



Vantage *point*

MARKET OUTLOOK: CAUTIOUS
STRATEGY: CAREFULLY SELECT STOCKS WITH EXPECTED
OUTPERFORMANCE

Fears of a worsening contagion that started with China caused the Dow Jones index to fall as much as 1,089 points in the first minutes of trading. This brought down equity indices all over the world as traders scampered for the exits. Unwinding across all asset classes spurred more outflows, further exacerbating the already bearish sentiment in risk assets. This flight to safety also contributed to lower bond yields.

Despite wild swings of 5-7% within the day, the market did stage a strong rally on the back of China cutting rates. This led to recoveries across Asian indices. We are closely monitoring the stock markets and currencies of Indonesia and Malaysia, the countries most affected by the recent contagion. Commodities and commodity-related stocks, the most battered asset classes, also rose sharply in the past few days.

The sharp drop also made valuations more compelling. At the recent low of 6,603, the PSEi was trading at 17.3x 2015 P/E and 15.1x 2016 P/E. Note that in 2013, at the Yolanda bottom, the PSEi was also trading at 17x P/E.

We will continue to monitor what is happening to China and our neighbors as the situation remains very fluid. Although sentiment is still negative and foreign funds continue to exit the PSEi, there are indications that the market may have reached a bottom at 6,603.



TRADING STRATEGY

Source: Technistock



Strong rallies in Asia and the US helped sentiment recover despite the wild swings in major averages. In the middle of the week, we noticed Asian equity indices were rising despite the US being sharply down. We took this as a cue that markets will begin recovering, so we started to selectively nibble in the market.



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