

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

NCR cases are confirmed to have peaked as data shows that cases have dropped 20% WoW. Many provinces are also showing a downtrend in daily cases, although we note that this is coming from record levels. Still, this is good news.

Fears over China Evergrande seem to be overblown as stock markets outside of China and HK have since recovered from kneejerk sell-downs. We do not expect this to be a "Lehman moment" and any contagion effect is likely to be limited to Chinese stocks, the domestic real estate market, Chinese HY bonds and funds that own those instruments.

COVID does not also seem to be a major concern for markets now as vaccination rates are picking up. So far, there is no new variant outside of Delta that has the potential to trigger a similar surge.

A major concern is the peso's sudden weakness. Unlike the previous move where it weakened along with its ASEAN neighbours, the peso's weakness 1.4% depreciation in the past week was not shared by other currencies. Too much depreciation will have a negative impact on capital markets, inflation and GDP growth.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



With daily COVID cases slowly going down, the PSEi is holding close to the 7000 level. A major risk that bears watching is the peso's recent weakness. If the market experiences a correction, this may be an opportunity to buy.