

VANTAGE POINT

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

EQUITY OUTLOOK

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 6500 FOLLOWED BY 6200, RESISTANCE AT 6800 FOLLOWED BY 7000

Markets were already grappling with the prospect of higher terminal interest rates. However, this risk is something that investors are well aware of - it was just a matter of waiting a bit longer. However, a new risk emerged on March 9 - a potential financial crisis.

The shutdown of Silvergate Capital caught investors by surprise, both in the crypto space and fund management industry. Reputable institutions such as Blackrock and Ken Griffin's Citadel took stakes in Silvergate before it went under. Then, SVB Financial Group, the parent of Silicon Valley bank, experienced a bank run at a time when its clients had difficulty paying loans. Exposed mostly to the tech sector, many of the companies it lent to experienced difficulty as the world exited the COVID era and interest rates rose. Silvergate is down 98% from its 52-week high while SIVB lost 60% on Thursday night alone.

With everyone now wondering "who's next?", institutions begun derisking their portfolios, starting with financials and technology companies. Until this matter is contained or it becomes clear that there is no contagion, this weakness will spill over to global equities. With this new risk emerging, we maintain our cautious stance.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

Wall Street faced a crisis as banks heavily exposed to the tech sector crumbled. This may send ripples across risk assets across the world. We maintain our cautious stance as a new risk emerges.

BOND OUTLOOK

**MARKET OUTLOOK:
DEFENSIVE**

TRADING STRATEGY

Remain defensive in the meantime, as Powell testimony and US data suggests that rates will remain high for longer and market is anticipating that the Fed terminal rate could rise to 5.5 and for the Fed to raise interest rates by 50bp in its next meeting.

Market remains very cautious, anticipating that Fed Chair Powell will confirm that the Fed must become aggressive again in fighting inflation. The recent data coming out suggests that inflation is still running hot and that the Fed may need keep rates higher for longer. This week we saw the 2y UST go as high as 5.075, a level not seen since 2007. The 10y UST also reached as high as 4.05.

In the Philippines we saw that February inflation was actually lower than expected, coming in at 8.6 vs estimates of 8.9, even as BSP said that February inflation might breach 9%. For the week, local bond yields ended mostly flat, rising because of the news from the Fed, and then finding relief to end the week after the softer inflation print.

Another bit of news affecting markets is the financial fallout from Silicon Valley Bank. Equities, especially bank stocks, have been hit hard and a flight to safety has 10y UST yields back below 4%.



Market Highlights Mar. 10, 2023

PHP BVAL Reference Rates - Benchmark Tenors

| Tenor | BVAL Rate Today | BVAL Rate Previous Day |
|-------|-----------------|------------------------|
| 1M | 4.7375 | 4.5697 |
| 3M | 4.7112 | 4.7106 |
| 6M | 5.3295 | 5.3569 |
| 1Y | 5.7163 | 5.7243 |
| 2Y | 5.8890 | 5.8756 |
| 3Y | 5.9765 | 5.9602 |
| 4Y | 6.0490 | 6.0454 |
| 5Y | 6.1092 | 6.1237 |
| 7Y | 6.2119 | 6.2521 |
| 10Y | 6.3375 | 6.4118 |
| 20Y | 6.5890 | 6.6130 |
| 25Y | 6.5814 | 6.6052 |

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