

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 7000 FOLLOWED BY 7200

With daily cases breaching the 10000-mark, it affirms that declaring a preemptive ECQ was a step in the right direction. There are news reports of provincial hospitals unable to take in more patients and crematoriums overwhelmed by the sheer number of dead. In NCR, some hospitals have approached critical capacity levels just as ECQ started. Reports of children getting hospitalized from COVID are also generating a lot of fear as the young are thought to be more resilient against COVID. Unfortunately, the Delta variant completely changed the equation for the worse.

In fact, the DOH is calling for a longer ECQ. Based on their model, active cases in NCR may exceed 50,000 if ECQ is lifted after August 20. We hope the government remains vigilant in ensuring that the ravages of COVID-19 remain limited.

Despite all these, the PSEi staged a strong performance. After falling for 4 straight weeks, gained 4.3% last week followed by a 1.4% rise on August 9. We note that trading volume has been very thin, so pockets of foreign selling are able to keep the market afloat.

Note that 2Q20 GDP growth is also coming out tomorrow. If this is worse than expected, we expect the government to dial down its forecasts just as other economists did. Given the high degree of uncertainty, we would rather be buyers on dips. We remain on hold for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With daily cases now in excess of 10,000 and the hospital system showing signs of stress, it shows that ECQ is a step in the right direction. So far, the market is rewarding this instead of selling off on fear. We remain on hold for now.