

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

In a stunning reversal, BSP Governor Felipe Medalla said that the BSP is now open to bigger rate hikes, with the benchmark rate potentially being raised to as high as 3.5%. This comes on the heels of a 6.1% June inflation figure and the peso trading beyond the 55/\$ level. Unfortunately, this has not stemmed the peso's rapid depreciation. As of last week, it is at 56.06/\$ - very close to the all-time low of 56.30.

On the bright side, technical indicators are starting to flash signs of a potential bottom for US equity prices. With the US stock market stabilizing, the PSEi was also able to find a bottom at 6054 and has since bounced as much as 7% from the intraday low.

Note that this comes as recession signals are starting to turn red. Though most economists are forecasting a recession in 1H23, some are starting to flag that it may come as early as 3Q22. While the Philippines is unlikely to enter a recession, a recession in the US and Europe will definitely slow down our domestic growth. The depth and duration of this recession will determine whether equities have bottomed or not. We remain on hold for now.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Global markets are still being buffeted by volatility, but recent price action indicates that equities are attempting to form a bottom. Unfortunately, despite recent BSP hawkishness, the peso continues to weaken and is approaching all-time lows. Peso weakness is a negative for Philippine stocks. We maintain our cautious stance.