



# Vantage *point*

**MARKET OUTLOOK: NEUTRAL**

**STRATEGY:** OVERWEIGHT ON CONGLOMERATES WITH INFRASTRUCTURE AND PROPERTY EXPOSURE AND 2<sup>ND</sup> LINERS WITH GOOD GROWTH CATALYSTS

Fed Chairman Janet Yellen's speech at Jackson Hole and Vice Chairman Stanley Fischer's statement indicated that the case for raising interest rates within the year has strengthened. As markets were beginning to price this in, US nonfarm payrolls came in below forecasts. Interest rate forecasts were once again thrown into disarray.

After the data came out, markets once again tempered expectations for a rate hike, with some analysts saying that a September rate hike is now off the table. Fed fund futures showed that the probability of a rate hike in September fell to as low as 20% while expectations of a December hike are at 59%.

With conflicting signals regarding the timing of the rate hike, we expect volatility to remain heightened. However, the pause in dollar strength should once again provide respite for emerging markets, including the Philippines.

However, we have to monitor the impact of the Davao bombing on investor sentiment, as well as the potential of future attacks. Fortunately, terrorist attacks do not seem to have a lasting impact on stock prices anymore. That said, this may cause Philippine stocks to be much more volatile. The PSEi is also underperforming against its Asian peers today because of the terrorist attack. Barring any escalation or worsening of the situation, we view fears over the Davao terrorist attacks and the current correction as an opportunity to buy.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

## TRADING STRATEGY

Last Friday, the US report nonfarm payrolls that were below forecasts, which surprised markets. While this will lead to more volatility, this also gives emerging markets some relief as dollar strength stalls. However, due to the Davao terrorist attack, the Philippines is not rising as much as its neighbors. We expect the impact on stock prices to be temporary. Since the PSEi is also in a correction, we are using this as an opportunity to buy.



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