

Vantage Point

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

MARKET OUTLOOK: NEUTRAL

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

TECHNICALS: SUPPORT AT 7000 FOLLOWED BY 6800, RESISTANCE AT 7400 FOLLOWED BY 7600

The US continues to lead the way. US equity indices continue to make new highs while the US Dollar index (DXY) rose 2.81% in June - its strongest month since November 2016. This is likely attributable to the US ranking #1 on the COVID resiliency index, as well as some of its indices having significant technology exposure.

As a result of the dollar's strength, the peso reached 49.31 against the \$, its weakest since July 2020. The bounce back in imports also drove the peso's depreciation recently.

Interestingly, such moves in the peso are usually associated with a consolidation or correction for the stock market. This time around though, the PSEi continues to creep higher and has broken the psychological 7000 resistance level, albeit on thin value turnover. Note that while foreign selling is still present, it is significantly smaller than what we experienced prior to June.

Our increasing daily vaccination rate is likely the main factor that is driving the strength in equity prices. The reopening of the economy is tied to the success of the mass vaccination program. Once the worst performing Asian stock market, the PSEi has erased nearly all its YTD losses.

One major risk we have to monitor is the increased volcanic activity of Taal Volcano. We are hoping that a catastrophic eruption does not come to pass, but PHIVOLCS flagged the recent data points as very concerning and pointing towards further eruptions. Let us hope that this is similar to January 2020 when Taal eventually quieted down after a period of eruptive activity.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite the peso's sharp depreciation, the PSEi continues to creep higher on thin value turnover. We continue to nibble opportunistically in the market.