted to PHP 8.1 billion.

The 1st week of June saw residual selling amounting to PHP 2.1 billion. This allowed the PSEi to reclaim the 6500 support level. Note that despite peso weakness, the stock market continues to hang on for dear life.

BSP Governor Eli Remolona, Jr. also walked back comments that we will see 150 bps in rate cuts from now till next year. While he maintained his less hawkish stance, he notes that the "CPI outlook continues to lean towards the upside". So while the BSP's next move is a rate cut, they will be moved based on Philippine economic data and not necessarily follow the US Fed.

The cut in rice tariffs as well as the extension of 2019 tariff cuts on certain imports will also bode well for our inflation. This coincides with the end of El Nino, so we should eventually see a sharp drop in inflation. This gives BSP room to cut without being aggressive.

Philippine Stock Exchange Index (PSEi) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Sentiment will likely turn sour once again with NFP jobs data coming out Friday that was higher than expected. There was some optimism earlier in the week that we may see more calmness going forward, which made 10y UST fall to 4.28 but after the jobs report, it jumped back to 4.43. This will likely have market as better sellers next week. We look to remain defensive also as market reassesses its strategy.

Hopes for a continuation of yields going down were dashed when NFP jobs data showed strength yet again. This will likely have an impact during the Fed meeting on Wednesday.

Markets will definitely be defensive as they try to guess what comments Jerome Powell will have as they digest this jobs report. Friday will also be the US CPI data, which if strong would only make the Fed more hawkish again. For now, best to stay liquid and defensive.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

| Tenor | BVAL Rate as of June 07, 2024 |
|-------|-------------------------------|
| 1M | 5.6305 |
| 3M | 5.7038 |
| 6M | 6.0003 |
| 1Y | 6.0814 |
| 3Y | 6.3418 |
| 5Y | 6.4564 |
| 10Y | 6.6947 |

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.

