

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

We are finally seeing some light at the end of the tunnel for the Philippines. While the 7-day average of daily cases is still 60% above the previous peak in August 2020, daily cases have been trending downward for 3 weeks already. Coupled with the arrival of more vaccines in the coming months, NCR+ may see most of its adult population vaccinated within 1H22. What remains to be seen is how quarantine levels will change over the coming weeks as well as how fast the mass vaccination program will be implemented. These will have significant ramifications on the overall safety of the general population, the pace of the economic recovery and the performance of capital markets.

On the corporate side, earnings remain mixed with 1Q21 numbers indicating that we are in for a slow recovery. Loan growth is still negative while property companies are still showing weakness in some segments. Very few companies have shown clear earnings beats, such as ICT, NIKL and DNL. On balance, recent data indicates that fair value targets for 2021 should be tempered.

Another major concern is the surge in agricultural and meat products. As we wrote in our Philequity Corner column this week, global agricultural product prices have risen sharply as of late in anticipation of growth-driven inflation, such as corn (+52% YTD), pork (+38% YTD), soybean (+21% YTD), sugar (+18% YTD), wheat (+14 YTD) and rough rice (+14% YTD). African Swine Fever continues to weigh on the pig population while droughts in agri-producing countries such as Brazil is denting supply. The government should be watchful and proactive in addressing food inflation to prevent it from spiralling out of control.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The continuous drop in daily cases and the arrival of more vaccines in the coming months bodes well for the Philippines' mass vaccination program. However, earnings for index heavyweights indicate that we are in for a slow recovery. With foreign selling ongoing on ever thinning volumes, one must be very selective when buying.