

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 7400 FOLLOWED BY 7600

Just last week, we wrote about how the risk of the Delta variant reaching the Philippines bears watching. Unfortunately, community spread of the Delta variant has finally been confirmed on July 16. Reports also indicate that the infected individuals were already in the country in the 4th week of June, meaning that many more people may have been infected than the few dozen mentioned in news reports.

As we can see from the experience of Indonesia, the Delta variant is significantly more transmissible and caused it to dethrone India as the new epicenter of the COVID-19 pandemic. If we are unable to put this variant under control, we may be facing another series of severe lockdowns. On top of the human toll, this can be very damaging for sentiment, economic growth and corporate earnings.

Note that JP Morgan has flagged the Philippines as one of the 5 most vulnerable EM countries to the Delta variant. Let us hope that the government is able to step up its efforts as the prognosis of some research firms is grim. Daily vaccinations have also exceeded 200,000 per day. This should limit the impact of the Delta variant on vaccinated populations. Unfortunately, only 3.7% of our population has been fully vaccinated.

At the same time, the peso continues to remain weak and our credit rating outlook was downgraded to negative. Another lockdown can cause our fiscal profile to degrade even further, increasing the risk of a credit rating downgrade.

Thus, we will remain on hold for now as we monitor this situation very carefully.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi succumbed to fears over the Delta variant, losing 2.1% over the week. With community spread now confirmed, we will remain on hold for now as we monitor the situation.