

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 6800 FOLLOWED BY 6500, RESISTANCE AT 7000 FOLLOWED BY 7200

It is indeed very difficult to fight the Fed. After the US reported inflation that was higher than expectations, investors waited for the Fed's response. That came on Thursday night when St. Louis Federal Reserve President James Bullard said that he would not rule out a 50 bps hike in the next meeting in order to curb inflation and cool down the labor market.

This caused a broad-based correction for US equities, which spilled over to Asia in the Friday trading session with almost all Asian equity indices closing in the red. At last week's close of 6779, the PSEi has lost more than half its YTD gains and is up a mere 3.2%.

As we said in our previous article, the peso's strength was temporary as the dollar spiked. With economic data leading to more hawkishness from the Fed, the DXY strengthened by 3.7% in just 2 weeks. Fortunately, the BSP took preemptive action this time around. With inflation still running hot and expected to be significantly above the target range, the BSP implemented a 50 bps hike last week. It is very likely that a smaller hike would have caused the peso to depreciate significantly. But with BSP now expecting inflation to average 6.1% in 2023, more action is needed on all fronts to tame inflation.

Thus, it is very likely that the terminal rate for the US and Philippines will be higher than what was anticipated just 2 months ago. This will have negative implications on equities in the short terms as investors will have to readjust their expectations.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY



Hotter than expected inflation in both the US and Philippines led to hawkish action. This is a negative for markets which have to readjust interest rate expectations. For those looking to increase equity exposure, it may best to accumulate at technical support levels.