

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

SECTOR PICKS: CYCLICAL STOCKS WITH EFFECTIVE RECOVERY PLANS AND FORTRESS BALANCE SHEETS, STOCKS WITH LOW VALUATIONS, COMPANIES WITH LESS DOMESTIC EXPOSURE

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

Good news on the start of our vaccination drive was overshadowed by a surge in COVID-19 cases. By our count, R_0 is at 1.8 already. This could accelerate further unless drastic corrective measures are taken. Over the weekend, we saw as much as 5000 cases in 1 day and a positivity rate of 12%. In response, LGUs have imposed localized lockdowns and de facto MECQs in certain areas.

Previously, the primary trigger for tighter lockdowns or a "timeout" was hospitals becoming overwhelmed. In the past few days, hospital capacity was quickly filled up, with many tertiary hospitals turning away patients as wards and ERs were already at full capacity.

In past articles, we cited a resurgence of the epidemic and a reversion to a stricter quarantine as the 2 most significant risks for our stock market. With the 1st already in progress, it makes the 2nd more likely. Thus, we are going to maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The sharp rise in COVID-19 cases precipitated localized lockdowns. If this trend continues unabated, hospital systems will likely be overwhelmed in a matter of weeks. We raised cash levels further as a sharp downmove is becoming more likely.