

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

Recession fears took centerstage once again, with global markets dropping sharply. The Dow Jones index lost 764 points last Thursday for its worst one-day performance in 3 months. Despite inflation peaking, investors are now coming to grips with the reality that the price of controlling inflation is a recession.

The silver lining here is that the US dollar continues to depreciate - a positive for Philippine assets. Even BSP Governor Felipe Medalla said that the weak peso "is no longer a problem." Moreover, he practically ruled out a pause in rate hikes for the next 2 meetings. Statements like this will help bolster the Philippine peso, which in turn lowers our inflation figure.

With the Fed raising interest rates by 50 bps, the BSP followed suit as well. While these rate hikes were more or less telegraphed, markets have different expectations as to how high interest rates will go and how long they will stay high. Although the Fed has been fairly consistent with its 5% target next year with no rate cuts, market expectations hem and haw depending on economic data. Thus, we expect volatility to remain high as the magnitude of the recession in 2023 remains to be seen.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Weakness in global markets put an end to the PSEi's rally. We expect this consolidation phase to continue in the near term as investors take stock of the macro environment next year. Due to lower trading volumes heading into the holidays, expect significant two-sided volatility.