



Vantage *point*

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

The victory of Donald Trump over Hillary Clinton surprised everyone, from analysts to pollsters to businessmen to fund managers. With markets pricing in a Clinton victory, this threw markets the world over into disarray. Just to show how confused and volatile markets have become, Dow futures fell as much as 800 points on Wednesday last week before the index made a new high on Friday.

With Trump promising tax cuts, more borrowing and higher infrastructure spending, inflation expectations rose, bond yields spiked, and equities experienced a rotation. Banks and infrastructure stocks in the US rose at the expense of other sectors, including the tech sector, the previous market leader.

Trump's protectionist policies weighed on emerging markets, with the Mexican peso dropping as much as 13% to a historic low. Asian equity indices and currencies are also being dragged down, with many of them experiencing sharp 3-day drops last week.

On the domestic front, there are some issues as well. Previously, the BPO sector and American Chamber of Commerce have expressed concern over the President's comments. Now, the SEIPI, an organization of semiconductor and electronics manufacturers, has also openly expressed concern over the repercussions of the President's anti-US rhetoric. Bloomberg also published an article today about how the President's outbursts are scaring US companies. Combined with Trump's protectionist policies and drive to bring manufacturing back into the US, this is causing much uncertainty not just in the capital markets, but in the real economy as well. After weakening due to negative news flow, the PSEi and Philippine peso succumbed to yet another black swan with Trump's victory. The PSEi has lost all of its YTD gains and the peso has depreciated 4.5% YTD and 5.6% in the past 2 and half months. In an environment like this, we maintain a defensive portfolio with a healthy level of cash.

Philippine Stock Exchange Index (PSEi) – 1 year chart



Source: Bigcharts.com

TRADING STRATEGY



The unexpected victory of Donald Trump in US elections threw markets into disarray. With emerging market stocks, bonds and currencies hit especially hard by his protectionist policies, we maintain our cautious and defensive stance.

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