



Vantage *point*

MARKET OUTLOOK: NEUTRAL

STRATEGY: OVERWEIGHT ON CONGLOMERATES WITH INFRASTRUCTURE AND PROPERTY EXPOSURE AND 2ND LINERS WITH GOOD GROWTH CATALYSTS AND INFRA EXPOSURE

Last Friday, markets awaited the US nonfarm payrolls report. When it came out, it blew away all expectations at 255,000 vs. forecasts of 180,000. This sent the dollar sharply higher. Normally, this triggers a correction in equity markets as the prospect of a rate hike increases. However, US equity indices and emerging markets marched higher instead - a bullish sign.

Note that oil broke the 40 level momentarily last week on supply concerns, another factor that normally triggers a correction. While foreign markets did correct, the PSEi remains close to the 8,000 level as foreign buying continues. Thailand and Indonesia also continue to perform strongly, with both equity indices up more than 20% YTD in dollar terms.

In the coming weeks, we expect the market to assess earnings and the 2Q16 GDP growth figure at the end of the month. With index stocks trading at rich valuations, we have set aside a portion of the portfolio for 2nd liners with reasonable valuations and good growth prospects.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



Despite high valuations, foreign buying continues to keep the PSEi close to 8,000. With the US stock market rising despite dollar strength and a possible rate hike this year, we remain positive on Philippine equities. However, we have set aside a portion of the portfolio for 2nd liners with cheaper valuations but good growth prospects.



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