August 07, 2023

VANTAGE POINT

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

EQUITY OUTLOOK

MARKET OUTLOOK: CAUTIOUSLY BULLISH

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

Hawkish Fed speak failed to move bond yields in any meaningful way recently and equities rallied. However, Fitch managed to undo these, at least in the short term. By downgrading the US credit grade from AAA to AA, it caused US bond yields to rise sharply and global equities to fall.

Philippine Stock Exchange Index (PSEi) 1-year chart

Many known and credible personalities downplayed it, from US Treasury Secretary Janet Yellen to legendary investor Warren Buffett to JP Morgan CEO Jamie Dimon. The reasons behind the downgrade are nothing new, as some economists noted. We believe the same, so unless there is another credit rating downgrade from a major ratings agency, this uncertainty is likely to be short-lived.

However, the usual correlations remain. As yields spiked, the US dollar strengthened. Thus, the peso's recent appreciation came undone. From attempting to break 54/$, it is now dangerously close to 56/$. As a result the PSEi weakened sharply.

Currently, corporate earnings are being overshadowed by foreign outflows. However, over the medium term, we expect corporate earnings to create diverging performance between stocks.

TRADING STRATEGY

Investors got surprised by the Fitch's US credit rating downgrade. This caused US bond yields to spike, the dollar to reverse its weakness and equities to correct. While this is a significant event, we believe that since the reasons behind it are well known, any weakness should be temporary.

BOND OUTLOOK

MARKET OUTLOOK: **DEFENSIVE**

TRADING STRATEGY

Bond yields continue to be defensive on the back of the downgrade of US credit rating to AA+ by Fitch Ratings. Aside from this, risk factors seem to be increasing again for inflation. Though yields are back to last year November highs in the US, this has not yet had a similar move in local yields, which may only be a matter of time. We will continue to be defensive and stay on the sidelines for now.

With the downgrade of US credit to AA+, we have seen a number of moves such as the 10y UST moving back to its November 2022 high of 4.2. We also see the USD strengthen across the board, with the CNY going back to 7.2 levels and the USDPHP hitting highs of 56 again.

Meanwhile, bond yields have widened and liquidity has dried up in the local bond space, although we have not reached the highs of 7% yet. For now the 9yr benchmark 1069 is at 6.6%, so there still may be room for further upside.

Inflation data in the US seems to be stable, but there are risks to the upside. Inflation in the Philippines also may not come down as fast as we would like, with oil prices stuck at $80/bbl and rice prices rising globally. With the ghost month also nearly upon us, most players will probably be on a defensive bias.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of August 07, 2023
1M	5.6092
3M	5.7015
6M	5.9234
1Y	6.1975
2Y	6.2513
3Y	6.2931
4Y	6.3221
5Y	6.3494
7Y	6.4367
10Y	6.5633
20Y	6.6977
25Y	6.6911