

# VANTAGE POINT

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

## EQUITY OUTLOOK

**MARKET OUTLOOK: NEUTRAL**

**SECTOR PICKS: CONSUMER, FINANCIAL 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**

Uncertainty is the keyword, be it interest rates, global growth, or the US regional banking crisis. The Fed's last rate hike may turn out to not actually be the last if inflation and the US labor market continues to run hot. Central banks from the US to the UK waxed between saying a recession is certain a month ago, to assuring everyone that a recession is no longer in the cards. Pronouncements that this part of the US banking crisis is over were met with continued and precipitous plunges in the stock prices of US regional banking stocks.

Philippine inflation has clearly peaked, and it may be enough for the BSP to finally stop raising interest rates despite the Fed's most recent hike. Still BSP Governor Felipe Medalla cautioned that it is "dangerous" to cut rates ahead of the Fed. Language like this is crucial to maintaining the stability of the Philippine peso.

Corporate earnings continue, with consumer heavyweights reporting above forecast revenues. A dichotomy between the Big 3 banks and the smaller banks can also be seen in 1Q23 financial results. This further reinforces the usual flight to quality strategy in times of uncertainty and slowing growth. We find no reason to deviate from this.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



### TRADING STRATEGY

Lack of certainty on the trajectory of global growth caused stocks to meander in listless trade. As long as uncertainty remains elevated, we expect low volume and high volatility to be norm. We remain on hold for now.



# BOND OUTLOOK

**MARKET OUTLOOK:  
POSITIVE**

**TRADING STRATEGY**

This week we have the BSP meeting where it is widely expected that they will pause its rate hikes for now. Rates have come down significantly since last week, around 30bp especially on the long end. We would like to wait for better levels now that yields are sub 6% across most tenors. Longer term however we believe that inflation has slowed and that investors should look to lock in longer term bonds on any uptick.



We have the BSP meeting coming up this Thursday, where it is widely believed that they will take a pause now that inflation has shown that it is going down, though still at elevated levels. In the US, most people are watching the political drama of the debt ceiling. This has already played out multiple times and no one really believes that the US will default on its debt.

The assumption is that congress will reach a last minute agreement same as the other times this has happened. UST has fluctuated between 3.3 and 3.5 recently, with some fears lingering from the banking crisis still unfolding, especially with regional banks.

However there are some signs of sticky inflation in the US. Though the trend has been decreasing, prices are still very much elevated. This is the same scenario in the Philippines, though food and energy prices have come off already. Most traders are anticipating that there will be no more rate hikes, and thus have been prioritizing locking in rates on the long end of the curve before rates come down in 2024. 10y 1069 is now trading at 5.8 while the 20y 2025 traded at 5.9.

**PHP BVAL Reference Rates – Benchmark Tenors**

Tenor	BVAL Rate as of May 15, 2023
1M	5.8609
3M	5.9167
6M	6.057
1Y	5.9943
2Y	5.8708
3Y	5.7999
4Y	5.7628
5Y	5.7477
7Y	5.7617
10Y	5.8066
20Y	5.9324
25Y	5.9201



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