

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

After falling sharply and hitting oversold levels recently, global equities have finally bounced back. However, as of last Friday, major global equity indices are still down between 15% to 28% YTD.

Unfortunately, the PSEi only staged a bounce on Friday, rising 2.5% on low volume. That still leaves our index down 1.8% for the week. The PSEi was down as much as 19.8% from its recent high of 7552 as it hit a low of 6054 on Thursday. While this is attributable mostly to rising inflation, tightening monetary policy and increasing recession risk, the sharp depreciation of the peso also has a major impact.

The Philippine peso used to be in the middle of the pack in terms of performance against the US dollar. However, recent events have caused it to depreciate 2.3% in just 1 week and 5% in just 1 month. Historically, significant depreciation of the peso is correlated with weakness in equity prices. The current situation is no different.

The BSP's recent 25 bps rate hike seems to have done little to allay either inflation fears or peso weakness. With the Fed raising by 75 bps and set to raise rates by yet another 75 bps in its next meeting, the interest rate differential has significantly narrowed. On Friday, the peso closed at 54.97/\$, a 16-year low and dangerously close to the major resistance of 55. As we noted in previous articles, a break of 54 will point to significant depreciation. Sadly, this is exactly what is happening.

In light of all these, it is difficult to be an aggressive buyer even though many quality stocks are trading at depressed valuations already.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



As we have written in previous weeks, pessimism over a potential recession is weighing on markets. In fact, some economists are already raising the probability of a recession to as much as 50%. Though prices have fallen substantially, we note that the peso has depreciated to 16-year lows. This may not yet be the time to buy aggressively.