



Vantage *point*

MARKET OUTLOOK: NEUTRAL
STRATEGY: DEFENSIVE STOCKS AND SECOND LINERS
WITH GOOD GROWTH PROSPECTS

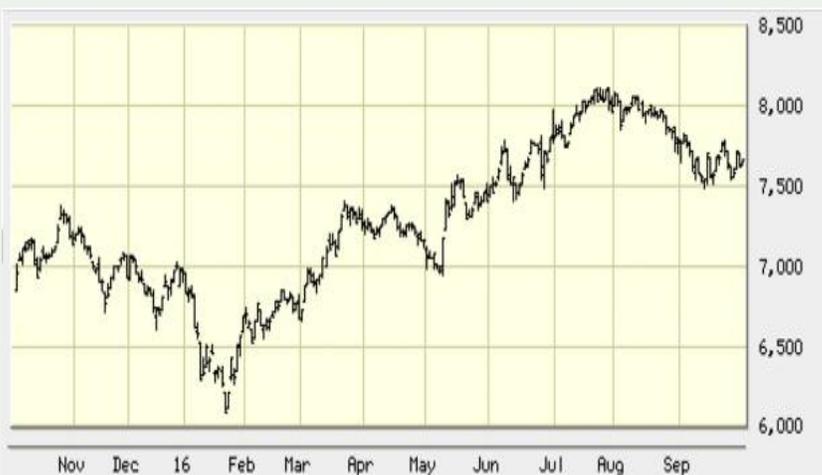
Every few days, the President tends to say something controversial, the most recent on being his comparison to Hitler and the deaths of 3 million Jews. Germany and Israel took offense and have asked for an apology and withdrawal. Fortunately, the President has since apologized.

However, it seems that the President's rhetoric will continue to make headlines in the near future, for better or for worse. Like S&P, the World Bank has flagged policy predictability as an issue, but says the Philippines' growth prospects remain positive.

As a result of the perception of heightened political risk and lack of policy predictability, foreign outflows have intensified, with the peso having its worst month since 2010, falling 4.1% against the US dollar in September. In fact, on a YTD and MTD basis, the peso is the worst performing currency against major and other Asian currencies.

Philippine stocks are faring better, though the PSEi is now underperforming its ASEAN peers. On the flipside, valuations have now become more reasonable, with the PSEi now trading at 17x 2017 P/E. Support of 7,500 is also holding as local funds and retail investors absorb the foreign outflows. With these in mind, we have lightened our equity exposure and realigned our portfolio to more defensive stocks and 2nd liners.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



New controversial statements by the President continue to increase the perceived political risk. We have lightened our equity exposure as we continue to monitor the political environment.

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