

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

With US inflation hitting 21-year highs, the US Fed was left with little choice but to aggressively raise interest rates. With Fed Chairman Jerome Powell promising "to do whatever it takes to bring down inflation", the Fed raised the benchmark by 75 bps - the biggest single rate hike since 1994. Investors initially cheered this, with the S&P 500 closing up 1.46% after the announcement.

Unfortunately, despite Powell saying that they are "not trying to induce a recession", many investors started to realize that the aggressiveness of the rate hikes may actually trigger a recession. Thus, markets sold off the day after with the S&P 500 falling 3.25%. The PSEi also gave up its previous day's gains after the Fed announcement.

Another victim of this huge rate hike were currencies. After holding below the 53 level, the peso ended last week at 53.74 against the \$. With the BSP signalling that it is hesitant to raise rates by more than 25 bps per meeting, the interest rate differential is expected to narrow even further - a negative for the peso. If the peso breaks 54, technical analysis indicates that there will be much more downside.

While it is hard to estimate where the bottom for equities will be, it is clear that markets have partially priced in a recession. Given this high degree of uncertainty, we expect volatility to remain high. Against this macroeconomic backdrop, we choose to maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The surprise 75-bps hike by the US Fed was initially greeted with optimism, but this has since given to pessimism that a recession is on the cards. Weakness in the US will affect all markets, including the Philippines. While it is hard to estimate where the bottom is, we expect high volatility to remain. We choose to err to the side of caution.