



Vantage *point*

**MARKET OUTLOOK: NEUTRAL
STRATEGY: LIGHTENING EQUITY EXPOSURE**

After the volatility brought about by MSCI rebalancing, global macro events are now at the forefront. Foremost of these are the Brexit referendum on June 23 and concerns over the effectiveness of zero interest rates in Europe and Japan.

Due to the weak US jobs data yesterday in the month and all the macro uncertainty, the odds of a rate hike this week are practically zero. However, investors will be paying attention to Yellen's statements to see if her expectations for gradual tightening within the year will change.

Questions over the effectiveness of zero interest rates in other countries are also adding to the nervousness as growth in Europe and Japan remain tepid. These dragged down stocks globally as a lasting solution to lackluster growth remains elusive.

The Brexit referendum is also a major concern. In the past months, most survey respondents have chosen to maintain the status quo and remain in the Eurozone. However, the most recent poll showed that the "Leave" camp took an unexpected 10 percentage point lead. This rattled markets, sending equities lower as investors fled towards bonds, sending yields on some bonds to record lows.

The combination of these 2 concerns sent the dollar higher, to the detriment of emerging market currencies and equities. Foreign inflows have also slowed down. After PhP 20 billion worth of net foreign inflows since elections that sent our index as high as 7,792, we started to see foreign selling last Friday and today.

Note that since the bottom of 6,084 this year, the PSEi has risen by as much as 28%. At the 2016 peak of 7,792, the index was trading at 19.6x 2016 P/E. Given all these uncertainties, it will be hard to maintain these valuations. We estimate fair value for the index to be 7,584. With the index exceeding that, we lightened our equity exposure.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



With the Brexit referendum next week and the ineffectiveness of zero interest rates in Europe and Japan, we expect less bullish investor sentiment due to the high degree of uncertainty. We started lightening our equity exposure as the index has exceeded our fair value estimate of 7,584, or 19x 2016 P/E.

PhilEquity

[a](#) 2004-A, East Tower, Philippines Stock Exchange Bldg., Ortigas Center, Pasig City, 1605

[t](#) (+632) 689.80.80 [f](#) (+632) 706.07.95 [e](#) sales@philequity.net [w](#) www.philequity.net

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