

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

In past article we noted, the correction we saw recently may be an opportunity to buy. In fact, the PSEI rose 3.4% from its recent low on March 22. While the long term trajectory is higher, the short term prognosis prompts us to be more patient and selective with our buying. Yesterday, we hit a new high for daily cases at 8773. The positivity rate of 16% means that there are likely more infected out there who are just not being tested.

Consequently, the World Bank downgraded its 2021 Philippine growth forecast to 5.5%. This is below NEDA's forecast of 6.5-7.5%. This indicates that domestic consumption and corporate earnings are likely to be below forecast as well.

We note that trading volume is also dwindling. This week, trades on the board amounted to PhP 4.5-5.5 billion only, with less than half of that in index names. This makes the market vulnerable to a sell-down if there is further bad news. If there is a sharp correction, that may be an opportunity to add to our exposure.

Global markets are also very volatile, so the only real catalyst for the PSEI to rebound strongly is the start of a mass vaccination program. The longer that is delayed, then the longer it will take for corporate earnings, stock prices and our lives to return to pre-COVID levels.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With COVID-19 cases still rising and hospital capacity in NCR practically at its limit, there is a risk of an extended lockdown. While corrections are an opportunity to buy, this situation warrants a cautious stance.