

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

After the US meteoric rally, Philippine stocks continued their uptrend with the PSEi now up more than 8% over 5 weeks. Aiding this rally are hopes for peak inflation, slowing down of interest rate hikes and US dollar weakness. Note that the opposite of all these were the reasons behind the PSEi's plunge this year. With many of these risks slowly being undone, our stock market was able to recover.

The BSP's move to match Fed rate hikes was also a welcome development. By preventing further depreciation of the peso, it also helps to anchor inflation expectations. For a net importing country like the Philippines whose GDP is driven primarily by domestic consumption, these moves were critical to the recovery of the economy and capital markets.

Still, we have to monitor Fed speak and the geopolitical situation. Note that Fed Chairman Jerome Powell talked down previous rallies in the US stock market that were driven by Fed pivot expectations. With markets now pricing in a slowdown in Fed rate hikes, it remains to be seen what the Fed will actually do. Central bank policies will remain to have a significant impact on the prices of risk assets. Moreover, outside of China and Europe, we have not yet seen a broad-based economic slowdown. Investors will have to contend with a potential recession next year.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



The PSEi continues its steady recovery higher and is now up for the 5th straight week. Strength in global markets and the weakening US dollar boosted stock prices, notwithstanding the high inflation print domestically. We are slowly and selectively increasing equity exposure.