



Vantage *point*

MARKET OUTLOOK: NEUTRAL

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

Fed Chairman Janet Yellen's much-awaited speech at Jackson Hole proved to be a blockbuster as she said that "the case for an increase in the federal funds rate has strengthened in recent months."

In addition, comments from Vice Chairman Stanley Fisher sent the dollar higher and bonds lower. Commodities fell and volatility in equities skyrocketed. Fed fund futures also indicated that the market is expecting a rate hike within the year, although only 36% see a rate hike next month.

With many market participants still unconvinced of a rate hike in September, we expect heightened volatility in the coming weeks and months. Also, with the Fed's interest rate trajectory much steeper than the market has anticipated (Yellen released a chart indicating 4 rate hikes by end-2017), a correction is likely in the near term as investors assess the impact of higher interest rates.

Dollar strength will also weigh on EM currencies, which will affect sentiment for EM equities, including the Philippines. We may also see some outflows out of EM back into the US as the yield differential narrows.

That said, Yellen's view is anchored on her view that the US economy is now strong enough to merit higher interest rates. Moreover, small increases over time are unlikely to derail the recovery in emerging markets. Though we are neutral in the short term, we continue to be bullish in the long term and we view sharp corrections as opportunities to buy.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



With Yellen saying that US interest rates are set to rise, we expect volatility in the coming weeks ahead of the Fed's policy meeting on September 20. With valuations becoming quite expensive, we shifted part of our portfolio to 2nd liners with high growth and lower valuations. We view sharp corrections as opportunities to buy.

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