

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
Technical: Support at 6400 followed by 6200, Resistance at 6700 followed by 7000
Trading Strategy: The PSEI lost 2% so far in this shortened trading week despite US equity indices making new record highs. Unexciting earnings and the lack of catalysts will cause foreign funds to either reduce their Philippine holdings or ignore it.

Foreign selling continues even after MSCI rebalancing. Despite volumes drying up, foreign funds keep dumping their holdings. Note that this is happening against a backdrop of US stocks reaching new record highs.

On June 13, the PSEI closed below the crucial 6400 support level. Many technical indicators are pointing towards further downside for the PSEI.

On the bright side, DOF Secretary Ralph Recto walked back some of the BSP's reduced hawkishness by saying that the BSP will likely cut after the Fed, instead of before. In a message, he said "surely, it will assess the effect on exchange rates and inflation before it makes a decision on timing." This should help slow down the recent depreciation of the Philippine peso.

On the inflation front, we are looking forward to a cut in rice tariffs as we expect it to reduce inflation by more than one percentage point. This would also give the BSP more flexibility in its monetary policy as it may partially offset the impact of high interest rates which will naturally slow down the economy.

Philippine Stock Exchange Index (PSEI) 1-year chart



BOND OUTLOOK

Market Outlook: Neutral
Trading Strategy: Last week we had Fed minutes come out with Jerome Powell giving guidance that there may only be 1 cut this year, down from 2 stated earlier and an expected 3 by the market. This is on the back of some higher jobs data that came out. However US CPI was surprisingly flat to lower, giving hope for more rate cuts further down the road. At this time we expect the markets to trade sideways with no new leads in the immediate future.

More positive news on the data front as we saw US CPI come in slightly lower than expected. Recently we are also getting some signs of weakening in producer prices and retail sales, which may indicate that rates are high enough to have slowed down inflation somewhat. With not much conviction though, we expect that market will be wary to pick a side either way and would opt to stay neutral for now. We are sticking to the sidelines as well, but look to play the current range in local bonds.

PHILIPPINES 10 YEAR GOVERNMENT BOND



PHP BVAL Reference Rates Benchmark Tenors

Tenor	BVAL Rate as of June 14, 2024
1M	5.6016
3M	5.6669
6M	5.9694
1Y	6.0778
3Y	6.3388
5Y	6.4517
10Y	6.7004

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