

Vantage Point

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

MARKET OUTLOOK: NEUTRAL

SECTOR PICKS: CONSUMER NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES

TECHNICALS: SUPPORT AT 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

Investors were caught by surprise by the above forecast inflation in the US. Coming in at 8.3%, it is far from the deceleration that economists were expecting. This caused the S&P 500 to lose 4.3% in just one day, while the Dow Jones index shed 1276 points.

This caused other markets to correct as well, including the Philippines. Fortunately, we note that in this recent correction, our market seems to be less affected than the more developed markets. Still, it will be hard for our market to rise if US and European indices are experiencing sharp corrections.

After brief weakness, dollar strength has once again resumed. This caused the peso to retest its recent low. However, a hawkish Fed coupled with the US August CPI indicates that there may still be more dollar strength to come.

Moreover, bond yields have also risen significantly such that some investors may choose to increase bond exposure at the expense of equities, whether they are actually risk-averse or are derisking their portfolios due to uncertainty. This is a medium to long term negative for equities as bond inflows may be sourced from equity outflows.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Above forecast inflation in the US reinforced the possibility of further tightening from the Fed. This caused global markets to drop sharply. Though the Philippines may be partially insulated from this, it is not immune from the selloff.