

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 7000 FOLLOWED BY 6500, RESISTANCE AT 7400 FOLLOWED BY 7700

Preliminary data regarding Omicron seems to be slightly encouraging. The bad news is Omicron is significantly more transmissible than Delta, as well as being particularly more lethal on the unvaccinated. The good news is that symptoms are so far much milder for the young and vaccinated compared to those from Delta. Still, we have to wait for at least 1 more week for definitive data on the ramifications of Omicron's mutations. We will also be closely monitoring both the daily case and death statistics as these can change significantly over time.

On the bright side, the Philippines is unlikely to resort to blanket lockdowns in case of an Omicron-driven surge. So while there will be an impact on our economic growth, it is unlikely to be as damaging as what we experienced in 2020 to 1H2021. NCR's high vaccination rate, herd immunity and mask mandates have so far been very effective in containing the last surge. This is in contrast to some developed countries that are considering lockdowns as part of their strategy to contain Delta or Omicron surges.

Still, the global growth trajectory is now more uncertain. Thus, Fed Chairman Jerome Powell's assertion that the Fed is considering speeding up the pace of tapering is a concern. If interest rates go up too quickly, it may nip this fragile economic recovery in the bud.

The result of all this is significantly higher volatility. With investors running in different directions, we expect the market to remain choppy until we have more clarity on Omicron. Until then, we will err to the side of caution.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

Recent data is so far indicating that Omicron is more transmissible than Delta but has relatively mild symptoms in the young and vaccinated. This is still preliminary data so the next few weeks will be enlightening. Global markets were also buffeted by extreme volatility due to the uncertainty generated by Omicron. Despite this, Fed Chairman Powell has indicated that they may even increase the pace of tapering. Thus, we are maintaining our cautious stance.