

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 6500 FOLLOWED BY 6200, RESISTANCE AT 7000 FOLLOWED BY 7200

This week, we will see the end of MECQ and the beginning of granular lockdowns. While this is likely to be a pilot run, successful implementation of this new policy may be able to balance the general health of the population and economic concerns. Still, it is clear that both the national and local governments do not want a return to blanket lockdowns.

With a clear sign that the economy is on the path towards reopening, investors have steadily bought up Philippines stocks. As we wrote last week, the Philippines finally saw its 1st month of net foreign buying in nearly 2 years. Though it is mostly concentrated in a few stocks such as telcos, it still shows that heavy foreign selling has indeed abated. This is one of the explanations behind the PSEi's recent strength.

On the other hand, inflation is once again close to 5% and likely higher in certain provinces. This will have a dent on domestic consumption, especially as most of the working population is still struggling with the ravages of COVID. With domestic consumption comprising 2/3 of GDP, inflation figures bear watching as prolonged high inflation may stifle the budding economic recovery.

The PSEi is once again attempting to break the 7000 level. While it is hard to say when a real breakout will ensue, we believe that is only a matter of time before this psychological resistance is broken. Also note that we have FTSE rebalancing at the end of the week where we will likely see significantly higher trading volume.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Despite rising cases, the PSEi is showing remarkable strength. This is attributable to investors preferring granular lockdowns over blanket lockdowns. With vaccinations picking up in NCR but lagging elsewhere, the Philippines may see an uneven recovery. Still, we believe that the trend is higher, albeit bumpy. We remain selective buyers.