

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

BSP Governer Felipe Medalla went from dove to hawk in a surprising fashion. After signalling a higher terminal interest rate, he surprised markets with an offcycle 75 bps rate hike. He said this was done in order to "anchor inflation" and "in response to the overshoot of the Philippine peso".

While this is a welcome move, the market reaction indicates that more has to be done. The peso is still trading close to its historic lows while bond yields did not rise as expected. While the property sector sold off as a result of potentially lower demand due to higher rates, the banking sector did not rise as market sentiment continued to be very bearish.

At the same time, global markets pulled back and commodity prices plunged as recession fears continue to drive investors away from risk assets. For instance, palm oil and wheat have erased all their gains while crude oil is below the psychological trading \$100/barrel mark. While lower oil and agricultural commodity prices will ultimately be good for the country, this reflective of forward growth is expectations. Thus, we expect equities to remain weak in the near term until markets fully price in a recession.



TRADING STRATEGY



The BSP's surprise rate hike stemmed the peso's weakness for now. However, more may need to be done else the effect will only be temporary. Capital market sentiment also remains very bearish. Inflation, which is partly due to the peso's significant weakness, and a potential global recession will continue to drive prices lower. We maintain our cautious stance.

Disclaimer: The information contained herein is the property of Philequity Management Inc. and may not be copied or distributed without the prior consent of Philequity Management, Inc. The information and views expressed herein is not warranted to be accurate, complete or timely and may change without prior notice. Neither Philequity nor its content provider is responsible for any damages and losses arising from any use of this information. Past performance is not a guarantee of future results. Investments in mutual funds are not guaranteed by the Philippine Deposit Insurance Corporation. Investing in mutual funds involves risk and possible losses of principal. Consult a professional before investing. For inquiries, please contact Philequity Management, Inc.