



Vantage *point*

**MARKET OUTLOOK: NEUTRAL
STRATEGY: NIBBLE ON INDEX STOCKS BUT
MAINTAIN DEFENSIVE STANCE**

After bouncing from their January lows, equities continued their rallies as the dollar weakened sharply last week. This was a boon for EM equities, currencies and commodities, which also rose sharply last week. Both the euro and yen were likewise stronger against the dollar. Unfortunately for Japan, the strong yen brought about by the fear trade and a weakening dollar does not bode well for its economy and corporate earnings. As of yesterday, its equity market is under heavy selling pressure.

Unfortunately, weakness in the banking sector, specifically in Europe, sapped the bullishness in equity markets. Many analysts have started questioning the financial health of European banks, especially those with high loan exposure to the oil sector. Coupled with low to negative interest rates, earnings for this sector are also under pressure. This triggered the selloff we are seeing at the start of this week.

On the bright side, the PSEi is showing relative resilience versus other markets. We also saw PHP 3 billion worth of net foreign inflows in the past 10 trading days. These are both encouraging signs.

Now, what we have to assess is whether central bank stimulus policies will be effective enough to offset the numerous global and financial risks. We will be waiting for Fed Chairman Janet Yellen's policy statement on Wednesday, which could determine not only the path of US interest rates, but also where the market goes from here. Until such point that it becomes clear who the victor is, expect volatility to remain high.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bloomberg

TRADING STRATEGY



After strong rallies last week, global equities were pummeled, especially European banks. With volatility expected to remain heightened this year, we will use dips such as this as an opportunity to accumulate defensive stocks.



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