



Vantage *point*

**MARKET OUTLOOK: NEUTRAL
STRATEGY: OVERWEIGHT ON CONGLOMERATES WITH
INFRASTRUCTURE EXPOSURE AND PROPERTY**

In the aftermath of the Brexit referendum, many research houses released bearish research reports and initiated conference calls where they detailed doomsday scenarios that are about to unfold.

However, as we said in our special report to the BSP last week, central bank action is crucial. They were quick to act and saw aggressive intervention from the Bank of Japan and Bank of England. Most central banks indicated that they are closely watching the market and are ready to limit any potential damage or contagion coming from Brexit. This quelled fears and markets around the world bounced back.

Despite being the epicenter of Brexit, the UK's FTSE index gained 7% last week, its best weekly percentage gain since 2011. US equity indices also gained 3% last week, their best week so far this year.

The clear outperformers though were the countries farthest from the UK. Thailand and Indonesia are up 13% and 8% YTD respectively as of this writing while the PSEi is up 12.9%

We also note that President Duterte's inaugural address was very encouraging. He said that government will respect the sanctity of contracts, which bodes well for current and future infrastructure projects. This is on top of his promise to increase infrastructure spending, implement tax reform and relax foreign ownership limits.

However, at these levels, we have gained nearly 30% since the bottom of 6,084. Valuations have also become a bit pricey as our market is trading at about 20x 2016 P/E. Given that, a correction or consolidation in the short term may be warranted.

On the other hand, with global economic growth slowing down, Thailand, Indonesia and the Philippines stand out because they are the least affected. Our country also has the right economic impetus behind it, as it is driven by domestic consumption. Foreign flows have also continued to pour in instead of reversing, bringing the post-election tally to PhP 30 billion. Thus, with all these catalysts, we are neutral on the market and remain positive on the Philippines over the long term.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



After falling sharply on Brexit fears, markets have since rebounded. We are neutral on the market. However, the PSEi's 8-week, 20% post-election rally was too sharp and too swift. On the other hand, the foreign buying that drove this continues and it is underpinning the market. We still believe that longer term the market should be higher.



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