

# 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 6050, RESISTANCE AT 6500 FOLLOWED BY 6800

We saw 2 major events last week. First was the EU raising interest rates by a larger-than-expected 50 bps - the first rate hike in 11 years. This ended the negative interest rate era of the EU, with benchmark rates now pegged at 0%. This caused the euro to bounce from parity with the US\$. This shows how important it is to the ECB to bring down inflation, which currently is at 8.1%, the highest since the inception of the EU.

Second is the opening of a grain corridor in the Black Sea. In a deal brokered by Turkey and the UN, Ukraine and Russia are set to agree on the safe passage of vessels carrying agricultural products. This bodes well for global inflation. In fact, agricultural commodity prices have fallen by double digit percentages in the past week as traders anticipated the signing of this agreement. More grain corridors should also serve to reduce the supply side inflation brought about by the Russia-Ukraine war,

This also caused energy prices to retreat, especially as Russia resumed shipments of natural gas via the Nord Stream 1. This sharp drop in commodity prices is a major positive for the Philippine economy as domestic consumption comprises 65% of our GDP. A significant drop in inflation can be one of the major catalysts for our market.

However, we are still concerned about the magnitude of a possible recession. If the world enters a deep recession, then we may still be in for a rough ride.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



Last week, global markets staged their first credible attempt at forming a bottom. It remains to be seen if this is a bear market rally or the start of a bottoming out process. Note that the recession which markets are pricing in has yet to start. Still, the PSEi remains dangerously close to major support levels. If this does not hold, we see significant downside.