

# 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

On January 9, the Philippines recorded 28,707 daily cases - a new record high. This is not surprising, especially given anecdotal evidence. There is also a shortage of some basic medicines in certain areas and some hospitals are already unable to take new patients due to shortages of both beds and nurses. Thus, even though Alert Level 4 has not been implemented, many businesses and institutions have shortened their hours (such as banks), with some just outright closing down in the near term (ex. restaurants, schools, etc.).

The positivity rate of 44% also indicates that the actual case count is much higher than reported. That said, the silver lining in the data and medicine shortage is hospitalization and ICU occupancy is not rising proportionately with cases. This indicates that most cases are mild to moderate, requiring only home care and quarantine. However, the sheer volume of cases is disruptive to businesses as many employees will be incapacitated for weeks.

Another positive development is the duration of Omicron surges in other countries. It seems to last as short as 5 weeks (see South Africa) or peak within 1 month (seems like the case in certain European countries). We also note low overall fatality rates.

However, another major risk will be hounding equity markets - a rapid rise in interest rates. With the Fed all but winding down its bondbuying in the coming months, some research houses are expecting 4 rate hikes this year as well as a reduction in its balance sheet starting in 3Q22. This comes as the Fed has declared that the US is at maximum employment and inflation is not as transitory as it seems.

This will lead to a weaker EM currencies due to a strengthening US dollar, including the peso. This will likely have a negative impact on EM asset prices as well. This is a medium term concern that can weigh on the PSEi.

Thus, even though it seems that Omicron will lead to less deaths than Delta, with a potential peak in end-Jan, we remain on hold for now as risks are equally balanced with catalysts.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



With daily cases now at new highs, the specter of Alert level 4 looms over markets. Combined with a depreciating peso and weakening global markets due to rising yields, we are inclined to remain on hold.