Issue Date: Dec 2, 2014

Vantage point

MARKET OUTLOOK: BULLISH
STRATEGY: OVERWEIGHT CONSUMER FOOD AND POWER SECTOR
UNDERWEIGHT TELCO SECTOR
NEUTRAL BANKING AND PROPERTY SECTOR

Last week, China surprised markets by declaring its first rate cut in 2 years. This electrified stock markets around the world, especially in Asia, as China suddenly switched gears and relaxed monetary policy. This goes to show that China will do everything to keep its economy stable. This has since been followed by a number of other policy measures that are basically China's brand of QE. The ECB also mentioned that they may start purchasing sovereign bonds sooner rather than later as inflation remains way below their forecast.

This coordinated action by central banks has been the linchpin behind the bull market we are experiencing now. As long as this continues, expect the bull market to charge on as well.

On the domestic side, however, bad news came in the form of lower than expected 3Q14 GDP growth. Coming in at 5.3%, it makes hitting even the low end of the government's 2014 growth forecast of 6.5% to 7.5% nigh impossible. This was due to a slowdown in government spending, drop in agricultural output as well as the long-running port congestion which has affected imports and exports. This caused our market to fall more than 1% on Thursday. However, the government expects spending to accelerate in 2015 on the back of a larger budget.

A series of share placements from BLOOM, AC and SMPH amounting to PhP 36 billion also served to sap liquidity from the market. In the coming months, we expect a number of other companies to also conduct share placements. This may cause the market to pause as it digests these.

Going back to growth, the sharp drop in oil prices brought about by OPEC deciding against cutting output is a positive for our country. This caused Nymex crude to drop nearly 7% in one day. Given that the Philippines is a net oil importer, this is bullish for GDP growth and our stock market moving forward.

Source: Technistock

TRADING STRATEGY

The multitude of positive and negative events that happened in the past 5 trading days have led to some volatility in the market. However, we are confident that both corporate earnings and GDP will grow significantly in 2015. Thus, we continue to be buyers on pullbacks of stocks that have good growth prospects and catalysts in 2015 and beyond.

PhilEquity
2004-A, East Tower, Philippines Stock Exchange Bldg., Ortigas Center, Pasig City, 1605
(+632) 689.80.80 (+632) 706.07.95 sales@philequity.net www.philequity.net