



Vantage *point*

MARKET OUTLOOK: NEUTRAL
STRATEGY: ON HOLD

In last week's report, we noted how fears over Duterte's Cabinet appointments rattled the stock market and business community. Fortunately, Duterte has clarified matters and has been naming people who are acceptable to the business community. This should calm investors who were worried about the appointment of populist and anti-business individuals.

Another important catalyst for the market is the recent spate of M&As. Last week, MPI (through its subsidiary, Beacon Electric) bought 56% of GTCAP's power arm, Global Power. At the same time, GTCAP bought 15.6% of MPI @ 6.10/share. Now armed with more cash and more exposure to the power sector, this lifted MPI's share price.

It is also important to note that Beacon Electric is 50% owned by PLDT. Thus, PLDT got a free ride in this transaction. This electrified the battered down stock, sending it higher by 13% in just 2 days.

However, one transaction was not enough for MVP. Yesterday, PLDT and GLO announced their joint purchase of SMC's telco assets, including the much coveted 700MHz spectrum which Telstra tried to utilize. This effectively solidifies the duopoly in the telecom sector, a big positive for both telco stocks.

M&As like these are bullish for the market, especially when they are done above market prices. On the other hand, the recent \$250M secondary share placement of JGS dampened market sentiment as it was done 10% below market prices. Moreover, it may usher in more share placements for other stocks in the future. This is something we have to monitor.

Another thing we have to watch is the US dollar, especially as Fed Chairman Janet Yellen has indicated that the next rate hike is appropriate in the coming months, possibly in June or July. Thus, the US dollar has been strengthening, to the detriment of EM currencies. Fortunately, not only is the peso the best-performing Asian currency in the past month, it is also the only one that has strengthened against the US dollar in the past 4 weeks.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY

The past week saw many developments in both domestic politics and global macroeconomic environment. This resulted in some volatility, which we expect to continue this week because of MSCI rebalancing tomorrow. We will be using the MSCI reweighting as an opportunity to realign the portfolio.

