

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 7000

After an urgent call from OCTA research to declare ECQ as daily cases started moving up, the government finally declared ECQ in NCR+ and other provinces. With R0 hitting 1.3 last week, it indicated that community transmission had begun. As of this writing, R0 is already at 1.5.

As we wrote last week, while tighter quarantines are needed to save lives and prevent the hospital system from being overwhelmed, this will have a negative impact on stock prices in the short term. For those with cash, this may be an opportunity to buy, but with the caveat that the current situation is fraught with uncertainty.

Note that other countries are experiencing surges as well, from developed to emerging market countries. However, those with high vaccination rates do not see a similar increase in the number of deaths. This points to the efficacy of vaccines in preventing severe cases of COVID-19 or death. Unlike last year, we finally have a way out of this pandemic. In contrast to the ECQ in March-April 2021, vaccination rates locally are also picking up. There is clearly light at the end of the tunnel, but we are not yet in the clear.

Combined with China's tech and education sector crackdown, EM markets may be out of vogue in the near term. Global markets are also taking a pause as investors assess how lasting the Delta variant surge will be as well as its impact on growth forecasts. Thus, we remain on hold for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With daily cases indicating that a surge is upon us, the government imposed a pre-emptive 2-week ECQ on NCR and other provinces to prevent the hospital system from being overwhelmed. It remains to be seen if the ECQ will last only 2 weeks or if the surge will be contained. We remain on hold for now.