

Vantage Point

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

MARKET OUTLOOK: CAUTIOUS

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

TECHNICALS: SUPPORT AT 6000 FOLLOWED BY 5700, RESISTANCE AT 6200 FOLLOWED BY 6500

After appreciating to as high as 57.47/\$, the peso still ended the week close to the 59 level. For this, we have Fed Chairman Jerome Powell to blame. After announcing yet another 75 bps rate hike, Powell said that the Fed still has "some ways to go" before the current rate hike cycle is over, noting that "incoming data since our last meeting suggests that the ultimate level of interest rates will be higher than previously expected."

After briefly rising, US markets reversed and fell sharply as Powell did not deliver the slowdown in rate hikes that investors had been pricing in. Still, he indicated that a decision to slow the pace of rate hikes may come in future meetings, but policy will remain data dependent.

This rekindled the strength of the US dollar. To preempt a sharp weakening move, BSP Governor Felipe Medalla decided to announce the BSP's decision to raise interest rates by 75 bps two weeks ahead of time. He added that signaling the rate hike move way ahead of time was meant to support the peso. Also, while they intend to maintain a 1% interest rate differential with the US, any policy move will still be largely dependent on domestic CPI.

Interestingly, despite these events, the PSEi did not follow the significant drops in other markets. Though volume is exceptionally thin, we note the absence of significant selling pressure as well. In an environment like this, we recommend being more selective when increasing equity exposure.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



After a brief respite, the Fed once again ended the recent market rally as it reiterated its hawkish policy after raising interest rates by another 75 bps. With domestic inflation spiking to 7.7% and the peso back close to the 59 level again, the BSP is set to match the Fed's pace in the near term. Interestingly, the PSEi did not experience a sharp correction despite all these. This is a positive signal.