



Vantage *point*

MARKET OUTLOOK: LONG-TERM BULLISH, SHORT TERM NEUTRAL

STRATEGY: EQUALWEIGHT ON CONSUMER SECTOR, INCREASED WEIGHTING ON COMPANIES WITH ABOVE FORECAST EARNINGS

With the market lacking any positive leads amidst weak economic data, a consolidation is expected. Adding to the tentativeness of the market was the World Bank's recent report where it cut global GDP growth from 3.2% to 2.8%. They cited reluctance to enact policy changes, a rise in military conflicts and the specter of high interest rates as the factors behind its decision. This spooked investors who were betting on higher growth moving forward, causing global equity indices to correct.

House Majority Leader Eric Cantor's surprising loss in the Republican primary to little known Dave Brat also has implications on global growth. This also shows how the Republican party is moving toward the more hardline stance of the Tea Party. Due to his stand against more spending and stimulus, Brat's victory is expected to create a deadlock in Congress. With pro-growth US policies possibly being stifled, there is a possibility that future GDP growth may be lower than forecast.

Further complicating matters is the ISIS attack on key cities in Iraq. With Iraq accounting for about 3.7% of global oil production, a supply disruption would likely have a significant impact on global supply. Oil prices rose nearly 3% in 2 days on the back of this fear.

The spike in oil prices is something we are closely monitoring given its impact on inflation. Note that last month's inflation was already close to the top of the range at 4.5%. Any increase in oil prices would likely push this number higher, crimping our GDP growth. This just goes to show how geopolitical events, though far away, can have a significant impact on our economy. Thus, many are awaiting the BSP's decision on the benchmark interest rate on Thursday.





Despite all the bad news, what is surprising is the strength of foreign inflows into our stock market. As of Friday, net foreign buying for the month of June amount to P2.3b and P45.2b so far for the year. This may cushion any possible correction. More importantly, this is a strong vote of confidence of foreign investors in the long term prospects of our stock market and economy.

We move from overweight to equalweight on the consumer sector. We increased weighting in companies with above forecast earnings.



TRADING STRATEGY

The consolidation pattern of the PSEi continues. We continue to recommend buying on dips stocks that are expected to have above forecast earnings. Also keep an eye on stocks that have broken out as the index was consolidating. This may point to more outperformance moving forward.