



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: REDUCE INDEX WEIGHTING
REVERT TO STOCK PICKING

After 17 hours of marathon negotiations, the troika, along with EU member nations, were finally able to hammer out the terms for a 3-yr, 86 billion euro bailout package.

It is important to note that markets were already rising last week despite the idea of a Grexit coming out in the news. This shows that markets are not as worried about a Grexit as they were previously. Contagion fears are also more muted, especially because Greek debt is now held mostly by the troika, as opposed to how it was years ago when banks held a lot of Greece's sovereign debt.

In fact, if we review statements made by Germany, they are more than ready to see Greece exit the Euro. The stance of Germany and its allies was not only a vote against Greece's brinkmanship and the use of game theory. More importantly, it was also a vote against populist policies. They showed that they are ready to let Greece default in order to discourage other countries from electing populist governments. It is precisely the confidence of Germany and the EU amidst prospects of a Greek exit and its attendant risks that makes us positive on the markets.

China also showed signs of stabilization as the government unleashed unprecedented measures to stem the stock market crash. In fact, it ended last week in the green. 2Q15 GDP growth also came in at 7%, the government's forecast. We are closely watching China's economy because not only does it pose a more difficult problem than the stock market crash, but it also has broader ramifications for the world economy.

Although global risks still abound, the reaction of equities the past week makes us more bullish. Technicals for the PSEi and many stocks are looking better as the index staged a strong bounce from support.



Source: Technistock

TRADING STRATEGY



With the situation in Greece and China stabilizing, the PSEi bounced strongly off support, ending the week above the 7,600 level. As we indicated last week, we continue to nibble in the market as we see strength despite global macroeconomic news that should have brought the market down.

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