



Vantage *point*

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

Global equities continue to rally despite the many risks that abound, such as the Brexit fallout and recent terrorist attacks. The US continues to make new all-time highs while some European indices have all but erased the initial drop post-Brexit.

However, most analysts and research firms remain bearish on equities for a variety of reasons. Many prominent fund managers are also forecasting that equities will drop sharply. This can lead to heightened volatility for equities.

While we are constructive on equities over the long term, valuations have indeed reached relatively lofty levels. At 21x 2016 P/E, the PSEi is close to its peak valuation in the current bull market cycle. Thus, a correction may be likely in the near term.

That said, the Philippines not only has better fundamentals than its neighbors, but it also has many catalysts ahead of it, foremost of which are the new government's policies. Moreover, foreign buying continues to be strong, with monthly net foreign inflows at their strongest since February 2015. Because of these, we believe that the PSEi will continue to move higher in the long term.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



We remain on hold as valuations have now become quite steep. However, the search for yield, strong foreign buying and catalysts brought about by the Duterte administration have underpinned the recent market rally.



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