

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 6200 FOLLOWED BY 6000, RESISTANCE AT 6500 FOLLOWED BY 6800

Last week, the peso broke the 56/\$ barrier and is so far staying above it. This is negative for equity prices and will likely lead to a reversal of foreign outflows. In fact, with the exception of a couple of stocks, the PSEi has succumbed to broad-based outflows. Support of 6500 also failed to hold, with the index ending the week at 6405.

Corporate earnings are also lackluster. The big banks reported great earnings, but other sectors are mixed. Those which showed a turnaround in earnings or showed continued strength despite inflation experienced relative strength vs. other names. However, even strong earnings may not be able to fully offset general market weakness.

Moreover, we are wary of resurgent inflation the prices of oil and some critical commodities are on the rise. If this continues, both corporate earnings and domestic consumption will get dented. We hope that the public and private sector can come up with solutions to rising prices before it is too late.

Philippine Stock Exchange Index (PSEi) 1-year chart



TRADING STRATEGY

The catalysts which lifted our market in the past month reversed and turned into risks. The peso failed to break 54 and instead weakened to beyond the 56 level. This caused foreign flows to change course, leading to broad selling. We revert to a more cautious stance.



BOND OUTLOOK

**MARKET OUTLOOK:
DEFENSIVE**

TRADING STRATEGY

We continue to be defensive on yields as most markets are just focused on US treasuries and the Fed. Though some good inflation numbers came out last week, oil and rice prices are rising recently, which may cause inflation to be a problem in the future. Pressure remains for yields to stay elevated.



Some good inflation data came out in the US, with price pressures coming down yet again. However producer prices come in a little higher than expected. Overall UST is still higher, drifting upwards to 4.18. This should have local bond markets also defensive as they track the movement in UST.

A weaker 2Q GDP print also has markets wary on what BSP should do. Inflation from rice and oil prices are rising, but because of weak growth, the BSP is put in a hard spot.

Also, USD is strengthening across the board, hitting 56.45 where BSP is supporting for now. If this breaks we should see 57 figure come in to play, which is also not good for bonds.

PHP BVAL Reference Rates – Benchmark Tenors

Tenor	BVAL Rate as of August 14, 2023
1M	5.7616
3M	5.8507
6M	6.0216
1Y	6.3265
2Y	6.3033
3Y	6.324
4Y	6.3404
5Y	6.3678
7Y	6.4621
10Y	6.5798
20Y	6.7015
25Y	6.7051



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