

# 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

Due to the lack of catalysts for the domestic market, the PSEi has been moved largely by flows and the movement of the US stock market. Fortunately, a number of factors seem to indicate the US market may have bottomed. Technicals are showing double bottoms and higher lows, which are crucial to bottom formation. Stocks are also not reacting as much to bad news. The Fed's less hawkish / dovish tone was also taken positively by investors despite economic indicators signalling a slowdown. With the S&P 500 now back to end-April levels, some traders and fund managers have said that the bottom is in. If this is true, it bodes well for the performance of the PSEi.

Domestically, corporate earnings are starting to come in. We note very mixed results with some consumer companies beating forecasts despite fears of margin compression, while some property companies reported a significant slowdown in residential revenue and sales takeup. This will drive a dichotomy in stock price performance between those with rosier prospects and those that have failed to adjust to the current macro environment.

Our 6.4% inflation print, though above forecast, is not a major surprise. Besides, with commodity prices peaking in June, we expect CPI to peak in July or August because these figures tend to have a 2-month lag. Combined with rising interest rates, we expect inflation to trend lower. What remains to be seen is where inflation will finally settle in 2023.

With some evidence of a potential market bottom, we are now selectively and cautiously nibbling in the market.

Philippine Stock Exchange Index (PSEi) 1-year chart



## TRADING STRATEGY



As we wrote last week, strength in US equity indices lifted the PSEi as well. We are slowly and cautiously increasing equity exposure as technical indicators are showing that we may have hit a bottom. However, we do not expect all stocks to move in the same direction as corporate earnings results are quite mixed.